

# The Empire Life Insurance Company

## **Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 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, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 356,689	\$ 368,873
Investments		
Short-term investments (Note 3)	158,654	102,874
Bonds (Note 3)	5,760,380	5,521,172
Preferred shares (Note 3)	342,423	285,184
Common shares (Note 3)	789,613	929,611
Derivative assets (Note 3)	1,755	3,855
Mortgages (Note 3)	255,019	264,309
Loans on policies (Note 3)	49,026	47,969
Policy contract loans (Note 3)	80,168	80,944
<b>Total cash and cash equivalents and investments</b>	<b>7,793,727</b>	<b>7,604,791</b>
Accrued investment income	41,967	40,551
Insurance receivables	38,188	53,097
Other assets	29,195	39,680
Property and equipment	27,561	27,683
Intangible assets	16,361	14,341
Segregated fund assets (Note 4)	8,260,706	8,082,033
<b>Total assets</b>	<b>\$ 16,207,705</b>	<b>\$ 15,862,176</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 84,494	\$ 79,600
Insurance payables	95,724	97,135
Current income taxes payable	45,947	32,536
Reinsurance liabilities	541,524	533,357
Insurance contract liabilities	5,088,055	5,003,450
Investment contract liabilities	14,298	13,903
Policyholders' funds on deposit	33,111	32,957
Provision for profits to policyholders	29,950	29,555
Deferred income taxes	7,669	8,989
Subordinated debt	498,734	498,603
Segregated fund policy liabilities	8,260,706	8,082,033
<b>Total liabilities</b>	<b>14,700,212</b>	<b>14,412,118</b>
<b>Equity</b>		
Preferred shares (Note 9)	149,500	149,500
Common shares (Note 9)	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,315,767	1,267,049
Accumulated other comprehensive income	21,854	13,137
<b>Total equity</b>	<b>1,507,493</b>	<b>1,450,058</b>
<b>Total liabilities and equity</b>	<b>\$ 16,207,705</b>	<b>\$ 15,862,176</b>



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



**Mark Sylvia**  
President and Chief Executive Officer

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

# Interim Consolidated Statements of Operations

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

	For the three months ended	
	March 31, 2017	March 31, 2016
<b>Revenue</b>		
Gross premiums (Note 5)	\$ 232,033	\$ 257,266
Premiums ceded to reinsurers (Note 5)	(29,639)	(27,491)
Net premiums (Note 5)	202,394	229,775
Investment income	64,557	60,785
Fair value change in fair value through profit or loss assets	48,762	45,780
Realized gain (loss) on fair value through profit or loss assets sold	34,774	22,659
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	(1,962)	2,224
Fee income	61,276	54,763
Total revenue	409,801	415,986
<b>Benefits and expenses</b>		
Gross benefits and claims paid (Note 6)	167,546	170,423
Claims recovery from reinsurers (Note 6)	(15,826)	(14,999)
Gross change in insurance contract liabilities (Note 6)	84,605	100,039
Change in insurance contract liabilities ceded (Note 6)	8,167	15,416
Change in investment contracts provision	79	360
Policy dividends	6,703	6,346
Operating expenses	37,320	33,934
Commissions	45,871	48,175
Commission recovery from reinsurers	(587)	(586)
Interest expense	3,964	2,235
Total benefits and expenses	337,842	361,343
Premium tax	4,243	3,521
Investment and capital tax	999	342
<b>Net income before income taxes</b>	<b>66,717</b>	<b>50,780</b>
Income taxes	15,850	13,047
<b>Net income</b>	<b>\$ 50,867</b>	<b>\$ 37,733</b>
Less: net income (loss) attributable to participating policyholders	(1,435)	(949)
Shareholders' net income (loss)	52,302	38,682
Less: preferred share dividends declared (Note 10)	2,149	1,436
Common shareholders' net income	50,153	37,246
Earnings per share attributable to common shareholders (Note 8)	\$ 50.91	\$ 37.81

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, 2017	March 31, 2016
<b>Net income</b>	\$ 50,867	\$ 37,733
<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)	10,200	6,699
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7)	1,459	(1,616)
Net unrealized fair value increase (decrease)	11,659	5,083
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 7)	(2,942)	(7,349)
Total other comprehensive income (loss)	8,717	(2,266)
<b>Comprehensive income (loss)</b>	\$ 59,584	\$ 35,467
<b>Comprehensive income (loss) attributable to:</b>		
Participating policyholders	\$ (1,755)	\$ 29
Shareholders	61,339	35,438
Total	\$ 59,584	\$ 35,467

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, 2017			For the three months ended March 31, 2016		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
<b>Preferred shares (Note 9)</b>	\$ 149,500	\$ —	\$ 149,500	\$ 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	1,224,066	42,983	1,267,049	1,075,120	46,422	1,121,542
Net income (loss)	52,302	(1,435)	50,867	38,682	(949)	37,733
Preferred share dividends declared	(2,149)	—	(2,149)	(1,436)	—	(1,436)
Preferred share issue costs net of income tax (Note 9)	—	—	—	(3,696)	—	(3,696)
Retained earnings - end of period	1,274,219	41,548	1,315,767	1,108,670	45,473	1,154,143
<b>Accumulated other comprehensive income (loss)</b>						
Accumulated other comprehensive income (loss) - beginning of year	4,993	8,144	13,137	3,588	6,415	10,003
Other comprehensive income (loss)	9,037	(320)	8,717	(3,244)	978	(2,266)
Accumulated other comprehensive income (loss) - end of period	14,030	7,824	21,854	344	7,393	7,737
<b>Total equity</b>	\$ 1,458,121	\$ 49,372	\$ 1,507,493	\$ 1,278,886	\$ 52,866	\$ 1,331,752
<b>Composition of accumulated other comprehensive income (loss) - end of period</b>						
Unrealized gain (loss) on available for sale financial assets	\$ 23,147	\$ 9,038	\$ 32,185	\$ 18,814	\$ 9,061	\$ 27,875
Remeasurements of post-employment benefit liabilities	(9,821)	(510)	(10,331)	(19,176)	(962)	(20,138)
Shareholder portion of policyholders' accumulated other comprehensive income	704	(704)	—	706	(706)	—
Total accumulated other comprehensive income (loss)	\$ 14,030	\$ 7,824	\$ 21,854	\$ 344	\$ 7,393	\$ 7,737

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, 2017	March 31, 2016
<b>Operating activities</b>		
Net income	\$ 50,867	\$ 37,733
Non-cash items affecting net income:		
Change in contract liabilities	84,684	100,399
Change in reinsurance liability	8,167	15,416
Fair value change in fair value through profit or loss assets	(48,762)	(45,780)
Realized (gain) loss on assets including impairment write downs on available for sale assets	(32,812)	(24,883)
Amortization related to discount on debt instruments	(18,232)	(18,943)
Amortization related to property and equipment and intangible assets	1,704	1,048
Deferred income taxes	(251)	(2,010)
Other items	34,166	15,963
Cash provided from (used for) operating activities	79,531	78,943
<b>Investing activities</b>		
Portfolio investments		
Purchases and advances	(812,628)	(563,645)
Sales and maturities	782,619	451,685
Loans on policies		
Advances	(2,708)	(2,045)
Repayments	2,533	3,386
(Increase) decrease in short-term investments	(55,780)	(103,362)
Purchase of property and equipment and intangible assets	(3,602)	(1,776)
Cash provided from (used for) investing activities	(89,566)	(215,757)
<b>Financing activities</b>		
Dividends paid to preferred shareholders (Note 10)	(2,149)	—
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	(2,149)	145,804
<b>Net change in cash and cash equivalents</b>	<b>(12,184)</b>	<b>8,990</b>
<b>Cash and cash equivalents - beginning of period (Note 3)</b>	<b>368,873</b>	<b>199,770</b>
<b>Cash and cash equivalents - end of period (Note 3)</b>	<b>\$ 356,689</b>	<b>\$ 208,760</b>
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 6,945	\$ 6,183
Interest income received	35,982	22,721
Dividend income received	9,590	7,681

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 26, 2017.

## 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, 2016.

### (b) Basis of consolidation

The Company's Consolidated Financial Statements include the assets, liabilities, results of operations and cash flows of the Company and its wholly-owned and controlled subsidiary, ELII. The Company owns 100% of the voting shares and maintains control of its subsidiary. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. The financial statements of ELII are prepared for the same reporting period as the Company, using consistent accounting policies. All significant inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

### (c) Accounting changes

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

##### (1) Amendments to IAS 12 Income Taxes ("IAS 12")

In January 2016, the IASB issued amendments to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Adoption of the amendment on January 1, 2017 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, shares authorized and outstanding and where otherwise stated)

## **(2) Amendments to IAS 7 Statement of Cash Flows (“IAS 7”)**

In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. Adoption of the amendment on January 1, 2017 did not have a significant impact on the Consolidated Financial Statements.

## **(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. In April 2016, IASB issued amendments to IFRS 15 clarifying the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment, and to provide additional practical expedients on transition. The standard and the amendments are effective for annual periods beginning on or after January 1, 2018, with retrospective application. The Company is evaluating the impact of IFRS 15 on its consolidated financial statements.

### **(2) 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 evaluating the impact of IFRS 16 on its consolidated financial statements.

### **(3) 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 set out in the September 2016 amendment to IFRS 4 Insurance Contracts which allows eligible insurers to defer the adoption of IFRS 9 until the new insurance contracts standard is adopted, or 2021 at the latest.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 3. Financial Instruments

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

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

As at	March 31, 2017			December 31, 2016		
Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Cash and cash equivalents						
Cash	\$ 10,418	\$ —	\$ 10,418	\$ 14,278	\$ —	\$ 14,278
Cash equivalents	346,271	—	346,271	354,595	—	354,595
Total cash and cash equivalents	356,689	—	356,689	368,873	—	368,873
Short-term investments						
Canadian federal government	43,943	79,606	123,549	4,983	69,883	74,866
Canadian municipal governments	3,925	—	3,925	3,963	—	3,963
Corporate	31,180	—	31,180	24,045	—	24,045
Total short-term investments	79,048	79,606	158,654	32,991	69,883	102,874
Bonds						
Canadian federal government	85,902	276,020	361,922	81,516	288,200	369,716
Canadian provincial governments	2,649,413	357,235	3,006,648	2,614,635	310,369	2,925,004
Canadian municipal governments	82,247	68,686	150,933	78,743	72,819	151,562
Total Canadian government bonds	2,817,562	701,941	3,519,503	2,774,894	671,388	3,446,282
Canadian corporate bonds by industry sector:						
Energy	51,191	54,473	105,664	50,679	43,649	94,328
Materials	10,610	—	10,610	10,716	—	10,716
Industrials	58,575	31,006	89,581	54,162	33,343	87,505
Consumer discretionary	23,254	38,794	62,048	17,037	27,028	44,065
Consumer staples	82,964	71,609	154,573	78,747	65,110	143,857
Health care	76,639	23,257	99,896	69,543	22,084	91,627
Financial services	540,440	381,047	921,487	504,027	343,255	847,282
Communications	63,330	45,535	108,865	45,101	28,148	73,249
Utilities	323,517	42,821	366,338	317,114	42,408	359,522
Real estate	6,420	—	6,420	6,726	—	6,726
Infrastructure	283,122	32,273	315,395	278,675	37,338	316,013
Total Canadian corporate bonds	1,520,062	720,815	2,240,877	1,432,527	642,363	2,074,890
Total bonds	4,337,624	1,422,756	5,760,380	4,207,421	1,313,751	5,521,172
Total preferred shares - Canadian	331,448	10,975	342,423	274,871	10,313	285,184
Common shares						
Canadian						
Common shares	581,581	67,708	649,289	582,582	66,969	649,551
Real estate limited partnership units	84,254	—	84,254	75,594	—	75,594
U.S.	38,380	—	38,380	181,600	—	181,600
Other	17,690	—	17,690	22,866	—	22,866
Total common shares	721,905	67,708	789,613	862,642	66,969	929,611
Total derivative assets	1,755	—	1,755	3,855	—	3,855

# 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, 2017			December 31, 2016		
Asset category (continued)	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
<b>Loans and receivables</b>						
Mortgages	—	—	255,019	—	—	264,309
Loans on policies	—	—	49,026	—	—	47,969
Policy contract loans	—	—	80,168	—	—	80,944
<b>Total financial instruments</b>	<b>\$ 5,828,469</b>	<b>\$ 1,581,045</b>	<b>\$ 7,793,727</b>	<b>\$ 5,750,653</b>	<b>\$ 1,460,916</b>	<b>\$ 7,604,791</b>

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

As at	March 31, 2017			December 31, 2016		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 10,418	\$ 346,271	\$ 356,689	\$ 14,278	\$ 354,595	\$ 368,873
Short-term investments	—	79,048	79,048	—	32,991	32,991
Bonds	—	4,337,624	4,337,624	—	4,207,421	4,207,421
Preferred shares	331,448	—	331,448	274,871	—	274,871
Common shares	637,651	84,254	721,905	787,048	75,594	862,642
Derivative assets	1,732	23	1,755	3,265	590	3,855
Available for sale:						
Short-term investments	—	79,606	79,606	—	69,883	69,883
Bonds	—	1,422,756	1,422,756	—	1,313,751	1,313,751
Preferred shares	10,975	—	10,975	10,313	—	10,313
Common shares	67,708	—	67,708	66,969	—	66,969
Loans and Receivables						
Mortgages	—	261,415	261,415	—	269,171	269,171
Loans on policies	—	49,026	49,026	—	47,969	47,969
Policy contract loans	—	80,168	80,168	—	80,944	80,944
<b>Total</b>	<b>\$ 1,059,932</b>	<b>\$ 6,740,191</b>	<b>\$ 7,800,123</b>	<b>\$ 1,156,744</b>	<b>\$ 6,452,909</b>	<b>\$ 7,609,653</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, 2017 or during the year ended December 31, 2016.

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, 2017, the Company reclassified a pre-tax loss of \$ nil from OCI to Net income due to write downs of impaired AFS common and preferred shares (for the three months ended March 31, 2016, \$754). 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.

## (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, 2017			December 31, 2016		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 120,906	\$ 687	\$ 62	\$ 128,708	\$ 1,471	\$ 213
Equity options	266,539	1,045	—	325,348	1,794	—
Over-the-counter						
Foreign currency forwards	28,610	23	196	28,247	590	25
Total	\$ 416,055	\$ 1,755	\$ 258	\$ 482,303	\$ 3,855	\$ 238

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, 2017	December 31, 2016
Cash and cash equivalents	\$ 388,644	\$ 262,838
Short-term investments	137,903	142,710
Bonds	1,682,346	1,668,044
Common and preferred shares	6,069,610	5,990,431
Other assets	19,821	54,212
	8,298,324	8,118,235
Less segregated funds held within general fund investments	(37,618)	(36,202)
Total	\$ 8,260,706	\$ 8,082,033

# 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) 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, 2017			December 31, 2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 138,957	\$ 249,687	\$ 388,644	\$ 60,370	\$ 202,468	\$ 262,838
Short-term investments	—	137,903	137,903	—	142,710	142,710
Bonds	—	1,682,346	1,682,346	—	1,668,044	1,668,044
Common and preferred shares	6,069,610	—	6,069,610	5,990,431	—	5,990,431
<b>Total</b>	<b>\$ 6,208,567</b>	<b>\$ 2,069,936</b>	<b>\$ 8,278,503</b>	<b>\$ 6,050,801</b>	<b>\$ 2,013,222</b>	<b>\$ 8,064,023</b>

There were no transfers between Level 1 and Level 2, and there were no Level 3 investments during the three month period ended March 31, 2017 or during the year ended December 31, 2016.

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

	For the three months ended	
	March 31, 2017	March 31, 2016
Segregated fund assets - beginning of period	\$ 8,082,033	\$ 7,367,823
Additions to segregated funds:		
Amount received from policyholders	400,171	407,263
Interest	14,028	9,578
Dividends	33,148	30,222
Other income	7,254	7,216
Net realized gains on sale of investments	124,010	5,749
Net unrealized increase in fair value of investments	33,392	—
	<b>612,003</b>	<b>460,028</b>
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	373,155	358,668
Net unrealized decrease in fair value of investments	—	16,460
Management fees and other operating costs	58,759	54,219
	<b>431,914</b>	<b>429,347</b>
Net change in segregated funds held within general fund investments	<b>(1,416)</b>	<b>820</b>
Segregated fund assets - end of period	\$ 8,260,706	\$ 7,399,324

**(d) Empire Life's exposure to segregated fund guarantee risk**

Segregated fund products issued by Empire Life contain death, maturity, and withdrawal benefit guarantees. Changes in global equity markets impact Empire Life's estimated liability for those guarantees. The impact of market risk in segregated funds on shareholders' net income is disclosed in 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)

## 5. Insurance Premiums

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 115,728	\$ (22,640)	\$ 93,088	\$ 113,168	\$ (20,868)	\$ 92,300
Health premiums	88,648	(6,939)	81,709	87,720	(6,555)	81,165
Total life and health premiums	204,376	(29,579)	174,797	200,888	(27,423)	173,465
Annuity premiums	27,657	(60)	27,597	56,378	(68)	56,310
Total insurance premiums	\$ 232,033	\$ (29,639)	\$ 202,394	\$ 257,266	\$ (27,491)	\$ 229,775

## 6. Benefits and Expenses

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

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 47,947	\$ (10,748)	\$ 37,199	\$ 41,724	\$ (10,700)	\$ 31,024
Health claims	64,384	(4,065)	60,319	68,788	(4,015)	64,773
Total life and health claims	112,331	(14,813)	97,518	110,512	(14,715)	95,797
Annuity benefits	55,215	(1,013)	54,202	59,911	(284)	59,627
Benefits and claims paid	\$ 167,546	\$ (15,826)	\$ 151,720	\$ 170,423	\$ (14,999)	\$ 155,424

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

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ 95,900	\$ 6,892	\$ 102,792	\$ 106,397	\$ 15,807	\$ 122,204
Health	3,531	1,126	4,657	6,154	(703)	5,451
Total life and health	99,431	8,018	107,449	112,551	15,104	127,655
Annuity	(14,826)	149	(14,677)	(12,512)	312	(12,200)
Change in Insurance Contract Liabilities	\$ 84,605	\$ 8,167	\$ 92,772	\$ 100,039	\$ 15,416	\$ 115,455
Change attributable to:						
Normal changes - New Business	\$ 4,216	\$ (3,572)	\$ 644	\$ 35,439	\$ (2,588)	\$ 32,851
- In-Force Business	80,389	11,739	92,128	64,600	18,004	82,604
Change in Insurance Contract Liabilities	\$ 84,605	\$ 8,167	\$ 92,772	\$ 100,039	\$ 15,416	\$ 115,455

# 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 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, 2017			For the three months ended March 31, 2016		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 13,908	\$ 3,708	\$ 10,200	\$ 9,138	\$ 2,439	\$ 6,699
Fair value change on available for sale investments reclassified to net income, including impairment write downs	1,962	503	1,459	(2,224)	(608)	(1,616)
Remeasurements of post-employment benefit liabilities	(4,012)	(1,070)	(2,942)	(10,024)	(2,675)	(7,349)
<b>Total other comprehensive income (loss)</b>	<b>\$ 11,858</b>	<b>\$ 3,141</b>	<b>\$ 8,717</b>	<b>\$ (3,110)</b>	<b>\$ (844)</b>	<b>\$ (2,266)</b>

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

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 13,118	\$ 3,497	\$ 9,621	\$ 6,990	\$ 1,866	\$ 5,124
Fair value change on available for sale investments reclassified to net income, including impairment write downs	3,048	809	2,239	(2,004)	(546)	(1,458)
Remeasurements of post-employment benefit liabilities	(3,828)	(1,021)	(2,807)	(9,566)	(2,553)	(7,013)
Shareholder portion of policyholder other comprehensive income (loss)	(23)	(7)	(16)	140	37	103
<b>Total other comprehensive income (loss)</b>	<b>\$ 12,315</b>	<b>\$ 3,278</b>	<b>\$ 9,037</b>	<b>\$ (4,440)</b>	<b>\$ (1,196)</b>	<b>\$ (3,244)</b>

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

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 790	\$ 211	\$ 579	\$ 2,148	\$ 573	\$ 1,575
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(1,086)	(306)	(780)	(220)	(62)	(158)
Remeasurements of post-employment benefit liabilities	(184)	(49)	(135)	(458)	(122)	(336)
Shareholder portion of policyholder other comprehensive income (loss)	23	7	16	(140)	(37)	(103)
<b>Total other comprehensive income (loss)</b>	<b>\$ (457)</b>	<b>\$ (137)</b>	<b>\$ (320)</b>	<b>\$ 1,330</b>	<b>\$ 352</b>	<b>\$ 978</b>



# Condensed Notes to the Interim Consolidated Financial Statements

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

## 8. Earnings Per Share

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

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

	For the three months ended	
	March 31, 2017	March 31, 2016
Basic and diluted EPS		
Common shareholders' net income	\$ 50,153	\$ 37,246
Weighted average number of common shares outstanding	985,076	985,076
Basic and diluted EPS	\$ 50.91	\$ 37.81

## 9. Capital Stock

As at	March 31, 2017			December 31, 2016		
	Shares authorized	Shares issued and outstanding	Amount	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 1	unlimited	5,980,000	\$ 149,500	unlimited	5,980,000	\$ 149,500
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 NonCumulative Floating Rate Preferred Shares, Series 2 (Series 2 Preferred Shares), subject to certain conditions, on April 17, 2021 and on April 17 every five years thereafter. Holders of the Series 2 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.99%.

The cost of issuance of the Series 1 Preferred Shares, \$5,150 less \$1,375 of income tax, was charged to retained earnings.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 10. Dividends

### Common shareholder dividends

There were no common shareholder dividends paid in 2017 or 2016.

### 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, payable on the 17th 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, payable on the 17th day of July, 2016.

On July 28, 2016 the Board approved a cash dividend of \$0.359375 per share on the issued and outstanding Series 1 Preferred Shares, payable on the 17th day of October, 2016.

On October 27, 2016 the Board approved a cash dividend of \$0.359375 per share on the issued and outstanding Series 1 Preferred Shares, payable on the 17<sup>th</sup> day of January, 2017.

On February 24, 2017 the Board approved a cash dividend of \$0.359375 per share on the issued and outstanding Series 1 Preferred Shares, payable on the 17<sup>th</sup> day of April, 2017.

On April 26, 2017, subsequent to the date of these interim financial statements, the Board approved a cash dividend of \$0.359375 per share on the issued and outstanding Series 1 Preferred Shares, payable on the 17<sup>th</sup> day of July, 2017.

## 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, shares authorized and outstanding and where otherwise stated)

**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, 2017				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 27,595	\$ 83,633	\$ 91,166	\$ —	\$ 202,394
Interest income	7,235	1,527	37,070	10,759	56,591
Total investment income	9,725	891	41,597	12,344	64,557
Fair value change in fair value through profit or loss assets	14,692	668	29,247	4,155	48,762
Realized gain (loss) on fair value through profit or loss assets	1,532	316	39,909	(6,983)	34,774
Realized gain (loss) on available for sale assets including impairment write downs	10	10	(139)	(1,843)	(1,962)
Fee income from external customers	58,489	2,551	224	12	61,276
Net benefits and claims	54,201	62,905	34,614	—	151,720
Net change in insurance contract liabilities	(14,678)	(432)	107,882	—	92,772
Change in investment contract provision	79	—	—	—	79
Policy dividends	—	—	6,703	—	6,703
Amortization of property and equipment and intangibles	496	438	767	—	1,701
Total operating expenses	12,378	10,186	14,420	336	37,320
Net commission expense	22,301	8,568	14,415	—	45,284
Interest expense	—	—	—	3,964	3,964
Premium tax	—	2,103	2,140	—	4,243
Investment and capital tax	—	—	999	—	999
Income tax expense (recovery)	9,444	1,193	4,639	574	15,850
Net income (loss) after tax	28,318	3,546	16,192	2,811	50,867

  

	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, shares authorized and outstanding and where otherwise stated)

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

As at	March 31, 2017				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 956,332	\$ 152,118	\$ 4,722,047	\$ 2,116,502	\$ 7,946,999
Segregated funds	8,239,707	—	20,999	—	8,260,706
<b>Total assets</b>	<b>\$ 9,196,039</b>	<b>\$ 152,118</b>	<b>\$ 4,743,046</b>	<b>\$ 2,116,502</b>	<b>\$ 16,207,705</b>

As at	December 31, 2016				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 969,991	\$ 152,586	\$ 4,613,014	\$ 2,044,552	\$ 7,780,143
Segregated funds	8,061,128	—	20,905	—	8,082,033
<b>Total assets</b>	<b>\$ 9,031,119</b>	<b>\$ 152,586</b>	<b>\$ 4,633,919</b>	<b>\$ 2,044,552</b>	<b>\$ 15,862,176</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.

## 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.

In February 2017, there was a capital call of \$1,094 in this real estate limited partnership.

In March 2017, there was a capital call of \$6,288 in this real estate limited partnership.

At March 31, 2017 there remained \$2,285 (December 31, 2016, \$9,667) of outstanding capital calls to purchase units in the 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, 2017 and December 31, 2016 the Company was in compliance with these ratios.

As at	March 31, 2017	December 31, 2016
Tier 1 Regulatory Capital	\$ 1,248,195	\$ 1,206,134
Tier 2 Regulatory Capital	713,209	707,205
<b>Total Regulatory Capital</b>	<b>\$ 1,961,404</b>	<b>\$ 1,913,339</b>

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 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 2016 Annual Report describes the Company's enterprise risk management framework including the principal risks and associated risk management strategies for the risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company: market, liquidity, credit and insurance.

### Caution related to sensitivities

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on the market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk factor, assuming that all other risk variables remain constant. Actual results may differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for the Company's future Net income, OCI, and capital sensitivities. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

#### (a) Market risk

The Company's most significant market risks are equity risk, interest rate risk and foreign exchange rate risk. Information related to market risk sensitivities should be read in conjunction with the information contained in the Risk Management section of the Company's 2016 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, 2017			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 13,962	\$ (12,440)	\$ 28,425	\$ (20,733)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 2,387	\$ (2,387)	\$ 4,774	\$ (4,774)
Policyholders' other comprehensive income	\$ 2,571	\$ (2,571)	\$ 5,142	\$ (5,142)

# 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, 2016			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 11,744	\$ (5,017)	\$ 26,841	\$ (40,334)
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)

\*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, 2017	December 31, 2016
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 334,773	\$ 330,213
Percentage of total cash and investments	4.3%	4.5%
Exposure to the largest single issuer of common equities	\$ 84,254	\$ 75,594
Percentage of total cash and investments	1.1%	1.0%

## (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, 2017			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 8,702	\$ (9,714)	\$ 16,510	\$ (20,577)
Policyholders' net income	\$ 169	\$ (185)	\$ 325	\$ (388)
Shareholders' other comprehensive income	\$ (36,038)	\$ 42,296	\$ (65,819)	\$ 90,850
Policyholders' other comprehensive income	\$ (1,591)	\$ 1,758	\$ (3,014)	\$ 3,683

	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

## (3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at March 31, 2017, a 10% fluctuation in the US dollar would have an impact of approximately \$ nil (March 31, 2016, \$132) on Net income, \$ nil (March 31, 2016, \$ nil) on shareholders' OCI and \$ nil (March 31, 2016, \$ nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

# 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) Credit risk

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

As at	March 31, 2017		December 31, 2016	
Cash and cash equivalents	\$	356,689	\$	368,873
Short-term investments		158,654		102,874
Bonds		5,760,380		5,521,172
Preferred shares		342,423		285,184
Derivative assets		1,755		3,855
Mortgages		255,019		264,309
Reinsurance		93,951		95,473
Loans on policies		49,026		47,969
Policy contract loans		80,168		80,944
Accrued investment income		41,967		40,551
Insurance receivables		38,188		53,097
Trade accounts receivable		23,085		33,731
<b>Total</b>	<b>\$</b>	<b>7,201,305</b>	<b>\$</b>	<b>6,898,032</b>

## 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, 2017		December 31, 2016	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 368,623	6%	\$ 380,423	7%
AA	609,442	11%	591,132	11%
A	3,880,829	67%	3,689,809	66%
BBB (and lower ratings)	901,486	16%	859,808	16%
<b>Total</b>	<b>\$ 5,760,380</b>	<b>100%</b>	<b>\$ 5,521,172</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, 2017		December 31, 2016	
Provincial bond holdings	\$	3,006,648	\$	2,925,004
Percentage of total bond holdings		52.2%		53.0%

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

As at	March 31, 2017		December 31, 2016	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 94,581	2%	\$ 59,872	1%
1 - 5 years	627,862	11%	586,444	11%
5 - 10 years	515,679	9%	637,529	12%
Over 10 years	4,522,258	78%	4,237,327	76%
<b>Total</b>	<b>\$ 5,760,380</b>	<b>100%</b>	<b>\$ 5,521,172</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, 2017	December 31, 2016
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 3,832,964	\$ 3,534,308
Percentage of total cash and investments	49.2%	46.5%
Exposure to the largest single issuer of corporate bonds	\$ 192,776	\$ 154,112
Percentage of total cash and investments	2.5%	2.0%

\*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, 2016, 1%) of these investments rated as P1 and the remaining 99% (December 31, 2016, 99%) rated as P2.

## (3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$255,019 or 100% (December 31, 2016, \$264,309 or 100%) 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 get the investment, insurance and group benefits coverage they need to build wealth, generate income, and achieve financial security.

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

<sup>1</sup> Based on general fund and segregated fund assets in Canada as at December 31, 2015 as reported in regulatory filings

<sup>2</sup> As at May 27, 2016

## Transfer Agent and Registrar

CST Trust Company  
320 Bay Street, 3<sup>rd</sup> Floor  
Toronto, Ontario, M5H 4A6  
Phone 416-682-3860  
Toll Free 800-387-0825  
[www.canstockta.com](http://www.canstockta.com)

## 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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