

The Empire Life Insurance Company

Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 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.



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Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

As at	March 31, 2021	December 31, 2020
Assets		
Cash and cash equivalents (Note 3)	\$ 281,668	\$ 189,356
Investments		
Short-term investments (Note 3)	8,500	13,008
Bonds (Note 3)	7,429,998	8,027,780
Preferred shares (Note 3)	631,788	616,902
Common shares (Note 3)	958,152	918,700
Derivative assets (Note 3)	5,774	5,377
Mortgages (Note 3)	153,972	157,214
Loans on policies (Note 3)	56,330	56,458
Policy contract loans (Note 3)	60,015	60,407
Total cash and cash equivalents and investments	9,586,197	10,045,202
Accrued investment income	47,965	38,932
Insurance receivables	39,853	46,533
Current income taxes	13,872	38,795
Other assets	40,974	21,289
Property and equipment	17,316	18,301
Intangible assets	27,790	27,983
Investment in associate	21,622	21,301
Segregated fund assets (Note 4)	8,654,452	8,457,417
Total assets	\$ 18,450,041	\$ 18,715,753
Liabilities		
Accounts payable and other liabilities	\$ 146,427	\$ 130,971
Insurance payables	109,264	114,938
Reinsurance liabilities	349,365	384,761
Insurance contract liabilities	6,413,475	7,145,461
Investment contract liabilities	28,687	29,041
Policyholders' funds on deposit	34,790	34,817
Provision for profits to policyholders	36,706	36,124
Deferred income taxes	36,588	35,711
Subordinated debt	399,499	399,442
Segregated fund policy liabilities	8,654,452	8,457,417
Total liabilities	16,209,253	16,768,683
Equity		
Preferred shares (Note 9)	249,500	249,500
Common shares (Note 9)	985	985
Other equity instruments (Note 9)	197,275	—
Contributed surplus	19,387	19,387
Retained earnings	1,752,052	1,602,915
Accumulated other comprehensive income	21,589	74,283
Total equity	2,240,788	1,947,070
Total liabilities and equity	\$ 18,450,041	\$ 18,715,753



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, 2021	March 31, 2020
Revenue		
Gross premiums (Note 5)	\$ 278,250	\$ 270,702
Premiums ceded to reinsurers (Note 5)	(53,211)	(54,904)
Net premiums (Note 5)	225,039	215,798
Investment income	79,715	80,951
Fair value change in fair value through profit or loss assets	(690,917)	(398,594)
Realized gain (loss) on fair value through profit or loss assets sold	53,201	33,728
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	1,968	4,674
Fee income	65,737	65,285
Total revenue	(265,257)	1,842
Benefits and expenses		
Gross benefits and claims paid (Note 6)	199,602	183,000
Claims recovery from reinsurers (Note 6)	(34,648)	(28,545)
Gross change in insurance contract liabilities (Note 6)	(731,986)	(183,205)
Change in insurance contract liabilities ceded (Note 6)	(35,396)	(29,890)
Change in investment contracts provision	296	333
Policy dividends	8,032	7,412
Operating expenses	42,803	42,503
Commissions	67,342	57,056
Commission recovery from reinsurers	(6,519)	(8,284)
Interest expense	2,335	3,560
Total benefits and expenses	(488,139)	43,940
Premium tax	5,819	4,650
Investment and capital tax	972	825
Net income (loss) before income taxes	216,091	(47,573)
Income taxes	53,103	(14,184)
Net income	\$ 162,988	\$ (33,389)
Less: net income (loss) attributable to participating policyholders	2,178	(5,189)
Shareholders' net income (loss)	160,810	(28,200)
Less: preferred share dividends declared (Note 10)	3,374	3,374
Common shareholders' net income	\$ 157,436	\$ (31,574)
Earnings per share - basic and diluted (Note 8)	\$ 159.82	\$ (32.05)
(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, 2021	March 31, 2020
Net income	\$ 162,988	\$ (33,389)
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified subsequently to net income:		
Unrealized fair value change on available for sale investments (Note 7)	(73,833)	(16,181)
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7)	(1,418)	(3,430)
Net unrealized fair value increase (decrease)	(75,251)	(19,611)
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 7)	22,557	899
Total other comprehensive income (loss)	(52,694)	(18,712)
Comprehensive income (loss)	\$ 110,294	\$ (52,101)
Comprehensive income (loss) attributable to:		
Participating policyholders	\$ 2,700	\$ (6,338)
Shareholders	107,594	(45,763)
Total	\$ 110,294	\$ (52,101)

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			For the three months ended		
	March 31, 2021			March 31, 2020		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Preferred shares (Note 9)	\$ 249,500	\$ —	\$ 249,500	\$ 249,500	\$ —	\$ 249,500
Common shares (Note 9)	985	—	985	985	—	985
Other equity investments (Note 9)	197,275	—	197,275	—	—	—
Contributed surplus	19,387	—	19,387	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of period	1,560,384	42,531	1,602,915	1,597,668	38,484	1,636,152
Net income (loss)	160,810	2,178	162,988	(28,200)	(5,189)	(33,389)
Common share dividends declared	(10,477)	—	(10,477)	(111,743)	—	(111,743)
Preferred share dividends declared	(3,374)	—	(3,374)	(3,374)	—	(3,374)
Retained earnings - end of period	1,707,343	44,709	1,752,052	1,454,351	33,295	1,487,646
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of period	72,666	1,617	74,283	32,190	1,628	33,818
Other comprehensive income (loss)	(53,216)	522	(52,694)	(17,563)	(1,149)	(18,712)
Accumulated other comprehensive income (loss) - end of period	19,450	2,139	21,589	14,627	479	15,106
Total equity	\$ 2,193,940	\$ 46,848	\$ 2,240,788	\$ 1,738,850	\$ 33,774	\$ 1,772,624
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ 28,527	\$ 2,221	\$ 30,748	\$ 27,851	\$ 1,263	\$ 29,114
Remeasurements of post-employment benefit liabilities	(9,231)	72	(9,159)	(13,307)	(701)	(14,008)
Shareholder portion of policyholders' accumulated other comprehensive income	154	(154)	—	83	(83)	—
Total accumulated other comprehensive income (loss)	\$ 19,450	\$ 2,139	\$ 21,589	\$ 14,627	\$ 479	\$ 15,106

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, 2021	March 31, 2020
Operating activities		
Net income	\$ 162,988	\$ (33,389)
Non-cash items affecting net income:		
Change in contract liabilities	(731,690)	(182,872)
Change in reinsurance liability	(35,396)	(29,890)
Fair value change in fair value through profit or loss assets	690,917	398,594
Realized (gain) loss on assets including impairment write downs on available for sale assets	(55,169)	(38,402)
Amortization related to discount on debt instruments	(18,225)	(21,677)
Amortization related to property and equipment and intangible assets	3,058	2,662
Deferred income taxes	(7,202)	(762)
Other items	56,648	(72,204)
Cash provided from (used for) operating activities	65,929	22,060
Investing activities		
Portfolio investments		
Purchases and advances	(770,223)	(518,660)
Sales and maturities	614,190	492,382
Loans on policies		
Advances	(1,982)	(2,616)
Repayments	2,502	1,916
(Increase) decrease in short-term investments	4,508	26,385
Purchase of property and equipment and intangible assets	(2,051)	(2,689)
Investment in associate	(321)	—
Cash provided from (used for) investing activities	(153,377)	(3,282)
Financing activities		
Dividends paid to common shareholders (Note 10)	(10,477)	—
Dividends paid to preferred shareholders (Note 10)	(3,374)	(3,374)
Interest paid on subordinated debt	(3,664)	(3,664)
Limited recourse capital notes issue (Note 9)	197,275	—
Cash provided from (used for) financing activities	179,760	(7,038)
Net change in cash and cash equivalents	92,312	11,740
Cash and cash equivalents - beginning of period (Note 3)	189,356	140,333
Cash and cash equivalents - end of period (Note 3)	\$ 281,668	\$ 152,073
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 13,170	\$ 56,850
Interest income received	39,235	36,610
Dividend income received	14,035	11,205

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 29, 2021.

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, 2020.

(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 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 did not have SPPI qualifying cash flows as at December 31, 2020 and December 31, 2019 included mortgages with fair values of \$13.2 million and \$10.4 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 will replace IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. In June 2020, the IASB issued amendments to IFRS 17, which include deferral of the effective date to annual periods beginning on or after January 1, 2023 from the original effective date of January 1, 2021. The deferral option of IFRS 9 for insurers was also extended to that same date. IFRS 17 will affect how we account for our insurance contracts and how we report our financial performance in our Consolidated Statements of Operations.

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 Asset category	March 31, 2021			December 31, 2020		
	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	\$ 53,969	\$ —	\$ 53,969	\$ 35,201	\$ —	\$ 35,201
Cash equivalents	227,699	—	227,699	154,155	—	154,155
Total cash and cash equivalents	281,668	—	281,668	189,356	—	189,356
Short-term investments						
Canadian federal government	3,500	5,000	8,500	4,999	4,999	9,998
Corporate	—	—	—	3,010	—	3,010
Total short-term investments	3,500	5,000	8,500	8,009	4,999	13,008
Bonds						
Canadian federal government	9,707	276,756	286,463	8,013	252,719	260,732
Canadian provincial governments	3,055,936	535,305	3,591,241	3,554,583	543,756	4,098,339
Canadian municipal governments	105,963	88,340	194,303	117,558	95,069	212,627
Total Canadian government bonds	3,171,606	900,401	4,072,007	3,680,154	891,544	4,571,698
Canadian corporate bonds by industry sector:						
Energy	148,434	64,368	212,802	141,206	62,341	203,547
Materials	16,062	6,986	23,048	16,193	7,030	23,223
Industrials	79,669	41,292	120,961	90,584	49,751	140,335
Consumer discretionary	33,453	6,235	39,688	15,068	6,336	21,404
Consumer staples	180,222	55,898	236,120	198,407	72,255	270,662
Health care	75,679	8,826	84,505	81,884	9,319	91,203
Financial services	603,745	422,223	1,025,968	642,664	363,736	1,006,400
Information Technology	178	5,049	5,227	181	5,116	5,297
Communication services	280,912	66,159	347,071	284,443	42,202	326,645
Utilities	556,855	83,223	640,078	628,449	77,174	705,623
Real estate	40,158	13,023	53,181	42,655	18,718	61,373
Infrastructure	396,406	64,350	460,756	418,409	59,328	477,737
Total Canadian corporate bonds	2,411,773	837,632	3,249,405	2,560,143	773,306	3,333,449
Foreign bonds						
Government	98,552	—	98,552	111,399	—	111,399
Corporate	10,034	—	10,034	11,234	—	11,234
Total foreign bonds	108,586	—	108,586	122,633	—	122,633
Total bonds	5,691,965	1,738,033	7,429,998	6,362,930	1,664,850	8,027,780
Total preferred shares - Canadian	620,803	10,985	631,788	606,664	10,238	616,902
Common shares						
Canadian						
Canadian common shares	197,439	48,399	245,838	172,172	47,734	219,906
Exchange-traded funds	517,279	—	517,279	501,905	—	501,905
Canadian real estate limited partnership units	118,146	—	118,146	121,290	—	121,290
U.S.	43,314	—	43,314	42,046	—	42,046
Other	33,575	—	33,575	33,553	—	33,553
Total common shares	909,753	48,399	958,152	870,966	47,734	918,700

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)

As at Asset category	March 31, 2021			December 31, 2020		
	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Total derivative assets	5,774	—	5,774	5,377	—	5,377
Loans and receivables						
Mortgages	—	—	153,972	—	—	157,214
Loans on policies	—	—	56,330	—	—	56,458
Policy contract loans	—	—	60,015	—	—	60,407
Total financial instruments	\$ 7,513,463	\$ 1,802,417	\$ 9,586,197	\$ 8,043,302	\$ 1,727,821	\$ 10,045,202

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

As at	March 31, 2021			December 31, 2020		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 53,969	\$ 227,699	\$ 281,668	\$ 35,201	\$ 154,155	\$ 189,356
Short-term investments	—	3,500	3,500	—	8,009	8,009
Bonds	—	5,691,965	5,691,965	—	6,362,930	6,362,930
Preferred shares	620,803	—	620,803	606,664	—	606,664
Common shares	791,206	118,547	909,753	749,275	121,691	870,966
Derivative assets	5,550	224	5,774	5,358	19	5,377
Available for sale:						
Short-term investments	—	5,000	5,000	—	4,999	4,999
Bonds	—	1,738,033	1,738,033	—	1,664,850	1,664,850
Preferred shares	10,985	—	10,985	10,238	—	10,238
Common shares	48,399	—	48,399	47,734	—	47,734
Loans and Receivables						
Mortgages	—	167,049	167,049	—	170,886	170,886
Loans on policies	—	56,330	56,330	—	56,458	56,458
Policy contract loans	—	60,015	60,015	—	60,407	60,407
Total	\$ 1,530,912	\$ 8,068,362	\$ 9,599,274	\$ 1,454,470	\$ 8,604,404	\$ 10,058,874

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, 2021 or during the year ended December 31, 2020.

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.

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)

(b) Impairments

For the three months ended March 31, 2021, 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, 2020, \$nil). Management considers 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 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, 2021			December 31, 2020		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 111,010	\$ 2,847	\$ 78	\$ 104,315	\$ 3,325	\$ 43
Equity options	269,727	2,703	—	122,828	2,033	—
Over-the-counter						
Foreign currency forwards	34,843	174	44	34,114	16	7
Cross currency swaps	20,980	50	1,586	20,980	3	1,360
Total	\$ 436,560	\$ 5,774	\$ 1,708	\$ 282,237	\$ 5,377	\$ 1,410

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.

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)

(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.

As at March 31, 2021 and December 31, 2020, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at	March 31, 2021			December 31, 2020		
	General Funds	Segregated Funds	Total	General Funds	Segregated Funds	Total
Value of securities loaned	\$ 1,305,717	\$ 1,336,762	\$ 2,642,479	\$ 1,307,965	\$ 1,452,978	\$ 2,760,943
Value of collateral received	\$ 1,331,943	\$ 1,363,808	\$ 2,695,751	\$ 1,334,144	\$ 1,482,183	\$ 2,816,327

4. Segregated Funds

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

As at	March 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 78,745	\$ 34,871
Short-term investments	412,420	410,641
Bonds	1,856,795	1,866,564
Common and preferred shares	6,361,809	6,207,527
Other net assets	32,262	20,320
	8,742,031	8,539,923
Less segregated funds held within general fund investments	(87,579)	(82,506)
Total	\$ 8,654,452	\$ 8,457,417

(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, 2021			December 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 78,745	\$ —	\$ 78,745	\$ 34,871	\$ —	\$ 34,871
Short-term investments	—	412,420	412,420	—	410,641	410,641
Bonds	—	1,856,795	1,856,795	—	1,866,564	1,866,564
Common and preferred shares	6,361,809	—	6,361,809	6,207,527	—	6,207,527
Total	\$ 6,440,554	\$ 2,269,215	\$ 8,709,769	\$ 6,242,398	\$ 2,277,205	\$ 8,519,603

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2021 or during the year ended December 31, 2020. There were no level 3 investments as at March 31, 2021 or December 31, 2020.

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(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, 2021	March 31, 2020
Segregated fund assets - beginning of period	\$ 8,457,417	\$ 8,498,583
Additions to segregated funds:		
Amount received from policyholders	281,812	230,236
Interest	14,070	17,004
Dividends	34,868	35,676
Other income	4,868	14,930
Net realized gains on sale of investments	149,476	—
Net unrealized increase in fair value of investments	158,614	—
	643,708	297,846
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	379,780	321,411
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	61,820	60,541
	441,600	1,741,123
Net change in segregated funds held within general fund investments	(5,073)	9,706
Segregated fund assets - end of period	\$ 8,654,452	\$ 7,065,012

(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, 2021			March 31, 2020		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 139,203	\$ (29,379)	\$ 109,824	\$ 131,371	\$ (30,069)	\$ 101,302
Health premiums	115,585	(23,797)	91,788	112,018	(24,796)	87,222
Total life and health premiums	254,788	(53,176)	201,612	243,389	(54,865)	188,524
Annuity premiums	23,462	(35)	23,427	27,313	(39)	27,274
Total insurance premiums	\$ 278,250	\$ (53,211)	\$ 225,039	\$ 270,702	\$ (54,904)	\$ 215,798

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)

6. Benefits and Expenses

(a) Insurance contract benefits and claims paid

	For the three months ended March 31, 2021			For the three months ended March 31, 2020		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 69,048	\$ (19,594)	\$ 49,454	\$ 57,273	\$ (13,609)	\$ 43,664
Health claims	79,505	(14,397)	65,108	74,792	(14,234)	60,558
Total life and health claims	148,553	(33,991)	114,562	132,065	(27,843)	104,222
Annuity benefits	51,049	(657)	50,392	50,935	(702)	50,233
Benefits and claims paid	\$ 199,602	\$ (34,648)	\$ 164,954	\$ 183,000	\$ (28,545)	\$ 154,455

(b) Change in insurance contract liabilities and reinsurance ceded

	For the three months ended March 31, 2021			For the three months ended March 31, 2020		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ (527,062)	\$ (31,421)	\$ (558,483)	\$ (236,035)	\$ (27,425)	\$ (263,460)
Health	(19,722)	(4,435)	(24,157)	(3,644)	(2,967)	(6,611)
Total life and health	(546,784)	(35,856)	(582,640)	(239,679)	(30,392)	(270,071)
Annuity	(185,202)	460	(184,742)	56,474	502	56,976
Change in insurance contract liabilities	\$ (731,986)	\$ (35,396)	\$ (767,382)	\$ (183,205)	\$ (29,890)	\$ (213,095)
Change attributable to:						
Normal changes - New Business	\$ (18,190)	\$ (2,740)	\$ (20,930)	\$ (32,079)	\$ 2,282	\$ (29,797)
- In-Force Business	(713,796)	(32,656)	(746,452)	(151,126)	(32,172)	(183,298)
Change in insurance contract liabilities	\$ (731,986)	\$ (35,396)	\$ (767,382)	\$ (183,205)	\$ (29,890)	\$ (213,095)

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)

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, 2021			For the three months ended March 31, 2020		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (100,493)	\$ (26,660)	\$ (73,833)	\$ (22,023)	\$ (5,842)	\$ (16,181)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(1,968)	(550)	(1,418)	(4,673)	(1,243)	(3,430)
Remeasurements of post-employment benefit liabilities	30,638	8,081	22,557	1,223	324	899
Total other comprehensive income (loss)	\$ (71,823)	\$ (19,129)	\$ (52,694)	\$ (25,473)	\$ (6,761)	\$ (18,712)

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

	For the three months ended March 31, 2021			For the three months ended March 31, 2020		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (99,001)	\$ (26,265)	\$ (72,736)	\$ (19,302)	\$ (5,121)	\$ (14,181)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(1,961)	(548)	(1,413)	(5,696)	(1,516)	(4,180)
Remeasurements of post-employment benefit liabilities	28,539	7,527	21,012	1,170	310	860
Shareholder portion of policyholder other comprehensive income (loss)	(107)	(28)	(79)	(84)	(22)	(62)
Total other comprehensive income (loss)	\$ (72,530)	\$ (19,314)	\$ (53,216)	\$ (23,912)	\$ (6,349)	\$ (17,563)

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

	For the three months ended March 31, 2021			For the three months ended March 31, 2020		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (1,492)	\$ (395)	\$ (1,097)	\$ (2,721)	\$ (721)	\$ (2,000)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(7)	(2)	(5)	1,023	273	750
Remeasurements of post-employment benefit liabilities	2,099	554	1,545	53	14	39
Shareholder portion of policyholder other comprehensive income (loss)	107	28	79	84	22	62
Total other comprehensive income (loss)	\$ 707	\$ 185	\$ 522	\$ (1,561)	\$ (412)	\$ (1,149)

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

Condensed Notes to the Interim Consolidated Financial Statements

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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, 2021	March 31, 2020
Basic and diluted EPS		
Common shareholders' net income	\$ 157,436	\$ (31,574)
Weighted average number of common shares outstanding	985,076	985,076
Basic and diluted EPS	\$ 159.82	\$ (32.05)

9. Capital Stock

As at	March 31, 2021			December 31, 2020		
	Shares authorized	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
Limited recourse capital notes		200,000	\$ 200,000		—	\$ —
Common shares	2,000,000	985,076	\$ 985	2,000,000	985,076	\$ 985

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%. Subject to regulatory approval, Empire Life may redeem the Series 1 Preferred Shares, in whole or in part, at par, on April 17, 2021 and every five years thereafter.

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

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

Condensed Notes to the Interim Consolidated Financial Statements

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plus 3.24%. Subject to regulatory approval, Empire Life may redeem the Series 3 Preferred Shares, in whole or in part, at par, on January 17, 2023 and every five years thereafter.

On February 17, 2021, the Company issued \$200 million of Limited Recourse Capital Notes Series 1 (LRCN Series 1) with recourse limited to assets held by a third party trustee in a trust which will be consolidated in these financial statements. Payments of interest and principal in cash on the LRCN Series 1 are made at the discretion of the Company and non-payment of interest and principal in cash does not constitute an event of default. In the event of a non-payment of interest, the sole remedy of noteholders shall be the delivery of the holders' proportionate share of the trust assets. In such an event, the delivery of the trust assets will represent the full and complete extinguishment of the Company's obligations under the LRCN Series 1.

The trust assets consist of \$200 million of Empire Life Non-Cumulative 5-year Fixed Rate Reset Preferred Shares, Series 5 which were issued concurrently with the LRCN Series 1 at a rate of \$1000 per Series 5. Holders of the LRCN Series 1 are entitled to receive semi-annual payments at a rate of 3.625% per annum until April 17, 2026. Thereafter, the yield will reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.082%.

On April 17, 2021, subsequent to the date of these Interim Consolidated Financial Statements, the Company redeemed all of the outstanding Preferred Shares, Series 1 at the price of \$25.00 per share for an aggregate total of \$149.5 million plus declared dividends.

10. Dividends

	Dividend declaration date	Shares issued and outstanding	Dividend rate per share	Total dividend (\$ 000's)	Dividend payment date
Common shareholder dividends					
Common shares	February 24, 2021	985,076	\$ 10.635322	\$ 10,477	April 1, 2021
	October 29, 2020	985,076	\$ 22.072300	\$ 21,743	December 8, 2020
	July 29, 2020	985,076	\$ 44.144700	\$ 43,486	September 9, 2020
	February 26, 2020	985,076	\$ 113.435853	\$ 111,743	April 8, 2020
Preferred shareholder dividends					
Series 1	February 24, 2021	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2021
	October 29, 2020	5,980,000	\$ 0.359375	\$ 2,149	January 17, 2021
	July 29, 2020	5,980,000	\$ 0.359375	\$ 2,149	October 17, 2020
	April 30, 2020	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2020
	February 26, 2020	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2020
Series 3	February 24, 2021	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2021
	October 30, 2020	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2021
	July 29, 2020	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2020
	April 30, 2020	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2020
	February 26, 2020	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2020

On April 29, 2021, subsequent to the date of these Interim Consolidated Financial Statements, the Board approved the following cash dividends:

- \$14,000 (\$14.212101 per share) on the issued and outstanding Common Shares, payable on June 8, 2021.
- \$1,225 (\$0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on July 17, 2021.

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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, 2021				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 23,427	\$ 95,833	\$ 105,779	\$ —	\$ 225,039
Interest income	7,155	1,558	45,220	12,807	66,740
Total investment income	9,625	579	53,989	15,522	79,715
Fair value change in fair value through profit or loss assets	(17,510)	(5,591)	(666,170)	(1,646)	(690,917)
Realized gain (loss) on fair value through profit or loss assets	—	—	59,341	(6,140)	53,201
Realized gain (loss) on available for sale assets including impairment write downs	97	82	90	1,699	1,968
Fee income from external customers	62,520	3,097	57	63	65,737
Net benefits and claims	50,392	67,476	47,086	—	164,954
Net change in insurance contract liabilities	(184,742)	1,407	(584,047)	—	(767,382)
Change in investment contract provision	296	—	—	—	296
Policy dividends	—	—	8,032	—	8,032
Amortization of property and equipment and intangibles	596	1,038	1,424	—	3,058
Total operating expenses	16,431	12,293	13,670	409	42,803
Net commission expense	21,446	10,784	28,593	—	60,823
Interest expense	—	—	—	2,335	2,335
Premium tax	—	2,970	2,849	—	5,819
Investment and capital tax	—	—	972	—	972
Income tax expense (recovery)	45,428	(260)	6,789	1,146	53,103
Net income (loss) after tax	128,908	(670)	29,142	5,608	162,988

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

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	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)

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

As at	March 31, 2021				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 955,632	\$ 176,451	\$ 6,035,939	\$ 2,627,567	\$ 9,795,589
Segregated funds	8,635,445	—	19,007	—	8,654,452
Total assets	\$ 9,591,077	\$ 176,451	\$ 6,054,946	\$ 2,627,567	\$ 18,450,041

As at	December 31, 2020				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 994,913	\$ 192,700	\$ 6,553,856	\$ 2,516,867	\$ 10,258,336
Segregated funds	8,439,229	—	18,188	—	8,457,417
Total assets	\$ 9,434,142	\$ 192,700	\$ 6,572,044	\$ 2,516,867	\$ 18,715,753

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.

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)

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, 2021 of \$39,748 (December 31, 2020, \$40,012). These outstanding commitments are payable at any time up to and including December 31, 2023.

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. OSFI has implemented the Life Insurance Capital Adequacy Test (“LICAT”) framework to monitor capital adequacy. 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, 2021 and December 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 2020 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. Given the nature of these calculations, the Company cannot provide assurance that the actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

(a) Market risk

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 2020 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

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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, 2021			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 14,037	\$ (21,700)	\$ 30,346	\$ (88,725)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 3,564	\$ (3,564)	\$ 7,127	\$ (7,127)
Policyholders' other comprehensive income	\$ nil	\$ nil	\$ nil	\$ nil

	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

*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, 2021	December 31, 2020
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 695,070	\$ 675,244
Percentage of total cash and investments	7.3%	6.7%
Exposure to the largest single issuer of common equities	\$ 458,504	\$ 447,166
Percentage of total cash and investments	4.8%	4.5%

(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, 2021			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 5,925	\$ (6,587)	\$ 11,263	\$ (13,927)
Policyholders' net income	\$ 248	\$ (273)	\$ 473	\$ (573)
Shareholders' other comprehensive income	\$ (46,834)	\$ 55,143	\$ (85,359)	\$ 118,595
Policyholders' other comprehensive income	\$ (589)	\$ 627	\$ (1,139)	\$ 1,293

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)

	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

(3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at March 31, 2021, a 10% fluctuation in the US dollar would have an impact of approximately \$nil (March 31, 2020, \$nil) on net income, \$nil (March 31, 2020, \$nil) on shareholders' OCI and \$nil (March 31, 2020, \$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, 2021	December 31, 2020
Cash and cash equivalents	\$ 281,668	\$ 189,356
Short-term investments	8,500	13,008
Bonds	7,429,998	8,027,780
Preferred shares	631,788	616,902
Derivative assets	5,774	5,377
Mortgages	153,972	157,214
Reinsurance	145,044	141,136
Loans on policies	56,330	56,458
Policy contract loans	60,015	60,407
Accrued investment income	47,965	38,932
Insurance receivables	39,853	46,533
Trade accounts receivable	27,357	7,245
Total	\$ 8,888,264	\$ 9,360,348

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, 2021		December 31, 2020	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 404,515	5 %	\$ 394,570	5 %
AA	2,013,582	27 %	2,289,540	28 %
A	3,533,093	48 %	3,910,974	49 %
BBB	1,475,366	20 %	1,429,025	18 %
BB (and lower ratings)	3,442	— %	3,671	— %
Total	\$ 7,429,998	100 %	\$ 8,027,780	100 %

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

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)

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, 2021		December 31, 2020	
Provincial bond holdings	\$	3,591,241	\$	4,098,339
Percentage of total bond holdings		48.3 %		51.1 %

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

As at	March 31, 2021		December 31, 2020	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 238,132	3 %	\$ 188,385	2 %
1 - 5 years	735,361	10 %	678,391	8 %
5 - 10 years	698,004	9 %	696,271	9 %
Over 10 years	5,758,501	78 %	6,464,733	81 %
Total	\$ 7,429,998	100 %	\$ 8,027,780	100 %

The following table discloses the Company's holdings of fixed income securities in the 10 issuers (excluding the federal government) to which the Company had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds.

As at	March 31, 2021		December 31, 2020	
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$	4,521,216	\$	4,886,504
Percentage of total cash and investments		47.2 %		48.6 %
Exposure to the largest single issuer of corporate bonds	\$	218,882	\$	236,086
Percentage of total cash and investments		2.3 %		2.4 %

*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, 2020, 1%) rated as P1, 97% rated as P2 (December 31, 2020, 97%) and the remaining 2% (December 31, 2020, 2%) rated as P3.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$153,618 or 99% (December 31, 2020, \$156,445 or 99%) of the total mortgage portfolio.

15. Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation.

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.

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

Follow Empire Life on Twitter @EmpireLife or visit our website, www.empire.ca for more information.

¹ Based on total assets as reported in December 31, 2020 OSFI filings.

² As at June 24, 2020. For the latest rating, access www.ambest.com.

Transfer Agent and Registrar

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

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: johnbrierley12@gmail.com
Phone: 705-250-3133

You may submit your complaint or concern anonymously. Your submission will be kept confidential and will be treated in accordance with the Company's policy for reporting accounting and auditing matters.

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