

The Empire Life Insurance Company

Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2018 Unaudited

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Company's external auditors have not performed a review of these condensed interim unaudited consolidated financial statements of The Empire Life Insurance Company.



This page has been left blank intentionally.

Table of Contents

Interim Consolidated Statements of Financial Position	4
Interim Consolidated Statements of Operations	5
Interim Consolidated Statements of Comprehensive Income	6
Interim Consolidated Statements of Changes in Equity	7
Interim Consolidated Statements of Cash Flows	8
Condensed Notes to the Interim Consolidated Financial Statements	9
1. Description of Company and Summary of Operations	9
2. Significant Accounting Policies	9
3. Financial Instruments	12
4. Segregated Funds	15
5. Insurance Premiums	16
6. Benefits and Expenses	17
7. Income Taxes included on Other Comprehensive Income (Loss)	18
8. Earnings Per Share	19
9. Capital Stock	19
10. Dividends	20
11. Segmented Information	21
12. Capital Management	23
13. Risk Management	23
14. Subsequent Event	26
Glossary of Terms	27

Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

As at	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents (Note 3)	\$ 239,856	\$ 294,238
Investments		
Short-term investments (Note 3)	64,697	127,742
Bonds (Note 3)	6,619,643	6,473,608
Preferred shares (Note 3)	421,195	408,261
Common shares (Note 3)	862,786	905,934
Derivative assets (Note 3)	2,773	1,399
Mortgages (Note 3)	210,514	221,973
Loans on policies (Note 3)	51,858	51,692
Policy contract loans (Note 3)	73,798	74,603
Total cash and cash equivalents and investments	8,547,120	8,559,450
Accrued investment income	45,347	43,219
Insurance receivables	31,088	46,294
Current income taxes	5,651	—
Other assets	21,792	18,837
Property and equipment	25,678	26,545
Intangible assets	18,284	18,310
Segregated fund assets (Note 4)	8,405,483	8,681,892
Total assets	\$ 17,100,443	\$ 17,394,547
Liabilities		
Accounts payable and other liabilities	\$ 102,453	\$ 99,374
Insurance payables	84,270	81,472
Current income taxes payable	—	1,629
Reinsurance liabilities	645,118	650,801
Insurance contract liabilities	5,332,350	5,364,865
Investment contract liabilities	17,411	16,643
Policyholders' funds on deposit	33,801	33,886
Provision for profits to policyholders	31,940	31,347
Deferred income taxes	12,362	13,766
Subordinated debt	698,463	698,291
Segregated fund policy liabilities	8,405,483	8,681,892
Total liabilities	15,363,651	15,673,966
Equity		
Preferred shares (Note 9)	249,500	249,500
Common shares (Note 9)	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,460,579	1,433,319
Accumulated other comprehensive income	6,341	17,390
Total equity	1,736,792	1,720,581
Total liabilities and equity	\$ 17,100,443	\$ 17,394,547



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, 2018	March 31, 2017
Revenue		
Gross premiums (Note 5)	\$ 243,225	\$ 232,033
Premiums ceded to reinsurers (Note 5)	(32,234)	(29,639)
Net premiums (Note 5)	210,991	202,394
Investment income	67,304	64,557
Fair value change in fair value through profit or loss assets	(81,667)	48,762
Realized gain (loss) on fair value through profit or loss assets sold	3,709	34,774
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	(2,010)	(1,962)
Fee income	65,459	61,276
Total revenue	263,786	409,801
Benefits and expenses		
Gross benefits and claims paid (Note 6)	169,552	167,546
Claims recovery from reinsurers (Note 6)	(24,079)	(15,826)
Gross change in insurance contract liabilities (Note 6)	(32,515)	84,605
Change in insurance contract liabilities ceded (Note 6)	(5,683)	8,167
Change in investment contracts provision	91	79
Policy dividends	7,138	6,703
Operating expenses	38,310	37,320
Commissions	48,476	45,871
Commission recovery from reinsurers	(896)	(587)
Interest expense	5,770	3,964
Total benefits and expenses	206,164	337,842
Premium tax	5,010	4,243
Investment and capital tax	900	999
Net income before income taxes	51,712	66,717
Income taxes	11,078	15,850
Net income	\$ 40,634	\$ 50,867
Less: net income (loss) attributable to participating policyholders	(1,455)	(1,435)
Shareholders' net income (loss)	42,089	52,302
Less: preferred share dividends declared (Note 10)	3,374	2,149
Common shareholders' net income	\$ 38,715	\$ 50,153
Earnings per share attributable to common shareholders (Note 8)	\$ 39.30	\$ 50.91

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, 2018	March 31, 2017
Net income	\$ 40,634	\$ 50,867
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified subsequently to net income:		
Unrealized fair value change on available for sale investments (Note 7)	(7,715)	10,200
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7)	934	1,459
Net unrealized fair value increase (decrease)	(6,781)	11,659
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 7)	(4,268)	(2,942)
Total other comprehensive income (loss)	(11,049)	8,717
Comprehensive income (loss)	\$ 29,585	\$ 59,584
Comprehensive income (loss) attributable to:		
Participating policyholders	\$ (3,232)	\$ (1,755)
Shareholders	32,817	61,339
Total	\$ 29,585	\$ 59,584

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, 2018			For the three months ended March 31, 2017		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Preferred shares (Note 9)	\$ 249,500	\$ —	\$ 249,500	\$ 149,500	\$ —	\$ 149,500
Common shares (Note 9)	985	—	985	985	—	985
Contributed surplus	19,387	—	19,387	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	1,395,002	38,317	1,433,319	1,224,066	42,983	1,267,049
Net income (loss)	42,089	(1,455)	40,634	52,302	(1,435)	50,867
Common share dividends declared	(10,000)	—	(10,000)	—	—	—
Preferred share dividends declared	(3,374)	—	(3,374)	(2,149)	—	(2,149)
Retained earnings - end of period	1,423,717	36,862	1,460,579	1,274,219	41,548	1,315,767
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	12,486	4,904	17,390	4,993	8,144	13,137
Other comprehensive income (loss)	(9,272)	(1,777)	(11,049)	9,037	(320)	8,717
Accumulated other comprehensive income (loss) - end of period	3,214	3,127	6,341	14,030	7,824	21,854
Total equity	\$ 1,696,803	\$ 39,989	\$ 1,736,792	\$ 1,458,121	\$ 49,372	\$ 1,507,493
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ 15,865	\$ 4,132	\$ 19,997	\$ 23,147	\$ 9,038	\$ 32,185
Remeasurements of post-employment benefit liabilities	(12,976)	(680)	(13,656)	(9,821)	(510)	(10,331)
Shareholder portion of policyholders' accumulated other comprehensive income	325	(325)	—	704	(704)	—
Total accumulated other comprehensive income (loss)	\$ 3,214	\$ 3,127	\$ 6,341	\$ 14,030	\$ 7,824	\$ 21,854

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, 2018	March 31, 2017
Operating activities		
Net income	\$ 40,634	\$ 50,867
Non-cash items affecting net income:		
Change in contract liabilities	(32,424)	84,684
Change in reinsurance liability	(5,683)	8,167
Fair value change in fair value through profit or loss assets	81,667	(48,762)
Realized (gain) loss on assets including impairment write downs on available for sale assets	(1,699)	(32,812)
Amortization related to discount on debt instruments	(16,816)	(18,232)
Amortization related to property and equipment and intangible assets	2,070	1,704
Deferred income taxes	147	(251)
Other items	(1,031)	34,166
Cash provided from (used for) operating activities	66,865	79,531
Investing activities		
Portfolio investments		
Purchases and advances	(540,033)	(812,628)
Sales and maturities	363,082	782,619
Loans on policies		
Advances	(1,842)	(2,708)
Repayments	2,526	2,533
(Increase) decrease in short-term investments	63,045	(55,780)
Purchase of property and equipment and intangible assets	(1,178)	(3,602)
Cash provided from (used for) investing activities	(114,400)	(89,566)
Financing activities		
Dividends paid to preferred shareholders (Note 10)	(3,183)	(2,149)
Interest paid on subordinated debt	(3,664)	—
Cash provided from (used for) financing activities	(6,847)	(2,149)
Net change in cash and cash equivalents	(54,382)	(12,184)
Cash and cash equivalents - beginning of period (Note 3)	294,238	368,873
Cash and cash equivalents - end of period (Note 3)	\$ 239,856	\$ 356,689
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 15,780	\$ 6,945
Interest income received	41,034	35,982
Dividend income received	9,663	9,590

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 May 3, 2018.

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, 2017.

(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 2018

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

The IASB issued a new standard for the recognition of revenue which became effective on January 1, 2018. The new standard replaces IAS 18 *Revenue* which covers contracts for goods and services and IAS 11 *Construction Contracts* which covers construction contracts and is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The adoption of IFRS 15 on January 1, 2018 did not have a significant impact on the Consolidated Company 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)

(ii) New accounting pronouncements issued but not yet effective

(1) IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and Measurement* with a new mixed measurement model having only two measurement categories of amortized cost and FVTPL for financial assets.

Under IFRS 9, all financial assets currently within the scope of IAS 39 will be measured at either amortized cost or FVTPL. Classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at FVTPL. A debt instrument is measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at FVTPL. For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognized in OCI unless it gives rise to an accounting mismatch in profit or loss.

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two different solutions for insurance companies relating to IFRS 9, both of which are optional:

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

The Company will apply the temporary exemption for periods beginning before January 1, 2021, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. To assess whether activities are 'predominantly connected with insurance' two criteria were satisfied:

- Carrying amount of liabilities arising from contracts within IFRS 17's scope is significant, compared to the total carrying amount of liabilities; and
- Comparison of total carrying amount of liabilities connected with insurance with the total carrying amount of all of its liabilities. Liabilities connected with insurance include segregated fund liabilities measured at FVTPL applying IAS 39, and liabilities that arise because the insurer issues or fulfils obligations arising from those insurance and segregated fund contracts. The second test is passed if the resulting percentage is either: greater than 90%; or if it is less than or equal to 90% but greater than 80%, and the insurer is not engaged in a significant activity unconnected with insurance.

The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 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.

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) **IFRS 17 Insurance Contracts**

IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required to be restated. The Company is evaluating the impact of IFRS 17 on its Consolidated Financial Statements.

Condensed Notes to the Interim Consolidated Financial Statements

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

3. Financial Instruments

(a) Summary of Cash and cash equivalents and investments

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

As at Asset category	March 31, 2018			December 31, 2017		
	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	\$ 13,165	\$ —	\$ 13,165	\$ 21,587	\$ —	\$ 21,587
Cash equivalents	226,691	—	226,691	272,651	—	272,651
Total cash and cash equivalents	239,856	—	239,856	294,238	—	294,238
Short-term investments						
Canadian federal government	12,907	10,874	23,781	13,960	44,937	58,897
Canadian provincial governments	—	6,892	6,892	—	33,883	33,883
Corporate	34,024	—	34,024	34,962	—	34,962
Total short-term investments	46,931	17,766	64,697	48,922	78,820	127,742
Bonds						
Canadian federal government	90,938	336,842	427,780	120,161	392,076	512,237
Canadian provincial governments	3,035,843	485,151	3,520,994	2,983,416	415,016	3,398,432
Canadian municipal governments	97,734	82,779	180,513	98,191	83,547	181,738
Total Canadian government bonds	3,224,515	904,772	4,129,287	3,201,768	890,639	4,092,407
Canadian corporate bonds by industry sector:						
Energy	74,165	66,328	140,493	64,591	66,800	131,391
Materials	10,260	—	10,260	10,287	—	10,287
Industrials	62,352	70,101	132,453	57,934	60,443	118,377
Consumer discretionary	21,748	25,761	47,509	21,882	28,859	50,741
Consumer staples	92,572	82,975	175,547	87,811	77,108	164,919
Health care	81,272	22,262	103,534	82,202	22,352	104,554
Financial services	553,755	457,476	1,011,231	557,368	384,757	942,125
Communications	84,048	47,674	131,722	79,167	47,987	127,154
Utilities	350,571	76,764	427,335	349,863	67,884	417,747
Real estate	834	—	834	916	—	916
Infrastructure	278,766	30,672	309,438	281,085	31,905	312,990
Total Canadian corporate bonds	1,610,343	880,013	2,490,356	1,593,106	788,095	2,381,201
Total bonds	4,834,858	1,784,785	6,619,643	4,794,874	1,678,734	6,473,608
Total preferred shares - Canadian	408,589	12,606	421,195	396,257	12,004	408,261
Common shares						
Canadian						
Canadian common shares	620,742	52,944	673,686	687,095	56,414	743,509
Canadian real estate limited partnership units	95,707	—	95,707	91,894	—	91,894
U.S.	55,650	638	56,288	39,655	—	39,655
Other	36,425	680	37,105	30,346	530	30,876
Total common shares	808,524	54,262	862,786	848,990	56,944	905,934
Total derivative assets	2,773	—	2,773	1,399	—	1,399
Loans and receivables						
Mortgages	—	—	210,514	—	—	221,973
Loans on policies	—	—	51,858	—	—	51,692
Policy contract loans	—	—	73,798	—	—	74,603
Total financial instruments	\$ 6,341,531	\$ 1,869,419	\$ 8,547,120	\$ 6,384,680	\$ 1,826,502	\$ 8,559,450

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

As at	March 31, 2018			December 31, 2017		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 13,165	\$ 226,691	\$ 239,856	\$ 21,587	\$ 272,651	\$ 294,238
Short-term investments	—	46,931	46,931	—	48,922	48,922
Bonds	—	4,834,858	4,834,858	—	4,794,874	4,794,874
Preferred shares	408,589	—	408,589	396,257	—	396,257
Common shares	712,817	95,707	808,524	757,096	91,894	848,990
Derivative assets	2,773	—	2,773	1,398	1	1,399
Available for sale:						
Short-term investments	—	17,766	17,766	—	78,820	78,820
Bonds	—	1,784,785	1,784,785	—	1,678,734	1,678,734
Preferred shares	12,606	—	12,606	12,004	—	12,004
Common shares	54,262	—	54,262	56,944	—	56,944
Loans and Receivables						
Mortgages	—	212,270	212,270	—	224,982	224,982
Loans on policies	—	51,858	51,858	—	51,692	51,692
Policy contract loans	—	73,798	73,798	—	74,603	74,603
Total	\$ 1,204,212	\$ 7,344,664	\$ 8,548,876	\$ 1,245,286	\$ 7,317,173	\$ 8,562,459

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, 2018 or during the year ended December 31, 2017.

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 13.

(b) Impairments

For the three months ended March 31, 2018, 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, 2017, \$nil). Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

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 13.

Condensed Notes to the Interim Consolidated Financial Statements

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

(c) 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, 2018			December 31, 2017		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 45,501	\$ 1,206	\$ 9	\$ 43,970	\$ 640	\$ 168
Equity options	419,977	1,566	—	430,124	758	—
Over-the-counter						
Foreign currency forwards	32,457	1	127	32,757	1	723
Total	\$ 497,935	\$ 2,773	\$ 136	\$ 506,851	\$ 1,399	\$ 891

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 13.

(d) Securities Lending

During March 2017, the Company entered into a securities lending agreement with its custodian. Under this agreement, the custodian may lend securities from the Company's portfolio to other institutions, as approved by the Company, for periods of time. In addition to a fee, the Company receives collateral which exceeds the market value of the loaned securities, which is retained by the Company until the underlying security has been returned to the Company. In the event that any of the loaned securities are not returned to the custodian, at its option the custodian may either restore to the Company securities identical to the loaned securities or it will pay to the Company the value of the collateral up to but not exceeding the market value of the loaned securities on the date on which the loaned securities were to have been returned ("Valuation Date") to the custodian. If the collateral is not sufficient to allow the custodian to pay such market value to the Company, the custodian shall indemnify the Company only for the difference between the market value of the securities and the value of such collateral on the Valuation Date. As a result, there is no significant exposure to credit risk associated with this securities lending agreement.

Condensed Notes to the Interim Consolidated Financial Statements

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

As at March 31, 2018 and December 31, 2017, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at	March 31, 2018	December 31, 2017
General Funds		
Value of securities loaned	\$ 947,378	\$ 648,470
Value of collateral received	\$ 969,430	\$ 661,833
Segregated Funds		
Value of securities loaned	\$ 1,436,710	\$ 1,170,420
Value of collateral received	\$ 1,467,374	\$ 1,195,410
Total		
Value of securities loaned	\$ 2,384,088	\$ 1,818,890
Value of collateral received	\$ 2,436,804	\$ 1,857,243

4. Segregated Funds

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

As at	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ (684)	\$ 14,820
Short-term investments	578,840	657,405
Bonds	1,487,431	1,535,675
Common and preferred shares	6,398,038	6,488,017
Other net assets	(18,331)	25,758
	8,445,294	8,721,675
Less segregated funds held within general fund investments	(39,811)	(39,783)
Total	\$ 8,405,483	\$ 8,681,892

(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, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ (684)	\$ —	\$ (684)	14,820	\$ —	\$ 14,820
Short-term investments	—	578,840	578,840	—	657,405	657,405
Bonds	—	1,487,431	1,487,431	—	1,535,675	1,535,675
Common and preferred shares	6,398,038	—	6,398,038	6,485,267	2,750	6,488,017
Total	\$ 6,397,354	\$ 2,066,271	\$ 8,463,625	\$ 6,500,087	\$ 2,195,830	\$ 8,695,917

There were no transfers between Level 1 and Level 2, and there were no Level 3 investments during the three months period ended March 31, 2018 or during the year ended December 31, 2017.

Condensed Notes to the Interim Consolidated Financial Statements

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

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

	For the three months ended	
	March 31, 2018	March 31, 2017
Segregated fund assets - beginning of period	\$ 8,681,892	\$ 8,082,033
Additions to segregated funds:		
Amount received from policyholders	275,091	400,171
Interest	12,490	14,028
Dividends	30,583	33,148
Other income	46,358	7,254
Net realized gains on sale of investments	23,629	124,010
Net unrealized increase in fair value of investments	—	33,392
	388,151	612,003
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	310,415	373,155
Net unrealized decrease in fair value of investments	297,237	—
Management fees and other operating costs	56,883	58,759
	664,535	431,914
Net change in segregated funds held within general fund investments	(25)	(1,416)
Segregated fund assets - end of period	\$ 8,405,483	\$ 8,260,706

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

Segregated fund products issued by Empire Life contain death, maturity, and withdrawal benefit guarantees.

Market price fluctuations impact the Company's estimated liability for those guarantees. The impact of market risk in segregated funds on shareholders' net income is disclosed in Note 13.

5. Insurance Premiums

	For the three months ended			For the three months ended		
	March 31, 2018			March 31, 2017		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 121,217	\$ (24,327)	\$ 96,890	\$ 115,728	\$ (22,640)	\$ 93,088
Health premiums	90,164	(7,865)	82,299	88,648	(6,939)	81,709
Total life and health premiums	211,381	(32,192)	179,189	204,376	(29,579)	174,797
Annuity premiums	31,844	(42)	31,802	27,657	(60)	27,597
Total insurance premiums	\$ 243,225	\$ (32,234)	\$ 210,991	\$ 232,033	\$ (29,639)	\$ 202,394

Condensed Notes to the Interim Consolidated Financial Statements

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

6. Benefits and Expenses

(a) Insurance contract benefits and claims paid

	For the three months ended March 31, 2018			For the three months ended March 31, 2017		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 54,651	\$ (19,373)	\$ 35,278	\$ 47,947	\$ (10,748)	\$ 37,199
Health claims	61,710	(4,028)	57,682	64,384	(4,065)	60,319
Total life and health claims	116,361	(23,401)	92,960	112,331	(14,813)	97,518
Annuity benefits	53,191	(678)	52,513	55,215	(1,013)	54,202
Benefits and claims paid	\$ 169,552	\$ (24,079)	\$ 145,473	\$ 167,546	\$ (15,826)	\$ 151,720

(b) Change in insurance contract liabilities and reinsurance ceded

	For the three months ended March 31, 2018			For the three months ended March 31, 2017		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ (13,921)	\$ (4,296)	\$ (18,217)	\$ 95,900	\$ 6,892	\$ 102,792
Health	(2,829)	(24)	(2,853)	3,531	1,126	4,657
Total life and health	(16,750)	(4,320)	(21,070)	99,431	8,018	107,449
Annuity	(15,765)	(1,363)	(17,128)	(14,826)	149	(14,677)
Change in insurance contract liabilities	\$ (32,515)	\$ (5,683)	\$ (38,198)	\$ 84,605	\$ 8,167	\$ 92,772
Change attributable to:						
Normal changes - New Business	9,042	(205)	8,837	4,216	(3,572)	644
- In-Force Business	(41,557)	(5,478)	(47,035)	80,389	11,739	92,128
Change in insurance contract liabilities	\$ (32,515)	\$ (5,683)	\$ (38,198)	\$ 84,605	\$ 8,167	\$ 92,772

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, 2018			For the three months ended March 31, 2017		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (10,532)	\$ (2,817)	\$ (7,715)	13,908	3,708	10,200
Fair value change on available for sale investments reclassified to net income, including impairment write downs	1,342	408	934	1,962	503	1,459
Remeasurements of post-employment benefit liabilities	(5,820)	(1,552)	(4,268)	(4,012)	(1,070)	(2,942)
Total other comprehensive income (loss)	\$ (15,010)	\$ (3,961)	\$ (11,049)	11,858	3,141	8,717

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

	For the three months ended March 31, 2018			For the three months ended March 31, 2017		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (8,324)	\$ (2,226)	\$ (6,098)	13,118	3,497	9,621
Fair value change on available for sale investments reclassified to net income, including impairment write downs	1,474	445	1,029	3,048	809	2,239
Remeasurements of post-employment benefit liabilities	(5,554)	(1,481)	(4,073)	(3,828)	(1,021)	(2,807)
Shareholder portion of policyholder other comprehensive income (loss)	(179)	(49)	(130)	(23)	(7)	(16)
Total other comprehensive income (loss)	\$ (12,583)	\$ (3,311)	\$ (9,272)	12,315	3,278	9,037

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

	For the three months ended March 31, 2018			For the three months ended March 31, 2017		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (2,208)	\$ (591)	\$ (1,617)	790	211	579
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(132)	(37)	(95)	(1,086)	(306)	(780)
Remeasurements of post-employment benefit liabilities	(266)	(71)	(195)	(184)	(49)	(135)
Shareholder portion of policyholder other comprehensive income (loss)	179	49	130	23	7	16
Total other comprehensive income (loss)	\$ (2,427)	\$ (650)	\$ (1,777)	(457)	(137)	(320)

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, 2018	March 31, 2017
Basic and diluted EPS		
Common shareholders' net income	\$ 38,715	\$ 50,153
Weighted average number of common shares outstanding	985,076	985,076
Basic and diluted EPS	\$ 39.30	\$ 50.91

9. Capital Stock

As at	March 31, 2018			December 31, 2017		
	Shares authorized	Shares issued and outstanding	Amount	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 1	unlimited	5,980,000	\$ 149,500	unlimited	5,980,000	\$ 149,500
Series 3	unlimited	4,000,000	\$ 100,000	unlimited	4,000,000	\$ 100,000
Common shares	2,000,000	985,076	\$ 985	2,000,000	985,076	\$ 985

In the fourth quarter of 2017, Empire Life issued to E-L Financial Corporation Limited 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 (Series 3 Preferred Shares) at \$25 per share. Holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 4.90% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including January 17, 2023. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.24%. Holders of Series 3 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 4 (Series 4 Preferred Shares), subject to certain conditions, on January 17, 2023 and on January 17 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 3.24%.

In the first quarter of 2016, Empire Life issued to the public 5,980,000 Non-Cumulative Rate Reset Preferred Shares, Series 1 (Series 1 Preferred Shares) at \$25 per share. Holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including April 17, 2021. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 4.99%. Holders of Series 1 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 2 (Series 2 Preferred Shares), subject to certain conditions, on April 17, 2021 and on April 17 every five years thereafter. Holders of the Series 2 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.99%.

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

Condensed Notes to the Interim Consolidated Financial Statements

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

10. Dividends

	Dividend declaration date	Shares issued and outstanding	Dividend rate per share	Total dividend (\$ 000's)	Dividend payment date
Common shareholder dividends					
Common shares	February 27, 2018	985,076	\$ 10.151501	\$ 10,000	April 3, 2018
For the year ended December 31, 2017, no common shareholder dividends were declared or paid.					
Preferred shareholder dividends					
Series 1	February 25, 2016	5,980,000	\$ 0.240200	\$ 1,436	April 17, 2016
	April 28, 2016	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2016
	July 28, 2016	5,980,000	\$ 0.359375	\$ 2,149	October 17, 2016
	October 27, 2016	5,980,000	\$ 0.359375	\$ 2,149	January 17, 2017
	February 24, 2017	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2017
	April 26, 2017	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2017
	July 27, 2017	5,980,000	\$ 0.359375	\$ 2,149	October 17, 2017
	October 26, 2017	5,980,000	\$ 0.359375	\$ 2,149	January 17, 2018
	February 27, 2018	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2018
Series 3	December 6, 2017	4,000,000	\$ 0.258425	\$ 1,034	January 17, 2018
	February 27, 2018	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2018

On May 3, 2018, subsequent to the date of these Interim Consolidated Financial Statements, the Board approved the following cash dividends:

- \$10,000 (\$10.151501 per share) on the issued and outstanding Common Shares, payable on June 8, 2018.
- \$2,149 (\$0.359375 per share) on the issued and outstanding Series 1 Preferred Shares, payable on July 17, 2018.
- \$1,225 (\$0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on 17, July, 2018.

Condensed Notes to the Interim Consolidated Financial Statements

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

11. Segmented Information

The Company operates in the Canadian life insurance industry and follows a product line management approach for internal reporting and decision making. A description of the product lines is as follows:

The Wealth Management product line includes segregated funds, mutual funds and fixed annuities.

The Employee Benefits product line offers group benefit plans to employers for medical, dental, disability, and life insurance coverage of their employees.

The Individual Insurance product line includes both non-participating and participating individual life and health insurance products.

Capital and Surplus is made up of assets held in the shareholders' and participating policyholders' equity accounts and other corporate items not allocated to other segments.

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

	For the three months ended March 31, 2018				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 31,802	\$ 85,592	\$ 93,597	\$ —	\$ 210,991
Interest income	7,330	1,321	37,138	12,620	58,409
Total investment income	9,359	902	42,100	14,943	67,304
Fair value change in fair value through profit or loss assets	(4,910)	(358)	(74,514)	(1,885)	(81,667)
Realized gain (loss) on fair value through profit or loss assets	(62)	—	3,771	—	3,709
Realized gain (loss) on available for sale assets including impairment write downs	4	4	(40)	(1,978)	(2,010)
Fee income from external customers	62,698	2,629	115	17	65,459
Net benefits and claims	52,513	59,025	33,935	—	145,473
Net change in insurance contract liabilities	(17,128)	(3,842)	(17,228)	—	(38,198)
Change in investment contract provision	91	—	—	—	91
Policy dividends	—	—	7,138	—	7,138
Amortization of property and equipment and intangibles	515	472	1,083	—	2,070
Total operating expenses	14,520	10,603	12,839	348	38,310
Net commission expense	23,436	9,066	15,078	—	47,580
Interest expense	—	—	—	5,770	5,770
Premium tax	—	2,150	2,860	—	5,010
Investment and capital tax	—	—	900	—	900
Income tax expense (recovery)	6,458	3,294	585	741	11,078
Net income (loss) after tax	19,001	8,473	8,922	4,238	40,634

Condensed Notes to the Interim Consolidated Financial Statements

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

	For the three months ended March 31, 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

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

As at	March 31, 2018				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 952,196	\$ 149,580	\$ 5,083,262	\$ 2,509,923	\$ 8,694,961
Segregated funds	8,385,774	—	19,708	—	8,405,482
Total assets	\$ 9,337,970	\$ 149,580	\$ 5,102,970	\$ 2,509,923	\$ 17,100,443

As at	December 31, 2017				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 971,895	\$ 153,012	\$ 5,102,246	\$ 2,485,502	\$ 8,712,655
Segregated funds	8,661,094	—	20,798	—	8,681,892
Total assets	\$ 9,632,989	\$ 153,012	\$ 5,123,044	\$ 2,485,502	\$ 17,394,547

While specific general fund assets are nominally matched against specific types of general fund liabilities or held in the shareholders' and policyholders' equity accounts, all general fund assets are available to pay all general fund liabilities, if required. Segregated fund assets are not available to pay liabilities of the general fund.

Condensed Notes to the Interim Consolidated Financial Statements

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

12. 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. Effective January 1, 2018, OSFI has implemented the new Life Insurance Capital Adequacy Test ("LICAT") framework. Under this framework, the Company's capital adequacy will be measured as a ratio of Available Capital plus Surplus Allowance and Eligible Deposits divided by a Base Solvency Buffer. The components of the LICAT ratio are determined in accordance with the guidelines defined by OSFI. The capital ratios as determined under the LICAT framework are not comparable to the ratios as determined under the previous capital regime. The regulator has established a Supervisory Target Total Ratio of 100% and a Supervisory Target Core Ratio of 70%. As at March 31, 2018, the Company was in compliance with these ratios.

13. 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 2017 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 2017 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.

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, 2018			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 2,025	\$ (14,880)	\$ 8,195	\$ (128,225)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 2,205	\$ (2,205)	\$ 4,410	\$ (4,410)
Policyholders' other comprehensive income	\$ 1,764	\$ (1,764)	\$ 3,527	\$ (3,527)

	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)

*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, 2018	December 31, 2017
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 377,728	\$ 382,479
Percentage of total cash and investments	4.4%	4.5%
Exposure to the largest single issuer of common equities	\$ 95,707	\$ 91,894
Percentage of total cash and investments	1.1%	1.1%

(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, 2018			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 12,774	\$ (14,228)	\$ 24,261	\$ (30,102)
Policyholders' net income	\$ 172	\$ (187)	\$ 329	\$ (392)
Shareholders' other comprehensive income	\$ (41,148)	\$ 48,531	\$ (74,914)	\$ 104,444
Policyholders' other comprehensive income	\$ (1,772)	\$ 1,954	\$ (3,361)	\$ 4,091

	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

(3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at March 31, 2018, a 10% fluctuation in the US dollar would have an impact of approximately \$nil (March 31, 2017, \$ nil) on Net income, \$nil (March 31, 2017, \$ nil) on shareholders' OCI and \$nil (March 31, 2017, \$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, 2018	December 31, 2017
Cash and cash equivalents	\$ 239,856	\$ 294,238
Short-term investments	64,697	127,742
Bonds	6,619,643	6,473,608
Preferred shares	421,195	408,261
Derivative assets	2,773	1,399
Mortgages	210,514	221,973
Reinsurance	86,930	85,638
Loans on policies	51,858	51,692
Policy contract loans	73,798	74,603
Accrued investment income	45,347	43,219
Insurance receivables	31,088	46,294
Trade accounts receivable	15,688	12,399
Total	\$ 7,863,387	\$ 7,841,066

The Company participates in a securities lending program with its custodian. For further information on the program, refer to Note 3(d).

Concentration of credit risk

(1) Bonds and debentures

The concentration of the Company's bond portfolio by investment grade is as follows:

As at	March 31, 2018		December 31, 2017	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 465,324	7%	\$ 529,856	8%
AA	670,037	10%	659,816	10%
A	4,432,660	67%	4,301,025	67%
BBB (and lower ratings)	1,051,622	16%	982,911	15%
Total	\$ 6,619,643	100%	\$ 6,473,608	100%

Credit ratings are normally obtained from Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). In the event of a split rating, the lower rating is used. Issues not rated by a recognized rating agency (i.e. S&P, DBRS, or Moody's) are rated internally by the Investment Department. The internal 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, 2018	December 31, 2017
Provincial bond holdings	\$ 3,520,994	\$ 3,398,432
Percentage of total bond holdings	53.2%	52.5%

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, 2018		December 31, 2017	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 369,490	6%	\$ 340,940	5%
1 - 5 years	726,272	11%	596,228	9%
5 - 10 years	749,926	11%	731,086	11%
Over 10 years	4,773,955	72%	4,805,354	75%
Total	\$ 6,619,643	100%	\$ 6,473,608	100%

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

As at	March 31, 2018	December 31, 2017
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 4,291,015	\$ 4,192,708
Percentage of total cash and investments	50.2%	49.0%
Exposure to the largest single issuer of corporate bonds	\$ 179,164	\$ 173,269
Percentage of total cash and investments	2.1%	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, 2017, 1%) of these investments rated as P1 and the remaining 99% (December 31, 2017, 99%) rated as P2.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$210,514 or 100% (December 31, 2017, \$221,973 or 100%) of the total mortgage portfolio.

14. Subsequent Event

On April 26, 2018, the Company announced its intention to redeem all of the outstanding \$300,000 2.870% unsecured subordinated debentures on May 31, 2018 at a redemption price equal to the principal amount together with accrued and unpaid interest to that date.

Glossary of Terms

(unaudited)

Accumulated Other Comprehensive Income (AOCI)

A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, unrealized foreign currency translation gains and losses and remeasurement of post-employment benefit liabilities. These items have been recognized in comprehensive income, but excluded from net income.

Active Market

An active market is a market in which the items traded are homogeneous, willing buyers and sellers can normally be found at anytime and prices are available to the public.

Available For Sale (AFS) Finance Assets

Non-derivative financial assets that are designated as AFS or that are not classified as loans and receivables, held to maturity investments, or held for trading. Most financial assets supporting capital and surplus are classified as AFS.

Canadian Asset Liability Method (CALM)

The prescribed method for valuation of policy liabilities in Canada. CALM is a prospective basis of valuation which uses the full gross premium for the policy, the estimated expenses and obligations under the policy, current expected experience assumptions plus a margin for adverse deviations, and scenario testing to assess interest rate risk and market risks.

Canadian Institute of Actuaries (CIA)

As the national organization of the Canadian actuarial profession, the CIA means to serve the public through the provision by the profession of actuarial services and advice of the highest quality. The CIA ensures that the actuarial services provided by its members meet accepted professional standards; and assists actuaries in Canada in the discharge of their professional responsibilities.

Canadian Life and Health Insurance Association (CLHIA)

The Canadian Life and Health Insurance Association (CLHIA) is an organization representing life insurance and health insurance providers in Canada. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

Chartered Professional Accountants of Canada (CPA Canada)

Canada's not-for-profit association for Chartered Professional Accountants (CPA) provides information and guidance to its members, students and capital markets. Working in collaboration with its provincial member organizations, CPA Canada supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and develops and delivers education programs.

Earnings on Surplus

This source of earnings represents the pre-tax earnings on the shareholders' capital and surplus funds.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Expected Profit from In-Force Business

This source of earnings represents the profit Empire Life expects to generate on in-force business if experience is in line with the Empire Life's best estimate assumptions for mortality, morbidity, persistency, investment returns, expenses and taxes.

Glossary of Terms

(unaudited)

Experience Gains and Losses

This source of earnings represents gains or losses due to the difference between actual experience and the best estimate assumptions.

Fair Value Through Profit or Loss (FVTPL)

Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option. Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as FVTPL.

Impact on New Business

Writing new business typically adds economic value to a life insurance company. At the point of sale, new business may have a positive or negative impact on earnings. A negative impact (new business strain) will result when the provision for adverse deviation included in the actuarial liabilities at the point of sale exceeds the expected profit margin in the product pricing. The impact of new business also includes any excess acquisition expenses not covered by product pricing at the point of issue.

International Financial Reporting Standards (IFRS)

Refers to the international accounting standards that were adopted in Canada, effective January 1, 2011; these are now Canadian Generally Accepted Accounting Principles (CGAAP) for publicly accountable enterprises.

Life Insurance Capital Adequacy Test (LICAT)

The LICAT measures the capital adequacy of an insurer and is one of several indicators used by OSFI to assess an insurer's financial condition. The LICAT Ratio is the ratio of eligible capital to the base solvency buffer, each as calculated under OSFI's published guidelines.

Management Actions and Changes in Assumptions

This source of earnings component includes earnings generated by management actions during the year (e.g. acquisition or sale of a block of business, changes to product price, fees or asset mix, etc.) or the impact of changes in assumptions or methodology used for the calculation of actuarial liabilities for in-force business.

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 the Office of the Superintendent of Financial Institutions' (OSFI) 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 Common Shareholders' Equity (ROE)

A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

This page has been left blank intentionally.

EMPIRE LIFE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Empire Life Insurance Company (Empire Life) is a proud Canadian company that has been in business since 1923. We offer individual and group life and health insurance, investment and retirement products, including mutual funds through our wholly-owned subsidiary Empire Life Investments Inc.

Empire Life is among the top 10 life insurance companies in Canada¹ and is rated A (Excellent) by A.M. Best Company². 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 for more information.

¹ Based on general fund and segregated fund assets in Canada as at December 31, 2016 as reported in regulatory filings

² As at June 1, 2017

Transfer Agent and Registrar

AST Trust Company (Canada) (formerly known as CST Trust Company)

1 Toronto Street, Suite 1200

Toronto, Ontario, M5C 2V6

Phone 416-682-3860

Toll Free 800-387-0825

www.astfinancial.com/ca-en

Stock Exchange Listing

Preferred Shares, Series 1 EML.PR.A

Reporting Procedure for Accounting and Auditing Matters

If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

Mr. John Brierley

The Empire Life Insurance Company

259 King Street East

Kingston, ON, K7L 3A8

Email: jfbrierley@sympatico.ca

Phone: 905-338-7290

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

© Registered trademark of **The Empire Life Insurance Company**.

™ Trademark of The Empire Life Insurance Company.

Policies are issued by The Empire Life Insurance Company.

Insurance & Investments - Simple. Fast. Easy®
www.empire.ca info@empire.ca



A-0004-ENG-05/18