

# The Empire Life Insurance Company

## **Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2016 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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# Table of Contents

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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	13
5. Insurance Premiums	14
6. Benefits and Expenses	15
7. Income Taxes included in Other Comprehensive Income (Loss)	15
8. Earnings Per Share	16
9. Capital Stock	17
10. Dividends	17
11. Segmented Information	17
12. Investment Commitments	20
13. Capital Management	20
14. Risk Management	20
Glossary of Terms	25

# Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

As at	March 31, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 208,760	\$ 199,770
Investments		
Short-term investments (Note 3)	137,014	33,652
Bonds (Note 3)	5,341,783	5,193,439
Preferred shares (Note 3)	238,963	194,680
Common shares (Note 3)	827,852	801,778
Derivative assets (Note 3)	12,989	14,649
Mortgages (Note 3)	281,992	289,221
Loans on policies (Note 3)	47,714	46,925
Policy contract loans (Note 3)	82,799	84,921
<b>Total cash and cash equivalents and investments</b>	<b>7,179,866</b>	<b>6,859,035</b>
Accrued investment income	38,325	26,023
Insurance receivables	30,608	47,909
Current income taxes	—	3,361
Other assets	33,074	26,257
Property and equipment	24,146	23,911
Intangible assets	9,718	9,225
Segregated fund assets (Note 4)	7,399,324	7,367,823
<b>Total assets</b>	<b>\$ 14,715,061</b>	<b>\$ 14,363,544</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 86,434	\$ 59,145
Insurance payables	73,048	77,337
Current income taxes payable	6,160	—
Reinsurance liabilities	546,242	530,826
Insurance contract liabilities	4,898,723	4,798,683
Investment contract liabilities	11,132	11,241
Policyholders' funds on deposit	32,591	32,599
Provision for profits to policyholders	27,458	26,951
Deferred income taxes	2,996	7,910
Subordinated debt	299,201	299,112
Segregated fund policy liabilities	7,399,324	7,367,823
<b>Total liabilities</b>	<b>13,383,309</b>	<b>13,211,627</b>
<b>Equity</b>		
Preferred shares (Note 9)	149,500	—
Common shares (Note 9)	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,154,143	1,121,542
Accumulated other comprehensive income	7,737	10,003
<b>Total equity</b>	<b>1,331,752</b>	<b>1,151,917</b>
<b>Total liabilities and equity</b>	<b>\$ 14,715,061</b>	<b>\$ 14,363,544</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 and shares authorized and outstanding)

For the three months ended	March 31, 2016	March 31, 2015
<b>Revenue</b>		
Gross premiums (Note 5)	\$ 257,266	\$ 242,946
Premiums ceded to reinsurers (Note 5)	(27,491)	(25,372)
Net premiums (Note 5)	229,775	217,574
Investment income	60,785	60,553
Fair value change in fair value through profit or loss assets	45,780	279,521
Realized gain (loss) on fair value through profit or loss assets sold	22,659	23,063
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	2,224	10,238
Fee income	54,763	52,128
Total revenue	415,986	643,077
<b>Benefits and expenses</b>		
Gross benefits and claims paid (Note 6)	170,423	195,078
Claims recovery from reinsurers (Note 6)	(14,999)	(15,583)
Gross change in insurance contract liabilities (Note 6)	100,039	305,614
Change in insurance contract liabilities ceded (Note 6)	15,416	31,708
Change in investment contracts provision	360	663
Policy dividends	6,346	5,770
Operating expenses	33,934	35,052
Commissions	48,175	49,902
Commission recovery from reinsurers	(586)	(537)
Interest expense	2,235	2,209
Total benefits and expenses	361,343	609,876
Premium tax	3,521	3,499
Investment and capital tax	342	825
<b>Net income before income taxes</b>	<b>50,780</b>	<b>28,877</b>
Income taxes	13,047	6,075
<b>Net income</b>	<b>\$ 37,733</b>	<b>\$ 22,802</b>
Less: net income (loss) attributable to participating policyholders	(949)	(2,777)
Shareholders' net income (loss)	38,682	25,579
Less: dividends on preferred shares (Note 10)	1,436	—
Common shareholders' net income (loss)	37,246	25,579
Earnings per share attributable to common shareholders (Note 8)	\$ 37.81	\$ 25.97

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, 2016	March 31, 2015
<b>Net income</b>	<b>\$ 37,733</b>	<b>\$ 22,802</b>
<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)	6,699	24,858
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7)	(1,616)	(7,382)
Net unrealized fair value increase (decrease)	5,083	17,476
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 7)	(7,349)	(3,543)
Total other comprehensive income (loss)	(2,266)	13,933
<b>Comprehensive income (loss)</b>	<b>\$ 35,467</b>	<b>\$ 36,735</b>
<b>Comprehensive income (loss) attributable to:</b>		
Participating policyholders	\$ 29	\$ (1,820)
Shareholders	35,438	38,555
Total	\$ 35,467	\$ 36,735

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, 2016			March 31, 2015		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
<b>Preferred shares (Note 9)</b>	\$ 149,500	\$ —	\$ 149,500	\$ —	\$ —	\$ —
<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 year	1,075,120	46,422	1,121,542	966,543	52,541	1,019,084
Net income (loss)	38,682	(949)	37,733	25,579	(2,777)	22,802
Dividends to common shareholders	—	—	—	—	—	—
Dividends to preferred shareholders	(1,436)	—	(1,436)	—	—	—
Preferred share issue costs net of income tax (Note 9)	(3,696)	—	(3,696)	—	—	—
Retained earnings - end of period	1,108,670	45,473	1,154,143	992,122	49,764	1,041,886
<b>Accumulated other comprehensive income (loss)</b>						
Accumulated other comprehensive income (loss) - beginning of year	3,588	6,415	10,003	15,324	7,499	22,823
Other comprehensive income (loss)	(3,244)	978	(2,266)	12,976	957	13,933
Accumulated other comprehensive income (loss) - end of period	344	7,393	7,737	28,300	8,456	36,756
<b>Total equity</b>	\$ 1,278,886	\$ 52,866	\$ 1,331,752	\$ 1,040,794	\$ 58,220	\$ 1,099,014
<b>Composition of accumulated other comprehensive income (loss) - end of period</b>						
Unrealized gain (loss) on available for sale financial assets	\$ 18,814	\$ 9,061	\$ 27,875	\$ 40,191	\$ 9,881	\$ 50,072
Remeasurements of post-employment benefit liabilities	(19,176)	(962)	(20,138)	(12,671)	(645)	(13,316)
Shareholder portion of policyholders' accumulated other comprehensive income	706	(706)	—	780	(780)	—
Total accumulated other comprehensive income (loss)	\$ 344	\$ 7,393	\$ 7,737	\$ 28,300	\$ 8,456	\$ 36,756

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, 2016	March 31, 2015
<b>Operating activities</b>		
Net income	\$ 37,733	\$ 22,802
Non-cash items affecting net income:		
Change in contract liabilities	100,399	306,277
Change in reinsurance liability	15,416	31,708
Fair value change in fair value through profit or loss assets	(45,780)	(279,521)
Realized (gain) loss on assets including impairment write downs on available for sale assets	(24,883)	(33,301)
Amortization related to discount on debt instruments	(18,943)	(17,800)
Amortization related to property and equipment and intangible assets	1,048	1,109
Deferred income taxes	(2,010)	(234)
Other items	15,963	(12,182)
Cash provided from (used for) operating activities	78,943	18,858
<b>Investing activities</b>		
Portfolio investments		
Purchases and advances	(563,645)	(499,770)
Sales and maturities	451,685	523,550
Loans on policies		
Advances	(2,045)	(1,630)
Repayments	3,386	1,553
(Increase) decrease in short-term investments	(103,362)	(7,598)
Purchase of property and equipment and intangible assets	(1,776)	(1,784)
Cash provided from (used for) investing activities	(215,757)	14,321
<b>Financing activities</b>		
Preferred share issue (Note 9)	149,500	—
Preferred share issue costs net of income tax (Note 9)	(3,696)	—
Cash provided from (used for) financing activities	145,804	—
<b>Net change in cash and cash equivalents</b>	<b>8,990</b>	<b>33,179</b>
<b>Cash and cash equivalents - beginning of period (Note 3)</b>	<b>199,770</b>	<b>239,102</b>
<b>Cash and cash equivalents - end of period (Note 3)</b>	<b>\$ 208,760</b>	<b>\$ 272,281</b>
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 6,183	\$ 14,010
Interest income received	22,721	24,617
Dividend income received	7,681	7,138

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, and shares authorized and issued and outstanding)

## 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 28, 2016.

## 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, 2015.

### (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 the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All significant inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

### (c) Accounting changes

#### (i) New accounting pronouncements adopted in 2016

##### (1) *IFRS Annual Improvements*

The IASB periodically issues improvements to clarify the requirements of IFRS and eliminate inconsistencies within and between standards. Adoption of the 2012-2014 improvements on January 1, 2016 in accordance with their respective transition provisions did not have a significant impact on the Consolidated Financial Statements.

# Condensed Notes to the Interim Consolidated Financial Statements

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

(ii) New accounting pronouncements issued but not yet effective

(1) *IFRS 15 Revenue from Contracts with Customers*

In May 2014 the IASB published IFRS 15, which introduces a single model for recognizing revenue from contracts with customers. IFRS 15 excludes insurance contracts from its scope and is primarily applicable to the Company's non-insurance revenue. The standard is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The Company is currently evaluating the impact of IFRS 15 on its Consolidated Financial Statements.

(2) *IFRS 9 Financial Instruments*

In July 2014 the IASB published the complete version of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model and new hedge accounting guidance. The Company is currently evaluating the impact of IFRS 9 on its Consolidated Financial Statements as well as the implementation options for insurers proposed in the December 2015 Exposure Draft *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4)*.

(3) *IFRS 16 Leases*

In January 2016, the IASB published IFRS 16, which is effective January 1, 2019. The new standard requires the capitalization of all leases by recognizing the present value of the lease payments and showing them as lease assets, and recognizing a financial liability representing an obligation to make future lease payments. The Company is currently evaluating the impact of IFRS 16 on its Consolidated Financial Statements.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 3. Financial Instruments

### (a) Summary of Cash and cash equivalents and investments

The carrying values of cash and cash equivalents and investments are as follows:

As at	March 31, 2016			December 31, 2015		
Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
<b>Cash and cash equivalents</b>						
Cash	\$ 35,873	\$ —	\$ 35,873	\$ 21,390	\$ —	\$ 21,390
Cash equivalents	172,887	—	172,887	178,380	—	178,380
<b>Total cash and cash equivalents</b>	<b>208,760</b>	<b>—</b>	<b>208,760</b>	<b>199,770</b>	<b>—</b>	<b>199,770</b>
<b>Short-term investments</b>						
Canadian federal government	4,965	104,908	109,873	4,781	4,996	9,777
Canadian provincial governments	—	—	—	5,994	—	5,994
Corporate	27,141	—	27,141	17,881	—	17,881
<b>Total short-term investments</b>	<b>32,106</b>	<b>104,908</b>	<b>137,014</b>	<b>28,656</b>	<b>4,996</b>	<b>33,652</b>
<b>Bonds</b>						
Canadian government bonds issued or guaranteed by:						
Federal government	79,794	249,420	329,214	76,053	214,285	290,338
Provincial & municipal governments	2,656,089	390,021	3,046,110	2,575,792	392,143	2,967,935
<b>Total Canadian government bonds</b>	<b>2,735,883</b>	<b>639,441</b>	<b>3,375,324</b>	<b>2,651,845</b>	<b>606,428</b>	<b>3,258,273</b>
Canadian corporate bonds by industry sector:						
Financial services	487,724	355,141	842,865	475,027	386,044	861,071
Infrastructure	286,217	22,545	308,762	279,858	22,193	302,051
Utilities	287,254	35,085	322,339	274,431	33,070	307,501
Communications	12,863	27,029	39,892	1,484	24,444	25,928
Energy	40,612	49,036	89,648	40,999	53,352	94,351
Consumer staples	97,888	84,839	182,727	95,887	76,326	172,213
Industrials	62,182	21,846	84,028	61,790	15,650	77,440
Health care	70,906	14,555	85,461	70,821	13,001	83,822
Materials	10,737	—	10,737	10,789	—	10,789
<b>Total Canadian corporate bonds</b>	<b>1,356,383</b>	<b>610,076</b>	<b>1,966,459</b>	<b>1,311,086</b>	<b>624,080</b>	<b>1,935,166</b>
<b>Total bonds</b>	<b>4,092,266</b>	<b>1,249,517</b>	<b>5,341,783</b>	<b>3,962,931</b>	<b>1,230,508</b>	<b>5,193,439</b>
<b>Total preferred shares - Canadian</b>	<b>234,382</b>	<b>4,581</b>	<b>238,963</b>	<b>189,645</b>	<b>5,035</b>	<b>194,680</b>
<b>Common shares</b>						
Canadian						
Common shares	530,282	63,912	594,194	505,534	61,831	567,365
Real estate limited partnership units	63,583	—	63,583	60,396	—	60,396
U.S.	156,041	—	156,041	154,482	—	154,482
Other	14,034	—	14,034	19,535	—	19,535
<b>Total common shares</b>	<b>763,940</b>	<b>63,912</b>	<b>827,852</b>	<b>739,947</b>	<b>61,831</b>	<b>801,778</b>
<b>Total derivative assets</b>	<b>12,989</b>	<b>—</b>	<b>12,989</b>	<b>14,649</b>	<b>—</b>	<b>14,649</b>
<b>Loans and receivables</b>						
Mortgages	—	—	281,992	—	—	289,221
Loans on policies	—	—	47,714	—	—	46,925
Policy contract loans	—	—	82,799	—	—	84,921
<b>Total financial instruments</b>	<b>\$ 5,344,443</b>	<b>\$ 1,422,918</b>	<b>\$ 7,179,866</b>	<b>\$ 5,135,598</b>	<b>\$ 1,302,370</b>	<b>\$ 6,859,035</b>

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

As at	March 31, 2016			December 31, 2015		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 35,873	\$ 172,887	\$ 208,760	\$ 21,390	\$ 178,380	\$ 199,770
Short-term investments	—	32,106	32,106	—	28,656	28,656
Bonds	—	4,092,266	4,092,266	—	3,962,931	3,962,931
Preferred shares	234,382	—	234,382	189,645	—	189,645
Common shares	700,357	63,583	763,940	679,551	60,396	739,947
Derivative assets	12,303	686	12,989	14,482	167	14,649
Available for sale:						
Cash and cash equivalents	—	—	—	—	—	—
Short-term investments	—	104,908	104,908	—	4,996	4,996
Bonds	—	1,249,517	1,249,517	—	1,230,508	1,230,508
Preferred shares	4,581	—	4,581	5,035	—	5,035
Common shares	63,912	—	63,912	61,831	—	61,831
Loans and Receivables						
Mortgages	—	289,691	289,691	—	300,186	300,186
Loans on policies	—	47,714	47,714	—	46,925	46,925
Policy contract loans	—	82,799	82,799	—	84,921	84,921
<b>Total</b>	<b>\$ 1,051,408</b>	<b>\$ 6,136,157</b>	<b>\$ 7,187,565</b>	<b>\$ 971,934</b>	<b>\$ 5,898,066</b>	<b>\$ 6,870,000</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, 2016 or during the year ended December 31, 2015.

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, 2016, the Company reclassified a pre-tax loss of \$754 from OCI to Net income due to write downs of impaired AFS common and preferred shares (for the three months ended March 31, 2015, \$180). Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

For additional information on the fair values of the Company's AFS investments, refer to Note 3 (a). For analysis of the Company's risks arising from financial instruments, refer to Note 14.

# Condensed Notes to the Interim Consolidated Financial Statements

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

(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, 2016			December 31, 2015		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 114,873	\$ 686	\$ 98	\$ 94,312	\$ 977	\$ 340
Equity options	428,286	10,066	—	299,876	13,505	—
Over-the-counter						
Foreign currency forwards	166,501	2,237	1,258	175,368	167	36
<b>Total</b>	<b>\$ 709,660</b>	<b>\$ 12,989</b>	<b>\$ 1,356</b>	<b>\$ 569,556</b>	<b>\$ 14,649</b>	<b>\$ 376</b>

All contracts mature in less than one year. Fair value asset amounts are reported on the Consolidated Statements of Financial Position as Derivative assets. Fair value liability amounts are reported on 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. 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.

## 4. Segregated Funds

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

As at	March 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 343,469	\$ 301,764
Short-term investments	146,916	151,203
Bonds	1,596,648	1,528,873
Common and preferred shares	5,350,983	5,362,003
Other assets	(4,407)	59,085
	<b>7,433,609</b>	<b>7,402,928</b>
Less segregated funds held within general fund investments	(34,285)	(35,105)
<b>Total</b>	<b>\$ 7,399,324</b>	<b>\$ 7,367,823</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, 2016			December 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 84,900	\$ 258,569	\$ 343,469	\$ 42,827	\$ 258,937	\$ 301,764
Short-term investments	—	146,916	146,916	—	151,203	151,203
Bonds	—	1,596,648	1,596,648	—	1,528,873	1,528,873
Common and preferred shares	5,350,983	—	5,350,983	5,362,003	—	5,362,003
<b>Total</b>	<b>\$ 5,435,883</b>	<b>\$ 2,002,133</b>	<b>\$ 7,438,016</b>	<b>\$ 5,404,830</b>	<b>\$ 1,939,013</b>	<b>\$ 7,343,843</b>

# Condensed Notes to the Interim Consolidated Financial Statements

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

There were no transfers between Level 1 and Level 2, and there were no Level 3 investments during the period ended March 31, 2016 or during the year ended December 31, 2015.

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

For the three months ended	March 31, 2016		March 31, 2015	
Segregated fund assets - beginning of year	\$	7,367,823	\$	6,948,475
Additions to segregated funds:				
Amount received from policyholders		407,263		417,762
Interest		9,578		15,099
Dividends		30,222		34,338
Other income		7,216		8,064
Net realized gains on sale of investments		5,749		175,139
Net unrealized increase in fair value of investments		—		98,627
		<b>460,028</b>		<b>749,029</b>
Deductions from segregated funds:				
Amounts withdrawn or transferred by policyholders		358,668		340,323
Net unrealized decrease in fair value of investments		16,460		—
Management fees and other operating costs		54,219		55,082
		<b>429,347</b>		<b>395,405</b>
Net change in segregated funds held within general fund investments		<b>820</b>		<b>(2,091)</b>
Segregated fund assets - end of period	\$	7,399,324	\$	7,300,008

(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 Empire Life's estimated liability for those guarantees. The impact of market price fluctuations in segregated funds on shareholders' net income is disclosed in Note 14.

## 5. Insurance Premiums

	March 31, 2016			March 31, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 113,168	\$ (20,868)	\$ 92,300	\$ 112,140	\$ (18,937)	\$ 93,203
Health premiums	87,720	(6,555)	81,165	84,685	(6,377)	78,308
Total life and health premiums	200,888	(27,423)	173,465	196,825	(25,314)	171,511
Annuity premiums	56,378	(68)	56,310	46,121	(58)	46,063
Total insurance premiums	\$ 257,266	\$ (27,491)	\$ 229,775	\$ 242,946	\$ (25,372)	\$ 217,574

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 6. Benefits and Expenses

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

For the three months ended	March 31, 2016			March 31, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 41,724	\$ (10,700)	\$ 31,024	\$ 45,914	\$ (10,748)	\$ 35,166
Health claims	68,788	(4,015)	64,773	65,869	(3,931)	61,938
Total life and health claims	110,512	(14,715)	95,797	111,783	(14,679)	97,104
Annuity benefits	59,911	(284)	59,627	83,295	(904)	82,391
Benefits and claims paid	\$ 170,423	\$ (14,999)	\$ 155,424	\$ 195,078	\$ (15,583)	\$ 179,495

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

For the three months ended	March 31, 2016			March 31, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ 106,397	\$ 15,807	\$ 122,204	\$ 314,103	\$ 32,003	\$ 346,106
Health	6,154	(703)	5,451	13,011	(417)	12,594
Total life and health	112,551	15,104	127,655	327,114	31,586	358,700
Annuity	(12,512)	312	(12,200)	(21,500)	122	(21,378)
Change in Insurance Contract Liabilities	\$ 100,039	\$ 15,416	\$ 115,455	\$ 305,614	\$ 31,708	\$ 337,322
Change attributable to:						
Normal changes - New Business	\$ 35,439	\$ (2,588)	\$ 32,851	\$ 28,139	\$ 541	\$ 28,680
- In-Force Business	64,600	18,004	82,604	277,475	31,167	308,642
Change in Insurance Contract Liabilities	\$ 100,039	\$ 15,416	\$ 115,455	\$ 305,614	\$ 31,708	\$ 337,322

## 7. Income Taxes included on 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, 2016			March 31, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 9,138	\$ 2,439	\$ 6,699	\$ 33,829	\$ 8,971	\$ 24,858
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(2,224)	(608)	(1,616)	(10,238)	(2,856)	(7,382)
Remeasurements of post-employment benefit liabilities	(10,024)	(2,675)	(7,349)	(4,821)	(1,278)	(3,543)
Total other comprehensive income (loss)	\$ (3,110)	\$ (844)	\$ (2,266)	\$ 18,770	\$ 4,837	\$ 13,933

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

For the three months ended	March 31, 2016			March 31, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 6,990	\$ 1,866	\$ 5,124	\$ 30,824	\$ 8,174	22,650
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(2,004)	(546)	(1,458)	(8,802)	(2,454)	(6,348)
Remeasurements of post-employment benefit liabilities	(9,566)	(2,553)	(7,013)	(4,605)	(1,221)	(3,384)
Shareholder portion of policyholder other comprehensive income (loss)	140	37	103	77	19	58
<b>Total other comprehensive income (loss)</b>	<b>\$ (4,440)</b>	<b>\$ (1,196)</b>	<b>\$ (3,244)</b>	<b>\$ 17,494</b>	<b>\$ 4,518</b>	<b>12,976</b>

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

For the three months ended	March 31, 2016			March 31, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 2,148	\$ 573	\$ 1,575	\$ 3,005	\$ 797	2,208
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(220)	(62)	(158)	(1,436)	(402)	(1,034)
Remeasurements of post-employment benefit liabilities	(458)	(122)	(336)	(216)	(57)	(159)
Shareholder portion of policyholder other comprehensive income (loss)	(140)	(37)	(103)	(77)	(19)	(58)
<b>Total other comprehensive income (loss)</b>	<b>\$ 1,330</b>	<b>\$ 352</b>	<b>\$ 978</b>	<b>\$ 1,276</b>	<b>\$ 319</b>	<b>957</b>

## 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, 2016	March 31, 2015
Basic and diluted EPS		
Common shareholders' net income	\$ 37,246	\$ 25,579
Weighted average number of common shares outstanding	985,076	985,076
<b>Basic and diluted EPS</b>	<b>\$ 37.81</b>	<b>\$ 25.97</b>



# Condensed Notes to the Interim Consolidated Financial Statements

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

## 9. Capital Stock

As at	March 31, 2016			December 31, 2015		
	Shares authorized	Shares issued and outstanding	Amount	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 1	unlimited	5,980,000	\$ 149,500	—	—	\$ —
Common shares	2,000,000	985,076	\$ 985	2,000,000	985,076	\$ 985

During the period February 16<sup>th</sup> to March 1, 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, \$5,042 less \$1,346 of income tax, was charged to retained earnings.

## 10. Dividends

### Common shareholder dividends

There were no common shareholder dividends paid in 2016 or 2015.

### Preferred shareholder dividends

On February 25, 2016 the Board approved a cash dividend of \$0.2402 per share on the issued and outstanding Series 1 Preferred Shares, such dividend to be payable on the 17<sup>th</sup> day of April, 2016.

On April 28, 2016 the Board approved a cash dividend of \$0.359375 per share on the issued and outstanding Series 1 Preferred Shares, such dividend to be payable on the 17<sup>th</sup> day of July, 2016.

## 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, guaranteed interest rate annuities and annuities providing income for life.

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.

# Condensed Notes to the Interim Consolidated Financial Statements

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

**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, 2016				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 56,310	\$ 83,899	\$ 89,566	\$ —	229,775
Interest income	8,237	1,520	35,126	9,867	54,750
Total investment income	10,276	957	39,277	10,275	60,785
Fair value change in fair value through profit or loss assets	(13,557)	870	64,472	(6,005)	45,780
Realized gain (loss) on fair value through profit or loss assets	451	524	23,251	(1,567)	22,659
Realized gain (loss) on available for sale assets including impairment write downs	(213)	(214)	(199)	2,850	2,224
Fee income from external customers	52,084	2,429	239	11	54,763
Net benefits and claims	59,627	66,891	28,906	—	155,424
Net change in insurance contract liabilities	(12,203)	9	127,649	—	115,455
Change in investment contract provision	360	—	—	—	360
Policy dividends	—	—	6,346	—	6,346
Amortization of property and equipment and intangibles	294	332	422	—	1,048
Total operating expenses	11,472	9,507	12,671	284	33,934
Net commission expense	22,671	8,794	16,124	—	47,589
Interest expense	—	—	—	2,235	2,235
Premium tax	—	1,801	1,720	—	3,521
Investment and capital tax	—	—	342	—	342
Income tax expense (recovery)	6,040	608	5,637	762	13,047
Net income (loss) after tax	17,384	855	17,211	2,283	37,733

# Condensed Notes to the Interim Consolidated Financial Statements

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

	For the three months ended March 31, 2015				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 46,063	\$ 80,259	\$ 91,252	\$ —	\$ 217,574
Interest income	9,344	1,487	34,206	9,242	54,279
Total investment income	11,107	677	39,022	9,747	60,553
Fair value change in fair value through profit or loss assets	10,711	3,343	267,358	(1,891)	279,521
Realized gain (loss) on fair value through profit or loss assets	885	932	22,288	(1,042)	23,063
Realized gain (loss) on available for sale assets including impairment write downs	247	328	522	9,141	10,238
Fee income from external customers	49,525	2,337	230	36	52,128
Net benefits and claims	82,391	65,013	32,091	—	179,495
Net change in insurance contract liabilities	(21,376)	543	358,155	—	337,322
Change in investment contract provision	663	—	—	—	663
Policy dividends	—	—	5,770	—	5,770
Amortization of property and equipment and intangibles	415	263	431	—	1,109
Total operating expenses	13,745	9,460	11,539	308	35,052
Net commission expense	24,339	8,103	16,923	—	49,365
Interest expense	—	—	—	2,209	2,209
Premium tax	—	1,726	1,773	—	3,499
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	3,826	801	(2,864)	4,312	6,075
Net income (loss) after tax	14,950	2,230	(3,540)	9,162	22,802

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

	As at March 31, 2016				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 957,178	\$ 156,680	\$ 4,529,241	\$ 1,672,638	\$ 7,315,737
Segregated funds	7,379,294	—	20,030	—	7,399,324
<b>Total assets</b>	<b>\$ 8,336,472</b>	<b>\$ 156,680</b>	<b>\$ 4,549,271</b>	<b>\$ 1,672,638</b>	<b>\$ 14,715,061</b>

	As at December 31, 2015				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 959,181	\$ 162,597	\$ 4,301,805	\$ 1,572,138	\$ 6,995,721
Segregated funds	7,347,426	—	20,397	—	7,367,823
<b>Total assets</b>	<b>\$ 8,306,607</b>	<b>\$ 162,597</b>	<b>\$ 4,322,202</b>	<b>\$ 1,572,138</b>	<b>\$ 14,363,544</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, and shares authorized and issued and outstanding)

## 12. Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. In January 2016 the Company made a \$20,000 commitment to purchase additional units in a real estate limited partnership. Draws on this commitment are payable on demand up to and including July 31, 2018. On January 29, 2016, a cash call was settled to purchase units for \$2,000 in this real estate limited partnership. At March 31, 2016 there remained \$18,000 (December 31, 2015, \$ nil) of outstanding cash calls to purchase units in a real estate limited partnership.

## 13. Capital Management

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act (Canada)* as established and monitored by OSFI. Under the guidelines established by OSFI, the Company's regulatory capital consists of two tiers. The Company's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, negative reserves on insurance contract liabilities and subordinated debt. OSFI's target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at March 31, 2016 and December 31, 2015 the Company was in compliance with these ratios.

As at	March 31, 2016	December 31, 2015
Tier 1 Regulatory Capital	\$ 1,078,479	\$ 917,617
Tier 2 Regulatory Capital	527,577	504,430
Total Regulatory Capital	\$ 1,606,056	\$ 1,422,047

## 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 2015 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.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## (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 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 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, 2016			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (excludes segregated fund guarantees)*	\$ 11,744	\$ (5,017)	\$ 26,841	\$ (1,601)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 2,165	\$ (2,165)	\$ 4,330	\$ (4,330)
Policyholders' other comprehensive income	\$ 2,515	\$ (2,515)	\$ 5,030	\$ (5,030)
Shareholders' net income (due to segregated fund guarantees)	\$ nil	\$ nil	\$ nil	\$ (38,733)

	As at March 31, 2015			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (excludes segregated fund guarantees)*	\$ 12,071	\$ (9,542)	\$ 25,257	\$ (14,874)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 2,227	\$ (2,227)	\$ 4,454	\$ (4,454)
Policyholders' other comprehensive income	\$ 2,451	\$ (2,451)	\$ 4,902	\$ (4,902)
Shareholders' net income (due to segregated fund guarantees)	\$ 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, 2016	December 31, 2015
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 295,072	\$ 286,544
Percentage of total cash and investments	4.1%	4.2%
Exposure to the largest single issuer of common equities	\$ 63,583	\$ 60,396
Percentage of total cash and investments	0.9%	0.9%

# Condensed Notes to the Interim Consolidated Financial Statements

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

## (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, 2016			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 9,168	\$ (10,294)	\$ 17,345	\$ (21,873)
Policyholders' net income	\$ 520	\$ (569)	\$ 995	\$ (1,194)
Shareholders' other comprehensive income	\$ (30,056)	\$ 34,949	\$ (55,218)	\$ 74,791
Policyholders' other comprehensive income	\$ (1,390)	\$ 1,521	\$ (2,649)	\$ 3,172

	As at March 31, 2015			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 8,843	\$ (9,937)	\$ 16,724	\$ (21,122)
Policyholders' net income	\$ 566	\$ (623)	\$ 1,081	\$ (1,308)
Shareholders' other comprehensive income	\$ (21,081)	\$ 24,706	\$ (40,154)	\$ 52,014
Policyholders' other comprehensive income	\$ (1,269)	\$ 1,289	\$ (2,417)	\$ 2,714

## (3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at March 31, 2016, a 10% fluctuation in the US dollar would have an impact of approximately \$132 (March 31, 2015, \$ nil) on Net income, \$ nil (March 31, 2015, \$ nil) on shareholders' OCI and \$ nil (March 31, 2015, \$ 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, 2016	December 31, 2015
Cash and cash equivalents	\$ 208,760	\$ 199,770
Short-term investments	137,014	33,652
Bonds	5,341,783	5,193,439
Preferred shares	238,963	194,680
Derivative assets	12,989	14,649
Mortgages	281,992	289,221
Reinsurance	93,324	94,922
Loans on policies	47,714	46,925
Policy contract loans	82,799	84,921
Accrued investment income	38,325	26,023
Insurance receivables	30,608	47,909
Trade accounts receivable	27,620	20,803
<b>Total</b>	<b>\$ 6,541,891</b>	<b>\$ 6,246,914</b>

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 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, 2016		December 31, 2015	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 345,323	6%	\$ 308,435	6%
AA	527,329	10%	524,546	10%
A	3,703,108	70%	3,628,158	70%
BBB	765,549	14%	731,738	14%
BB (and lower ratings)	474	—%	562	—%
<b>Total</b>	<b>\$ 5,341,783</b>	<b>100%</b>	<b>\$ 5,193,439</b>	<b>100%</b>

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, 2016	December 31, 2015
Provincial bond holdings	\$ 2,898,482	\$ 2,845,599
Percentage of total bond holdings	54.3%	55.0%

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

As at	March 31, 2016		December 31, 2015	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 58,892	1%	\$ 66,769	1%
1 - 5 years	592,178	11%	560,124	11%
5 - 10 years	526,439	10%	571,599	11%
Over 10 years	4,164,274	78%	3,994,947	77%
<b>Total</b>	<b>\$ 5,341,783</b>	<b>100%</b>	<b>\$ 5,193,439</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, 2016	December 31, 2015
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 3,581,690	\$ 3,480,719
Percentage of total cash and investments	49.9%	50.8%
Exposure to the largest single issuer of corporate bonds	\$ 159,006	\$ 151,859
Percentage of total cash and investments	2.2%	2.2%

\*Fixed income securities includes bonds, debentures, preferred shares and short term investments.

# Condensed Notes to the Interim Consolidated Financial Statements

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

(2) Preferred shares

The Company's preferred share investments are all issued by Canadian companies, with 3% (December 31, 2015, 4%) of these investments rated as P1 and the remaining 97% (December 31, 2015, 96%) rated as P2.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$281,408 or 99% (December 31, 2015, \$288,622 or 99%) of the total mortgage portfolio.



# Glossary of Terms

(unaudited)

## Accumulated Other Comprehensive Income (AOCI)

A separate component of shareholders' and policyholders' equity that 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 any time, 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 that 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 Canadian life and health insurance industry provides a wide range of financial security products to more than 26 million Canadians and their dependents. 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.

## 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.

## Minimum Continuing Capital and Surplus Requirements (MCCSR)

The ratio of the available regulatory capital of a life insurance company to its required regulatory capital, each as calculated under OSFI's published guidelines.

## 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 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 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 get the insurance and group benefits coverage they need.

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

<sup>1</sup>The Globe and Mail Report on Business Magazine, June 2015, based on revenue

<sup>2</sup>As at May 19, 2015

## Transfer Agent and Registrar

CST Trust Company  
Computershare Investor Services Inc.  
100 University Avenue, 9th Floor  
Toronto, Ontario, M5J 2Y1  
Phone 416-981-9633  
Toll Free 800-564-6253  
[www.computershare.com/service](http://www.computershare.com/service)

## 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.

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[www.empire.ca](http://www.empire.ca) [info@empire.ca](mailto:info@empire.ca)

