The Empire Life Insurance Company

Condensed Interim Consolidated Financial Statements
For the six months ended June 30, 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.

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Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

As at		June 30, 2018		December 31, 2017
Assets				
Cash and cash equivalents (Note 3)	$	**240,765**	$	294,238
Investments				
Short-term investments (Note 3)		**55,992**		127,742
Bonds (Note 3)		**6,411,771**		6,473,608
Preferred shares (Note 3)		**413,844**		408,261
Common shares (Note 3)		**900,938**		905,934
Derivative assets (Note 3)		**2,545**		1,399
Mortgages (Note 3)		**202,434**		221,973
Loans on policies (Note 3)		**49,612**		51,692
Policy contract loans (Note 3)		**73,097**		74,603
Total cash and cash equivalents and investments		**8,350,998**		8,559,450
Accrued investment income		**43,069**		43,219
Insurance receivables		**40,385**		46,294
Current income taxes		**3,418**		—
Deferred income taxes		**21**		—
Other assets		**17,121**		18,837
Property and equipment		**24,880**		26,545
Intangible assets		**18,306**		18,310
Segregated fund assets (Note 4)		**8,598,426**		8,681,892
Total assets	$	**17,096,624**	$	17,394,547
Liabilities				
Accounts payable and other liabilities	$	**88,140**	$	99,374
Insurance payables		**88,209**		81,472
Current income taxes payable		**—**		1,629
Reinsurance liabilities		**643,416**		650,801
Insurance contract liabilities		**5,394,084**		5,364,865
Investment contract liabilities		**20,270**		16,643
Policyholders' funds on deposit		**33,962**		33,886
Provision for profits to policyholders		**32,586**		31,347
Deferred income taxes		**14,685**		13,766
Subordinated debt		**398,597**		698,291
Segregated fund policy liabilities		**8,598,426**		8,681,892
Total liabilities		**15,312,375**		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		**1,504,637**		1,433,319
Accumulated other comprehensive income		**9,740**		17,390
Total equity		**1,784,249**		1,720,581
Total liabilities and equity	$	**17,096,624**	$	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		For the six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Revenue				
Gross premiums (Note 5)	**$ 243,846**	$ 237,448	**$ 487,071**	$ 469,481
Premiums ceded to reinsurers (Note 5)	**(38,610)**	(32,987)	**(70,844)**	(62,626)
Net premiums (Note 5)	**205,236**	204,461	**416,227**	406,855
Investment income	**83,236**	69,648	**150,540**	134,205
Fair value change in fair value through profit or loss assets	**19,490**	159,567	**(62,177)**	208,329
Realized gain (loss) on fair value through profit or loss assets sold	**12,150**	2,199	**15,859**	36,973
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	**1,433**	4,454	**(577)**	2,492
Fee income	**66,227**	63,191	**131,686**	124,467
Total revenue	**387,772**	503,520	**651,558**	913,321
Benefits and expenses				
Gross benefits and claims paid (Note 6)	**178,023**	159,343	**347,575**	326,889
Claims recovery from reinsurers (Note 6)	**(30,524)**	(18,281)	**(54,603)**	(34,107)
Gross change in insurance contract liabilities (Note 6)	**61,734**	205,861	**29,219**	290,466
Change in insurance contract liabilities ceded (Note 6)	**(1,702)**	14,155	**(7,385)**	22,322
Change in investment contracts provision	**(120)**	66	**(29)**	145
Policy dividends	**8,340**	7,721	**15,478**	14,424
Operating expenses	**39,111**	39,536	**77,421**	76,856
Commissions	**47,138**	46,041	**95,614**	91,912
Commission recovery from reinsurers	**(962)**	(657)	**(1,858)**	(1,244)
Interest expense	**5,803**	3,966	**11,573**	7,930
Total benefits and expenses	**306,841**	457,751	**513,005**	795,593
Premium tax	**5,263**	5,497	**10,273**	9,740
Investment and capital tax	**900**	999	**1,800**	1,998
Net income before income taxes	**74,768**	39,273	**126,480**	105,990
Income taxes	**17,336**	7,483	**28,414**	23,333
Net income	**$ 57,432**	$ 31,790	**$ 98,066**	$ 82,657
Less: net income (loss) attributable to participating policyholders	**(3,208)**	(3,763)	**(4,663)**	(5,198)
Shareholders' net income (loss)	**60,640**	35,553	**102,729**	87,855
Less: preferred share dividends declared (Note 10)	**3,374**	2,149	**6,748**	4,298
Common shareholders' net income	**$ 57,266**	$ 33,404	**$ 95,981**	$ 83,557
Earnings per share - basic and diluted (Note 8)	**$ 58.14**	$ 33.91	**$ 97.44**	$ 84.82
(2,000,000 shares authorized; 985,076 shares outstanding)				

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

Interim Consolidated Statements of Comprehensive Income

(unaudited, in thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Net income	**$ 57,432**	$ 31,790	**$ 98,066**	$ 82,657
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)	**(695)**	7,812	**(8,410)**	18,012
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7)	**(1,773)**	(3,255)	**(839)**	(1,796)
Net unrealized fair value increase (decrease)	**(2,468)**	4,557	**(9,249)**	16,216
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 7)	**5,867**	(5,879)	**1,599**	(8,821)
Total other comprehensive income (loss)	**3,399**	(1,322)	**(7,650)**	7,395
Comprehensive income (loss)	**$ 60,831**	$ 30,468	**$ 90,416**	$ 90,052
Comprehensive income (loss) attributable to:				
Participating policyholders	**$ (2,503)**	$ (4,454)	**$ (5,735)**	$ (6,209)
Shareholders	**63,334**	34,922	**96,151**	96,261
Total	**$ 60,831**	$ 30,468	**$ 90,416**	$ 90,052

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 six months ended June 30, 2018			For the six months ended June 30, 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)	**102,729**	**(4,663)**	**98,066**	87,855	(5,198)	82,657
Common share dividends declared	**(20,000)**	**—**	**(20,000)**	—	—	—
Preferred share dividends declared	**(6,748)**	**—**	**(6,748)**	(4,298)	—	(4,298)
Retained earnings - end of period	**1,470,983**	**33,654**	**1,504,637**	1,307,623	37,785	1,345,408
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)	**(6,578)**	**(1,072)**	**(7,650)**	8,406	(1,011)	7,395
Accumulated other comprehensive income (loss) - end of period	**5,908**	**3,832**	**9,740**	13,399	7,133	20,532
Total equity	**$ 1,746,763**	**$ 37,486**	**$ 1,784,249**	$ 1,490,894	$ 44,918	$ 1,535,812
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	**$ 12,938**	**$ 4,591**	**$ 17,529**	$ 28,162	$ 8,581	$ 36,743
Remeasurements of post-employment benefit liabilities	**(7,377)**	**(412)**	**(7,789)**	(15,432)	(779)	(16,211)
Shareholder portion of policyholders' accumulated other comprehensive income	**347**	**(347)**	**—**	669	(669)	—
Total accumulated other comprehensive income (loss)	**$ 5,908**	**$ 3,832**	**$ 9,740**	$ 13,399	$ 7,133	$ 20,532

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 six months ended	
	June 30, 2018	June 30, 2017
Operating activities		
Net income	**$ 98,066**	$ 82,657
Non-cash items affecting net income:		
Change in contract liabilities	**29,190**	290,611
Change in reinsurance liability	**(7,385)**	22,322
Fair value change in fair value through profit or loss assets	**62,177**	(208,329)
Realized (gain) loss on assets including impairment write downs on available for sale assets	**(15,282)**	(39,465)
Amortization related to discount on debt instruments	**(42,497)**	(37,342)
Amortization related to property and equipment and intangible assets	**4,072**	3,788
Deferred income taxes	**318**	2,325
Other items	**11,712**	15,275
Cash provided from (used for) operating activities	**140,371**	131,842
Investing activities		
Portfolio investments		
Purchases and advances	**(870,955)**	(1,417,177)
Sales and maturities	**934,355**	1,268,985
Loans on policies		
Advances	**(4,021)**	(5,049)
Repayments	**7,652**	6,326
(Increase) decrease in short-term investments	**71,750**	(20,745)
Purchase of property and equipment and intangible assets	**(2,403)**	(6,720)
Cash provided from (used for) investing activities	**136,378**	(174,380)
Financing activities		
Dividends paid to common shareholders (Note 10)	**(20,000)**	—
Dividends paid to preferred shareholders (Note 10)	**(6,558)**	(4,298)
Interest paid on subordinated debt	**(3,664)**	(7,688)
Redemption of subordinated debt (Note 13)	**(300,000)**	—
Cash provided from (used for) financing activities	**(330,222)**	(11,986)
Net change in cash and cash equivalents	**(53,473)**	(54,524)
Cash and cash equivalents - beginning of period (Note 3)	**294,238**	368,873
Cash and cash equivalents - end of period (Note 3)	**$ 240,765**	$ 314,349
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	**$ 29,750**	$ 53,405
Interest income received	**90,241**	91,457
Dividend income received	**21,526**	19,724

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

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 August 2, 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 Company's Consolidated Financial Statements.

(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.

(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.

(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	June 30, 2018			December 31, 2017		
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	$ **17,712**	$ **—**	$ **17,712**	$ 21,587	$ —	$ 21,587
Cash equivalents	**223,053**	**—**	**223,053**	272,651	—	272,651
Total cash and cash equivalents	**240,765**	**—**	**240,765**	294,238	—	294,238
Short-term investments						
Canadian federal government	**15,934**	**10,968**	**26,902**	13,960	44,937	58,897
Canadian provincial governments	**5,981**	**—**	**5,981**	—	33,883	33,883
Corporate	**23,109**	**—**	**23,109**	34,962	—	34,962
Total short-term investments	**45,024**	**10,968**	**55,992**	48,922	78,820	127,742
Bonds						
Canadian federal government	**89,625**	**231,210**	**320,835**	120,161	392,076	512,237
Canadian provincial governments	**3,042,492**	**460,845**	**3,503,337**	2,983,416	415,016	3,398,432
Canadian municipal governments	**97,251**	**78,770**	**176,021**	98,191	83,547	181,738
Total Canadian government bonds	**3,229,368**	**770,825**	**4,000,193**	3,201,768	890,639	4,092,407
Canadian corporate bonds by industry sector:						
Energy	**73,609**	**73,134**	**146,743**	64,591	66,800	131,391
Materials	**10,197**	**—**	**10,197**	10,287	—	10,287
Industrials	**61,747**	**69,784**	**131,531**	57,934	60,443	118,377
Consumer discretionary	**21,661**	**25,683**	**47,344**	21,882	28,859	50,741
Consumer staples	**97,332**	**72,198**	**169,530**	87,811	77,108	164,919
Health care	**80,360**	**21,941**	**102,301**	82,202	22,352	104,554
Financial services	**569,906**	**388,165**	**958,071**	557,368	384,757	942,125
Communications	**76,087**	**43,628**	**119,715**	79,167	47,987	127,154
Utilities	**352,543**	**63,114**	**415,657**	349,863	67,884	417,747
Real estate	**749**	**—**	**749**	916	—	916
Infrastructure	**274,852**	**25,605**	**300,457**	281,085	31,905	312,990
Total Canadian corporate bonds	**1,619,043**	**783,252**	**2,402,295**	1,593,106	788,095	2,381,201
Total foreign bonds	**9,283**	**—**	**9,283**	—	—	—
Total bonds	**4,857,694**	**1,554,077**	**6,411,771**	4,794,874	1,678,734	6,473,608
Total preferred shares - Canadian	**401,146**	**12,698**	**413,844**	396,257	12,004	408,261
Common shares						
Canadian						
Canadian common shares	**638,511**	**62,320**	**700,831**	687,095	56,414	743,509
Canadian real estate limited partnership units	**99,824**	**—**	**99,824**	91,894	—	91,894
U.S.	**56,378**	**706**	**57,084**	39,655	—	39,655
Other	**42,378**	**821**	**43,199**	30,346	530	30,876
Total common shares	**837,091**	**63,847**	**900,938**	848,990	56,944	905,934
Total derivative assets	**2,545**	**—**	**2,545**	1,399	—	1,399
Loans and receivables						
Mortgages	**—**	**—**	**202,434**	—	—	221,973
Loans on policies	**—**	**—**	**49,612**	—	—	51,692
Policy contract loans	**—**	**—**	**73,097**	—	—	74,603
Total financial instruments	$ **6,384,265**	$ **1,641,590**	$ **8,350,998**	$ 6,384,680	$ 1,826,502	$ 8,559,450

(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	June 30, 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	**$ 17,712**	**$ 223,053**	**$ 240,765**	$ 21,587	$ 272,651	$ 294,238
Short-term investments	**—**	**45,024**	**45,024**	—	48,922	48,922
Bonds	**—**	**4,857,694**	**4,857,694**	—	4,794,874	4,794,874
Preferred shares	**401,146**	**—**	**401,146**	396,257	—	396,257
Common shares	**737,186**	**99,905**	**837,091**	757,096	91,894	848,990
Derivative assets	**2,545**	**—**	**2,545**	1,398	1	1,399
Available for sale:						
Short-term investments	**—**	**10,968**	**10,968**	—	78,820	78,820
Bonds	**—**	**1,554,077**	**1,554,077**	—	1,678,734	1,678,734
Preferred shares	**12,698**	**—**	**12,698**	12,004	—	12,004
Common shares	**63,847**	**—**	**63,847**	56,944	—	56,944
Loans and Receivables						
Mortgages	**—**	**204,604**	**204,604**	—	224,982	224,982
Loans on policies	**—**	**49,612**	**49,612**	—	51,692	51,692
Policy contract loans	**—**	**73,097**	**73,097**	—	74,603	74,603
Total	**$ 1,235,134**	**$ 7,118,034**	**$ 8,353,168**	$ 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 June 30, 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 15.

(b) Impairments

For the six months ended June 30, 2018, the Company reclassified a pre-tax loss of $136 from OCI to Net income due to write downs of impaired AFS common and preferred shares (for the six months ended June 30, 2017, $579). 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 15.

(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	June 30, 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	**$ 45,203**	**$ 370**	**$ 7**	$ 43,970	$ 640	$ 168
Equity options	**430,749**	**1,761**	**—**	430,124	758	—
Over-the-counter						
Foreign currency forwards	**31,972**	**414**	**4**	32,757	1	723
Cross currency swaps	**9,052**	**—**	**326**	—	—	—
Total	**$ 516,976**	**$ 2,545**	**$ 337**	$ 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. Cross currency swaps are valued by discounting the future cash flows for both legs at the underlying market interest rate curves in each currency applicable at the valuation date. The sum of the cash flows denoted in the foreign currency is converted with the spot rate applicable at that time. The foreign currency leg, where Empire Life owes interest and principal, produces a negative fair value to Empire Life while the Canadian dollar leg produces a positive fair value to Empire Life. The net of these amounts represents the reported fair value of the cross currency swap. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit-related inputs are determined not to be significant to fair value, are classified as Level 2.

For analysis of the Company's risks arising from financial instruments, refer to Note 15.

(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.

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

As at June 30, 2018 and December 31, 2017, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at	June 30, 2018	December 31, 2017
General Funds		
Value of securities loaned	$ **750,304**	$ 648,470
Value of collateral received	$ **765,604**	$ 661,833
Segregated Funds		
Value of securities loaned	$ **1,690,464**	$ 1,170,420
Value of collateral received	$ **1,724,689**	$ 1,195,410
Total		
Value of securities loaned	$ **2,440,768**	$ 1,818,890
Value of collateral received	$ **2,490,293**	$ 1,857,243

4. Segregated Funds

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

As at	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ **6,036**	$ 14,820
Short-term investments	**598,723**	657,405
Bonds	**1,494,649**	1,535,675
Common and preferred shares	**6,578,583**	6,488,017
Other net assets	**(14,839)**	25,758
	8,663,152	8,721,675
Less segregated funds held within general fund investments	**(64,726)**	(39,783)
Total	$ **8,598,426**	$ 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	June 30, 2018				December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ **6,036**	$ **—**	$ **—**	$ **6,036**	$ 14,820	$ —	$ —	$ 14,820
Short-term investments	**—**	**598,723**	**—**	**598,723**	—	657,405	—	657,405
Bonds	**—**	**1,494,649**	**—**	**1,494,649**	—	1,535,675	—	1,535,675
Common and preferred shares	**6,576,545**	**—**	**2,038**	**6,578,583**	6,485,267	2,750	—	6,488,017
Total	$ **6,582,581**	$ **2,093,372**	$ **2,038**	$ **8,677,991**	$ 6,500,087	$ 2,195,830	$ —	$ 8,695,917

There were no transfers between Level 1 and Level 2 investments during the six months period ended June 30, 2018 or during the year ended December 31, 2017.

(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		For the six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Segregated fund assets - beginning of period	**$ 8,405,483**	$ 8,260,706	**$ 8,681,892**	$ 8,082,033
Additions to segregated funds:				
Amount received from policyholders	**232,649**	196,203	**507,740**	596,374
Interest	**13,713**	14,720	**26,203**	28,748
Dividends	**45,754**	41,102	**76,337**	74,250
Other income	**6,534**	7,295	**13,563**	14,549
Net realized gains on sale of investments	**91,286**	116,119	**154,244**	240,129
Net unrealized increase in fair value of investments	**143,728**	—	**—**	—
	533,664	375,439	**778,087**	954,050
Deductions from segregated funds:				
Amounts withdrawn or transferred by policyholders	**248,973**	154,621	**559,388**	527,776
Net unrealized decrease in fair value of investments	**—**	104,221	**153,509**	70,829
Management fees and other operating costs	**66,833**	64,356	**123,716**	123,115
	315,806	323,198	**836,613**	721,720
Net change in segregated funds held within general fund investments	**(24,915)**	155	**(24,940)**	(1,261)
Segregated fund assets - end of period	**$ 8,598,426**	$ 8,313,102	**$ 8,598,426**	$ 8,313,102

(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 15.

5. Insurance Premiums

	For the three months ended June 30, 2018			For the three months ended June 30, 2017		
	Gross	**Reinsurance ceded**	**Net**	Gross	Reinsurance ceded	Net
Life premiums	**$ 124,476**	**$ (28,687)**	**$ 95,789**	$ 117,657	$ (25,894)	$ 91,763
Health premiums	**90,416**	**(9,879)**	**80,537**	88,094	(7,036)	81,058
Total life and health premiums	**214,892**	**(38,566)**	**176,326**	205,751	(32,930)	172,821
Annuity premiums	**28,954**	**(44)**	**28,910**	31,697	(57)	31,640
Total insurance premiums	**$ 243,846**	**$ (38,610)**	**$ 205,236**	$ 237,448	$ (32,987)	$ 204,461

	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Gross	**Reinsurance ceded**	**Net**	Gross	Reinsurance ceded	Net
Life premiums	**$ 245,693**	**$ (53,014)**	**$ 192,679**	$ 233,385	$ (48,534)	$ 184,851
Health premiums	**180,580**	**(17,744)**	**162,836**	176,742	(13,975)	162,767
Total life and health premiums	**426,273**	**(70,758)**	**355,515**	410,127	(62,509)	347,618
Annuity premiums	**60,798**	**(86)**	**60,712**	59,354	(117)	59,237
Total insurance premiums	**$ 487,071**	**$ (70,844)**	**$ 416,227**	$ 469,481	$ (62,626)	$ 406,855

(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 June 30, 2018			For the three months ended June 30, 2017		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	$ 75,654	$ (26,531)	$ 49,123	$ 45,965	$ (13,694)	$ 32,271
Health claims	59,755	(4,243)	55,512	63,572	(4,492)	59,080
Total life and health claims	135,409	(30,774)	104,635	109,537	(18,186)	91,351
Annuity benefits	42,614	250	42,864	49,806	(95)	49,711
Benefits and claims paid	$ 178,023	$ (30,524)	$ 147,499	$ 159,343	$ (18,281)	$ 141,062

	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	$ 130,305	$ (45,904)	$ 84,401	$ 93,912	$ (24,442)	$ 69,470
Health claims	121,465	(8,271)	113,194	127,956	(8,557)	119,399
Total life and health claims	251,770	(54,175)	197,595	221,868	(32,999)	188,869
Annuity benefits	95,805	(428)	95,377	105,021	(1,108)	103,913
Benefits and claims paid	$ 347,575	$ (54,603)	$ 292,972	$ 326,889	$ (34,107)	$ 292,782

(b) Change in insurance contract liabilities and reinsurance ceded

	For the three months ended June 30, 2018			For the three months ended June 30, 2017		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	$ 63,552	$ (1,710)	$ 61,842	$ 197,848	$ 13,480	$ 211,328
Health	4,598	(433)	4,165	9,254	80	9,334
Total life and health	68,150	(2,143)	66,007	207,102	13,560	220,662
Annuity	(6,416)	441	(5,975)	(1,241)	595	(646)
Change in insurance contract liabilities	$ 61,734	$ (1,702)	$ 60,032	$ 205,861	$ 14,155	$ 220,016
Change attributable to:						
Normal changes - New Business	4,062	1,452	$ 5,514	$ 8,324	$ (3,118)	$ 5,206
Normal changes - In-Force Business	(65,796)	250	(65,546)	197,537	17,273	214,810
Change in insurance contract liabilities	$ (61,734)	$ 1,702	$ (60,032)	$ 205,861	$ 14,155	$ 220,016

	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	$ 49,631	$ (6,006)	$ 43,625	$ 293,748	$ 20,372	$ 314,120
Health	1,769	(457)	1,312	12,785	1,206	13,991
Total life and health	51,400	(6,463)	44,937	306,533	21,578	328,111
Annuity	(22,181)	(922)	(23,103)	(16,067)	744	(15,323)
Change in insurance contract liabilities	$ 29,219	$ (7,385)	$ 21,834	$ 290,466	$ 22,322	$ 312,788
Change attributable to:						
Normal changes - New Business	4,980	(1,657)	$ 3,323	$ 12,540	$ (6,690)	$ 5,850
- In-Force Business	24,239	(5,728)	18,511	277,926	29,012	306,938
Change in insurance contract liabilities	$ 29,219	$ (7,385)	$ 21,834	$ 290,466	$ 22,322	$ 312,788

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

7. Income Taxes included in Other Comprehensive Income (Loss)

Other comprehensive income (loss) is presented net of income taxes.

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

	For the three months ended June 30, 2018			For the three months ended June 30, 2017		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	$ **(947)**	$ **(252)**	$ **(695)**	$ 10,652	$ 2,840	$ 7,812
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(2,312)**	**(539)**	**(1,773)**	(4,454)	(1,199)	(3,255)
Remeasurements of post-employment benefit liabilities	**8,003**	**2,136**	**5,867**	(8,015)	(2,136)	(5,879)
Total other comprehensive income (loss)	$ **4,744**	$ **1,345**	$ **3,399**	$ (1,817)	$ (495)	$ (1,322)

	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	$ **(11,479)**	$ **(3,069)**	$ **(8,410)**	$ 24,560	$ 6,548	$ 18,012
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(970)**	**(131)**	**(839)**	(2,492)	(696)	(1,796)
Remeasurements of post-employment benefit liabilities	**2,183**	**584**	**1,599**	(12,027)	(3,206)	(8,821)
Total other comprehensive income (loss)	$ **(10,266)**	$ **(2,616)**	$ **(7,650)**	$ 10,041	$ 2,646	$ 7,395

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

	For the three months ended June 30, 2018			For the three months ended June 30, 2017		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	$ **(1,696)**	$ **(454)**	$ **(1,242)**	$ 11,596	$ 3,092	$ 8,504
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(2,189)**	**(504)**	**(1,685)**	(4,767)	(1,278)	(3,489)
Remeasurements of post-employment benefit liabilities	**7,637**	**2,038**	**5,599**	(7,650)	(2,039)	(5,611)
Shareholder portion of policyholder other comprehensive income (loss)	**31**	**9**	**22**	(49)	(14)	(35)
Total other comprehensive income (loss)	$ **3,783**	$ **1,089**	$ **2,694**	$ (870)	$ (239)	$ (631)

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

	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	**$ (10,020)**	**$ (2,680)**	**$ (7,340)**	$ 24,714	$ 6,589	$ 18,125
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(715)**	**(59)**	**(656)**	(1,719)	(469)	(1,250)
Remeasurements of post-employment benefit liabilities	**2,083**	**557**	**1,526**	(11,478)	(3,060)	(8,418)
Shareholder portion of policyholder other comprehensive income (loss)	**(148)**	**(40)**	**(108)**	(72)	(21)	(51)
Total other comprehensive income (loss)	**$ (8,800)**	**$ (2,222)**	**$ (6,578)**	$ 11,445	$ 3,039	$ 8,406

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

	For the three months ended June 30, 2018			For the three months ended June 30, 2017		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	**$ 749**	**$ 202**	**$ 547**	$ (944)	$ (252)	$ (692)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(123)**	**(35)**	**(88)**	313	79	234
Remeasurements of post-employment benefit liabilities	**366**	**98**	**268**	(365)	(97)	(268)
Shareholder portion of policyholder other comprehensive income (loss)	**(31)**	**(9)**	**(22)**	49	14	35
Total other comprehensive income (loss)	**$ 961**	**$ 256**	**$ 705**	$ (947)	$ (256)	$ (691)

	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	**$ (1,459)**	**$ (389)**	**$ (1,070)**	$ (154)	$ (41)	$ (113)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(255)**	**(72)**	**(183)**	(773)	(227)	(546)
Remeasurements of post-employment benefit liabilities	**100**	**27**	**73**	(549)	(146)	(403)
Shareholder portion of policyholder other comprehensive income (loss)	**148**	**40**	**108**	72	21	51
Total other comprehensive income (loss)	**$ (1,466)**	**$ (394)**	**$ (1,072)**	$ (1,404)	$ (393)	$ (1,011)

(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		For the six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Basic and diluted EPS				
Common shareholders' net income	**$ 57,266**	$ 33,404	**$ 95,981**	$ 83,557
Weighted average number of common shares outstanding	**985,076**	985,076	**985,076**	985,076
Basic and diluted EPS	**$ 58.14**	$ 33.91	**$ 97.44**	$ 84.82

9. Capital Stock

As at	June 30, 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 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.

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
	May 3, 2018	985,076	$ 10.151501	$ 10,000	June 8, 2018
For the year ended December 31, 2017, no common shareholder dividends were declared or paid.					
Preferred shareholder dividends					
Series 1	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
	May 3, 2018	5,980,000	$ 0.359375	$ 2,149	July 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
	May 3, 2018	4,000,000	$ 0.306250	$ 1,225	July 17, 2018

On August 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 September 12, 2018.
- $2,149 ($0.359375 per share) on the issued and outstanding Series 1 Preferred Shares, payable on October 17, 2018.
- $1,225 ($0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on October 17, 2018.

(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 June 30, 2018				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 28,910	$ 83,635	$ 92,691	$ —	$ 205,236
Interest income	7,463	1,442	47,313	14,268	70,486
Total investment income	10,003	1,021	54,821	17,391	83,236
Fair value change in fair value through profit or loss assets	(1,796)	(50)	22,934	(1,598)	19,490
Realized gain (loss) on fair value through profit or loss assets	98	9	12,043	—	12,150
Realized gain (loss) on available for sale assets including impairment write downs	—	—	1	1,432	1,433
Fee income from external customers	63,431	2,688	92	16	66,227
Net benefits and claims	42,864	57,990	46,645	—	147,499
Net change in insurance contract liabilities	(5,975)	420	65,587	—	60,032
Change in investment contract provision	(120)	—	—	—	(120)
Policy dividends	—	—	8,340	—	8,340
Amortization of property and equipment and intangibles	455	477	1,056	14	2,002
Total operating expenses	13,803	11,146	13,805	357	39,111
Net commission expense	19,096	8,145	18,935	—	46,176
Interest expense	—	—	—	5,803	5,803
Premium tax	—	2,336	2,927	—	5,263
Investment and capital tax	—	—	900	—	900
Income tax expense (recovery)	7,720	2,033	5,314	2,269	17,336
Net income (loss) after tax	23,258	5,233	20,129	8,812	57,432

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

	For the three months ended June 30, 2017				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 31,642	$ 83,048	$ 89,771	$ —	$ 204,461
Interest income	7,675	1,387	39,360	11,302	59,724
Total investment income	10,082	833	45,662	13,071	69,648
Fair value change in fair value through profit or loss assets	4,356	(240)	152,304	3,147	159,567
Realized gain (loss) on fair value through profit or loss assets	326	—	4,316	(2,443)	2,199
Realized gain (loss) on available for sale assets including impairment write downs	(2)	(3)	(3)	4,462	4,454
Fee income from external customers	60,552	2,566	59	14	63,191
Net benefits and claims	49,712	59,069	32,281	—	141,062
Net change in insurance contract liabilities	(645)	202	220,459	—	220,016
Change in investment contract provision	66	—	—	—	66
Policy dividends	—	—	7,721	—	7,721
Amortization of property and equipment and intangibles	710	460	917	—	2,087
Total operating expenses	15,700	10,896	12,534	406	39,536
Net commission expense	22,140	8,299	14,945	—	45,384
Interest expense	—	—	—	3,966	3,966
Premium tax	—	2,131	3,366	—	5,497
Investment and capital tax	—	—	999	—	999
Income tax expense (recovery)	4,940	1,671	(2,418)	3,290	7,483
Net income (loss) after tax	15,043	3,936	2,222	10,589	31,790

	For the six months ended June 30, 2018				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	**$ 60,712**	**$ 169,227**	**$ 186,288**	**$ —**	**$ 416,227**
Interest income	**14,793**	**2,763**	**84,451**	**26,888**	**128,895**
Total investment income	**19,362**	**1,923**	**96,921**	**32,334**	**150,540**
Fair value change in fair value through profit or loss assets	**(6,706)**	**(408)**	**(51,580)**	**(3,483)**	**(62,177)**
Realized gain (loss) on available for sale assets including impairment write downs	**36**	**9**	**15,814**	**—**	**15,859**
Realized gain (loss) on available for sale assets including impairment write downs	**4**	**4**	**(39)**	**(546)**	**(577)**
Fee income from external customers	**126,129**	**5,317**	**207**	**33**	**131,686**
Net benefits and claims	**95,377**	**117,015**	**80,580**	**—**	**292,972**
Net change in insurance contract liabilities	**(23,103)**	**(3,422)**	**48,359**	**—**	**21,834**
Change in investment contract provision	**(29)**	**—**	**—**	**—**	**(29)**
Policy dividends	**—**	**—**	**15,478**	**—**	**15,478**
Amortization of property and equipment and intangibles	**970**	**949**	**2,139**	**14**	**4,072**
Total operating expenses	**28,323**	**21,749**	**26,644**	**705**	**77,421**
Net commission expense	**42,532**	**17,211**	**34,013**	**—**	**93,756**
Interest expense	**—**	**—**	**—**	**11,573**	**11,573**
Premium tax	**—**	**4,486**	**5,787**	**—**	**10,273**
Investment and capital tax	**—**	**—**	**1,800**	**—**	**1,800**
Income tax expense (recovery)	**14,178**	**5,327**	**5,899**	**3,010**	**28,414**
Net income (loss) after tax	**42,259**	**13,706**	**29,051**	**13,050**	**98,066**

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

	For the six months ended June 30, 2017				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 59,237	$ 166,681	$ 180,937	$ —	$ 406,855
Interest income	14,910	2,914	76,430	22,061	116,315
Total investment income	19,807	1,724	87,259	25,415	134,205
Fair value change in fair value through profit or loss assets	19,048	428	181,551	7,302	208,329
Realized gain (loss) on fair value through profit or loss assets	1,858	316	44,225	(9,426)	36,973
Realized gain (loss) on available for sale assets including impairment write downs	8	7	(142)	2,619	2,492
Fee income from external customers	119,041	5,117	283	26	124,467
Net benefits and claims	103,913	121,974	66,895	—	292,782
Net change in insurance contract liabilities	(15,323)	(230)	328,341	—	312,788
Change in investment contract provision	145	—	—	—	145
Policy dividends	—	—	14,424	—	14,424
Amortization of property and equipment and intangibles	1,206	898	1,684	—	3,788
Total operating expenses	28,078	21,082	26,954	742	76,856
Net commission expense	44,441	16,867	29,360	—	90,668
Interest expense	—	—	—	7,930	7,930
Premium tax	—	4,234	5,506	—	9,740
Investment and capital tax	—	—	1,998	—	1,998
Income tax expense (recovery)	14,384	2,864	2,221	3,864	23,333
Net income (loss) after tax	43,361	7,482	18,414	13,400	82,657

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

As at	**June 30, 2018**				
	Wealth Management	**Employee Benefits**	**Individual Insurance**	**Capital & Surplus**	**Total**
Assets excluding segregated funds	**$ 951,140**	**$ 149,502**	**$ 5,145,797**	**$ 2,251,759**	**$ 8,498,198**
Segregated funds	**8,578,812**	**—**	**19,614**	**—**	**8,598,426**
Total assets	**$ 9,529,952**	**$ 149,502**	**$ 5,165,411**	**$ 2,251,759**	**$ 17,096,624**

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.

12. Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. There were $19,598 (December 31, 2017, $2,285) of outstanding commitments as at June 30, 2018. The Company expects $1,598 will be disbursed withing 60 days, and the remaining commitment is payable at any time up to and including April 30, 2021.

13. Subordinated Debt

On May 31, 2018, the Company redeemed all of the outstanding 2.870% subordinated debentures due May 31, 2023 for 100% of their principal amount of $300,000 plus accrued interest to the redemption date.

14. 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 June 30, 2018, the Company was in compliance with these ratios.

15. 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.

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

(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 June 30, 2018			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' net income (including segregated fund guarantees)*	**$ 21,750**	**$ (15,768)**	**$ 46,534**	**$ (105,061)**
Policyholders' net income	**nil**	**nil**	**nil**	**nil**
Shareholders' other comprehensive income	**$ 2,775**	**$ (2,775)**	**$ 5,550**	**$ (5,550)**
Policyholders' other comprehensive income	**$ 1,902**	**$ (1,902)**	**$ 3,804**	**$ (3,804)**

	As at June 30, 2017			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	$ 18,446	$ (16,697)	$ 37,460	$ (54,176)
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ 2,392	$ (2,392)	$ 4,784	$ (4,784)
Policyholders' other comprehensive income	$ 2,552	$ (2,552)	$ 5,104	$ (5,104)

*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	June 30, 2018	December 31, 2017
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	**$ 384,572**	$ 382,479
Percentage of total cash and investments	**4.6%**	4.5%
Exposure to the largest single issuer of common equities	**$ 99,824**	$ 91,894
Percentage of total cash and investments	**1.2%**	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 June 30, 2018			
	50 bps Increase	**50 bps Decrease**	**100 bps Increase**	**100 bps Decrease**
Shareholders' net income	**$ 15,436**	**$ (17,432)**	**$ 29,434**	**$ (36,732)**
Policyholders' net income	**$ 206**	**$ (224)**	**$ 394**	**$ (468)**
Shareholders' other comprehensive income	**$ (40,195)**	**$ 47,411**	**$ (73,174)**	**$ 102,038**
Policyholders' other comprehensive income	**$ (1,751)**	**$ 1,936**	**$ (3,317)**	**$ 4,058**

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

	As at June 30, 2017			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	$ 9,183	$ (10,252)	$ 17,422	$ (21,715)
Policyholders' net income	$ 175	$ (191)	$ 335	$ (400)
Shareholders' other comprehensive income	$ (40,107)	$ 46,874	$ (73,447)	$ 100,515
Policyholders' other comprehensive income	$ (1,629)	$ 1,787	$ (3,100)	$ 3,733

(3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at June 30, 2018, a 10% fluctuation in the US dollar would have an impact of approximately $nil (June 30, 2017, $nil) on Net income, $nil (June 30, 2017, $nil) on shareholders' OCI and $nil (June 30, 2017, $nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

(b) Credit risk

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

As at	June 30, 2018	December 31, 2017
Cash and cash equivalents	**$ 240,765**	$ 294,238
Short-term investments	**55,992**	127,742
Bonds	**6,411,771**	6,473,608
Preferred shares	**413,844**	408,261
Derivative assets	**2,545**	1,399
Mortgages	**202,434**	221,973
Reinsurance	**86,943**	85,638
Loans on policies	**49,612**	51,692
Policy contract loans	**73,097**	74,603
Accrued investment income	**43,069**	43,219
Insurance receivables	**40,385**	46,294
Trade accounts receivable	**10,294**	12,399
Total	**$ 7,630,751**	$ 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	June 30, 2018		December 31, 2017	
	Fair value	**% of Fair value**	Fair value	% of Fair value
AAA	$ 328,100	**5%**	$ 529,856	8%
AA	672,864	**10%**	659,816	10%
A	4,408,154	**69%**	4,301,025	67%
BBB (and lower ratings)	1,002,653	**16%**	982,911	15%
Total	**$ 6,411,771**	**100%**	$ 6,473,608	100%

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

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	June 30, 2018	December 31, 2017
Provincial bond holdings	**$ 3,503,337**	$ 3,398,432
Percentage of total bond holdings	**54.6%**	52.5%

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

As at	June 30, 2018		December 31, 2017	
	Fair value	**% of Fair value**	Fair value	% of Fair value
1 year or less	**$ 138,434**	**2%**	$ 340,940	5%
1 - 5 years	**751,574**	**12%**	596,228	9%
5 - 10 years	**691,902**	**11%**	731,086	11%
Over 10 years	**4,829,861**	**75%**	4,805,354	75%
Total	**$ 6,411,771**	**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	June 30, 2018	December 31, 2017
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	**$ 4,203,181**	$ 4,192,708
Percentage of total cash and investments	**50.3%**	49.0%
Exposure to the largest single issuer of corporate bonds	**$ 166,608**	$ 173,269
Percentage of total cash and investments	**2.0%**	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 $202,434 or 100% (December 31, 2017, $221,973 or 100%) of the total mortgage portfolio.

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.

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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[1] and is rated A (Excellent) by A.M. Best Company[2]. 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 Globe and Mail Report on Business, June 2018, based on revenue

2 As at June 7, 2018. For the latest rating, access www.ambest.com.

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.

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