

The Empire Life Insurance Company

Condensed Interim Consolidated Financial Statements For the six months ended June 30, 2019 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, 2019	December 31, 2018
Assets		
Cash and cash equivalents (Note 3)	\$ 191,765	\$ 204,921
Investments		
Short-term investments (Note 3)	34,845	27,959
Bonds (Note 3)	7,403,171	6,530,080
Preferred shares (Note 3)	404,300	395,860
Common shares (Note 3)	831,494	795,123
Derivative assets (Note 3)	4,485	10,424
Mortgages (Note 3)	181,629	193,074
Loans on policies (Note 3)	53,508	51,949
Policy contract loans (Note 3)	66,489	69,180
Total cash and cash equivalents and investments	9,171,686	8,278,570
Accrued investment income	44,580	35,388
Insurance receivables	49,243	46,701
Current income taxes	661	23,666
Other assets	22,204	20,202
Property and equipment	27,767	24,576
Intangible assets	20,056	17,804
Segregated fund assets (Note 4)	8,340,918	7,822,790
Total assets	\$ 17,677,115	\$ 16,269,697
Liabilities		
Accounts payable and other liabilities	\$ 107,415	\$ 105,171
Insurance payables	117,958	93,548
Reinsurance liabilities	867,753	788,801
Insurance contract liabilities	5,869,016	5,176,423
Investment contract liabilities	26,896	25,154
Policyholders' funds on deposit	34,106	34,031
Provision for profits to policyholders	33,162	32,008
Deferred income taxes	8,824	10,288
Subordinated debt	398,930	398,767
Segregated fund policy liabilities	8,340,918	7,822,790
Total liabilities	15,804,978	14,486,981
Equity		
Preferred shares (Note 9)	249,500	249,500
Common shares (Note 9)	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,553,497	1,527,712
Accumulated other comprehensive income	48,768	(14,868)
Total equity	1,872,137	1,782,716
Total liabilities and equity	\$ 17,677,115	\$ 16,269,697



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, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue				
Gross premiums (Note 5)	\$ 269,517	\$ 243,846	\$ 544,702	\$ 487,071
Premiums ceded to reinsurers (Note 5)	(44,217)	(38,610)	(81,516)	(70,844)
Net premiums (Note 5)	225,300	205,236	463,186	416,227
Investment income	82,998	83,236	157,680	150,540
Fair value change in fair value through profit or loss assets	204,805	19,490	607,557	(62,177)
Realized gain (loss) on fair value through profit or loss assets sold	18,271	12,150	27,209	15,859
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	5,629	1,433	5,554	(577)
Fee income	66,344	66,227	130,177	131,686
Total revenue	603,347	387,772	1,391,363	651,558
Benefits and expenses				
Gross benefits and claims paid (Note 6)	181,459	178,023	367,181	347,575
Claims recovery from reinsurers (Note 6)	(28,174)	(30,524)	(49,459)	(54,603)
Gross change in insurance contract liabilities (Note 6)	275,588	61,734	692,593	29,219
Change in insurance contract liabilities ceded (Note 6)	34,514	(1,702)	78,952	(7,385)
Change in investment contracts provision	124	(120)	230	(29)
Policy dividends	8,407	8,340	15,642	15,478
Operating expenses	44,084	39,111	85,585	77,421
Commissions	51,987	47,138	103,145	95,614
Commission recovery from reinsurers	(2,748)	(962)	(5,201)	(1,858)
Interest expense	3,596	5,803	7,152	11,573
Total benefits and expenses	568,837	306,841	1,295,820	513,005
Premium tax	5,315	5,263	10,527	10,273
Investment and capital tax	950	900	1,900	1,800
Net income before income taxes	28,245	74,768	83,116	126,480
Income taxes	4,623	17,336	16,222	28,414
Net income	\$ 23,622	\$ 57,432	\$ 66,894	\$ 98,066
Less: net income (loss) attributable to participating policyholders	104	(3,208)	(2,934)	(4,663)
Shareholders' net income (loss)	23,518	60,640	69,828	102,729
Less: preferred share dividends declared (Note 10)	3,374	3,374	6,748	6,748
Common shareholders' net income	\$ 20,144	\$ 57,266	\$ 63,080	\$ 95,981
Earnings per share - basic and diluted (Note 8)	\$ 20.45	\$ 58.14	\$ 64.04	\$ 97.44
(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, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net income	\$ 23,622	\$ 57,432	\$ 66,894	\$ 98,066
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)	26,826	(695)	73,830	(8,410)
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7)	(4,155)	(1,773)	(4,110)	(839)
Net unrealized fair value increase (decrease)	22,671	(2,468)	69,720	(9,249)
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 7)	(5,818)	5,867	(6,084)	1,599
Total other comprehensive income (loss)	16,853	3,399	63,636	(7,650)
Comprehensive income (loss)	\$ 40,475	\$ 60,831	\$ 130,530	\$ 90,416
Comprehensive income (loss) attributable to:				
Participating policyholders	\$ 476	\$ (2,503)	\$ 1,057	\$ (5,735)
Shareholders	39,999	63,334	129,473	96,151
Total	\$ 40,475	\$ 60,831	\$ 130,530	\$ 90,416

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, 2019			For the six months ended June 30, 2018		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Preferred shares (Note 9)	\$ 249,500	\$ —	\$ 249,500	\$ 249,500	\$ —	\$ 249,500
Common shares (Note 9)	985	—	985	985	—	985
Contributed surplus	19,387	—	19,387	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of period	1,492,447	35,265	1,527,712	1,395,002	38,317	1,433,319
Net income (loss)	69,828	(2,934)	66,894	102,729	(4,663)	98,066
Common share dividends declared	(34,361)	—	(34,361)	(20,000)	—	(20,000)
Preferred share dividends declared	(6,748)	—	(6,748)	(6,748)	—	(6,748)
Retained earnings - end of period	1,521,166	32,331	1,553,497	1,470,983	33,654	1,504,637
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of period	(15,766)	898	(14,868)	12,486	4,904	17,390
Other comprehensive income (loss)	59,645	3,991	63,636	(6,578)	(1,072)	(7,650)
Accumulated other comprehensive income (loss) - end of period	43,879	4,889	48,768	5,908	3,832	9,740
Total equity	\$ 1,834,917	\$ 37,220	\$ 1,872,137	\$ 1,746,763	\$ 37,486	\$ 1,784,249
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ 62,537	\$ 6,298	\$ 68,835	\$ 12,938	\$ 4,591	\$ 17,529
Remeasurements of post-employment benefit liabilities	(19,091)	(976)	(20,067)	(7,377)	(412)	(7,789)
Shareholder portion of policyholders' accumulated other comprehensive income	433	(433)	—	347	(347)	—
Total accumulated other comprehensive income (loss)	\$ 43,879	\$ 4,889	\$ 48,768	\$ 5,908	\$ 3,832	\$ 9,740

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, 2019	June 30, 2018
Operating activities		
Net income	\$ 66,894	\$ 98,066
Non-cash items affecting net income:		
Change in contract liabilities	692,823	29,190
Change in reinsurance liability	78,952	(7,385)
Fair value change in fair value through profit or loss assets	(607,557)	62,177
Realized (gain) loss on assets including impairment write downs on available for sale assets	(32,763)	(15,282)
Amortization related to discount on debt instruments	(42,912)	(42,497)
Amortization related to property and equipment and intangible assets	4,677	4,072
Deferred income taxes	749	318
Other items	13,922	11,712
Cash provided from (used for) operating activities	174,785	140,371
Investing activities		
Portfolio investments		
Purchases and advances	(876,844)	(870,955)
Sales and maturities	752,923	934,355
Loans on policies		
Advances	(4,789)	(4,021)
Repayments	5,931	7,652
(Increase) decrease in short-term investments	(6,886)	71,750
Purchase of property and equipment and intangible assets	(10,120)	(2,403)
Cash provided from (used for) investing activities	(139,785)	136,378
Financing activities		
Dividends paid to common shareholders (Note 10)	(34,361)	(20,000)
Dividends paid to preferred shareholders (Note 10)	(6,748)	(6,558)
Interest paid on subordinated debt	(7,047)	(3,664)
Redemption of subordinated debt (Note 13)	—	(300,000)
Cash provided from (used for) financing activities	(48,156)	(330,222)
Net change in cash and cash equivalents	(13,156)	(53,473)
Cash and cash equivalents - beginning of period (Note 3)	204,921	294,238
Cash and cash equivalents - end of period (Note 3)	\$ 191,765	\$ 240,765
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 17,860	\$ 29,750
Interest income received	84,119	90,241
Dividend income received	23,070	21,526

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 August 1, 2019.

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, 2018.

(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 2019

(1) IFRS 16 Leases

The Company adopted IFRS 16 effective January 1, 2019. The standard requires the capitalization of 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 adoption of IFRS 16 on January 1, 2019 did not have a significant impact on the Company's 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)

(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 three measurement categories of amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL) for financial assets.

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

In September 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (which will be subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two options for insurance companies relating to IFRS 9:

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

The Company has evaluated the criteria and will apply the temporary exemption for periods beginning before January 1, 2022, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. OSFI has also mandated that all Federally Regulated Life Insurance Companies defer the application of IFRS 9 until IFRS 17 is adopted.

Per the amendments to IFRS 4 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*, companies applying the temporary exemption are required to disclose annually fair value information with respect to their investments in financial assets whose contractual cash flows reflect solely payments of principal and interest on the principal amount outstanding (SPPI), to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. The Company's fixed income invested assets presented in Note 3(a) include cash equivalents, short-term investments, bonds, mortgages, loans on policies and policy contract loans and primarily have cash flows that qualify as SPPI. Fixed income invested assets which did not have SPPI qualifying cash flows as at December 31, 2018 included bonds and mortgages with fair values of \$20.2 million and \$11.5 million, respectively.

The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its Consolidated Financial Statements.

(2) IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. The IFRS 17 standard has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flow statement. The standard establishes the principles for recognition, measurement, presentation and disclosure. It defines a general measurement model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities, and it defines a specific model for contracts of one year or less.

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 provisions of this new standard will apply retrospectively to each group of insurance contracts and, if and only if impracticable, an entity shall apply the modified retrospective or fair value approach to financial statements.

In June 2019 the IASB published an Exposure Draft Amendment to IFRS 17 proposing twelve targeted amendments in eight areas addressing measurement, presentation, transition and the effective date of IFRS 17 and IFRS 9. The IASB proposes, among others, that entities would recognize expected profit for insurance contract services in profit or loss for both insurance coverage and any services related to investment activities provided over time. The exposure draft also proposes that entities that recognize losses on loss-making insurance contracts would recognize a gain on reinsurance contracts held to the extent the reinsurance covers the claim on proportionate basis, which is a fixed percentage of claims. The exposure draft comment period ends on September 25, 2019 and the IASB plans to publish any resulting amendments to IFRS 17 in mid-2020.

The final amended standard is expected to confirm the effective date for IFRS 17, which is for reporting periods beginning on or after January 1, 2022, with comparative figures required to be restated.

The Company is currently evaluating the impact this standard and the proposed amendments will have on presentation, disclosure and measurement of the insurance contracts in the Consolidated Financial Statements.

Condensed Notes to the Interim Consolidated Financial Statements

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

3. Financial Instruments

(a) Summary of Cash and cash equivalents and investments

The carrying values of cash and cash equivalents and investments are as follow

As at Asset category	June 30, 2019			December 31, 2018		
	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	\$ 24,030	\$ —	\$ 24,030	\$ 11,418	\$ —	\$ 11,418
Cash equivalents	167,735	—	167,735	193,503	—	193,503
Total cash and cash equivalents	191,765	—	191,765	204,921	—	204,921
Short-term investments						
Canadian federal government	33,835	—	33,835	9,990	—	9,990
Canadian provincial governments	—	—	—	5,983	3,989	9,972
Corporate	1,010	—	1,010	7,997	—	7,997
Total short-term investments	34,845	—	34,845	23,970	3,989	27,959
Bonds						
Canadian federal government	129,280	205,069	334,349	89,389	184,088	273,477
Canadian provincial governments	3,610,236	502,888	4,113,124	3,109,456	490,369	3,599,825
Canadian municipal governments	106,728	95,761	202,489	97,472	77,965	175,437
Total Canadian government bonds	3,846,244	803,718	4,649,962	3,296,317	752,422	4,048,739
Canadian corporate bonds by industry sector:						
Energy	91,257	60,020	151,277	70,013	69,565	139,578
Materials	10,651	4,240	14,891	10,321	—	10,321
Industrials	101,993	67,473	169,466	81,682	69,933	151,615
Consumer discretionary	21,975	16,905	38,880	21,223	19,024	40,247
Consumer staples	132,449	71,076	203,525	113,693	79,978	193,671
Health care	89,940	22,275	112,215	78,384	21,183	99,567
Financial services	616,540	311,599	928,139	571,147	323,960	895,107
Communication services	149,567	79,362	228,929	108,548	76,251	184,799
Utilities	440,965	97,459	538,424	362,577	67,710	430,287
Real estate	12,319	26,035	38,354	6,549	31,956	38,505
Infrastructure	289,408	29,554	318,962	265,320	23,378	288,698
Total Canadian corporate bonds	1,957,064	785,998	2,743,062	1,689,457	782,938	2,472,395
Total foreign bonds	10,147	—	10,147	8,946	—	8,946
Total bonds	5,813,455	1,589,716	7,403,171	4,994,720	1,535,360	6,530,080
Total preferred shares - Canadian	394,209	10,091	404,300	384,760	11,100	395,860
Common shares						
Canadian						
Canadian common shares	575,909	56,959	632,868	553,337	51,813	605,150
Canadian real estate limited partnership units	113,538	—	113,538	110,324	—	110,324
U.S.	41,123	—	41,123	37,439	55	37,494
Other	43,189	776	43,965	41,503	652	42,155
Total common shares	773,759	57,735	831,494	742,603	52,520	795,123
Total derivative assets	4,485	—	4,485	10,424	—	10,424
Loans and receivables						
Mortgages	—	—	181,629	—	—	193,074
Loans on policies	—	—	53,508	—	—	51,949
Policy contract loans	—	—	66,489	—	—	69,180
Total financial instruments	\$ 7,212,518	\$ 1,657,542	\$ 9,171,686	\$ 6,361,398	\$ 1,602,969	\$ 8,278,570

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	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 24,030	\$ 167,735	\$ 191,765	\$ 11,418	\$ 193,503	\$ 204,921
Short-term investments	—	34,845	34,845	—	23,970	23,970
Bonds	—	5,813,455	5,813,455	—	4,994,720	4,994,720
Preferred shares	394,209	—	394,209	384,760	—	384,760
Common shares	659,833	113,926	773,759	631,961	110,642	742,603
Derivative assets	4,485	—	4,485	9,760	664	10,424
Available for sale:						
Short-term investments	—	—	—	—	3,989	3,989
Bonds	—	1,589,716	1,589,716	—	1,535,360	1,535,360
Preferred shares	10,091	—	10,091	11,100	—	11,100
Common shares	57,735	—	57,735	52,520	—	52,520
Loans and Receivables						
Mortgages	—	188,119	188,119	—	193,391	193,391
Loans on policies	—	53,508	53,508	—	51,949	51,949
Policy contract loans	—	66,489	66,489	—	69,180	69,180
Total	\$ 1,150,383	\$ 8,027,793	\$ 9,178,176	\$ 1,101,519	\$ 7,177,368	\$ 8,278,887

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, 2019 or during the year ended December 31, 2018.

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, 2019, the Company reclassified a pre-tax loss of \$166 from OCI to net income due to write downs of impaired available for sale (AFS) common and preferred shares (for the six months ended June 30, 2018, \$136). 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.

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	June 30, 2019			December 31, 2018		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 46,973	\$ 514	\$ 6	\$ 42,968	\$ 458	\$ 53
Equity options	537,575	3,395	—	431,459	9,302	—
Over-the-counter						
Foreign currency forwards	32,357	—	589	32,896	664	—
Cross currency swaps	16,839	576	275	16,839	—	707
Total	\$ 633,744	\$ 4,485	\$ 870	\$ 524,162	\$ 10,424	\$ 760

All contracts mature in less than one year. Fair value asset amounts are reported in the Consolidated Statements of Financial Position as Derivative assets. Fair value liability amounts are reported in the Consolidated Statements of Financial Position as part of Accounts payable and other liabilities. Fair value of exchange traded derivatives is determined based on Level 1 inputs. Foreign currency forward contracts are valued based primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency, interest rates and credit spreads.

Cross currency swaps are valued by discounting the future cash flows for both legs at the underlying market interest rate curves in each currency applicable at the valuation date. The sum of the cash flows denoted in the foreign currency is converted with the spot rate applicable at that time. The foreign currency leg, where Empire Life owes interest and principal, produces a negative fair value to Empire Life while the Canadian dollar leg produces a positive fair value to Empire Life. The net of these amounts represents the reported fair value of the cross currency swap. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit-related inputs are determined not to be significant to fair value, are classified as Level 2.

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

(d) Securities Lending

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

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 June 30, 2019 and December 31, 2018, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at	June 30, 2019			December 31, 2018		
	General Funds	Segregated Funds	Total	General Funds	Segregated Funds	Total
Value of securities loaned	\$ 963,318	\$ 1,260,796	\$ 2,224,114	\$ 989,557	\$ 1,282,600	\$ 2,272,157
Value of collateral received	\$ 982,843	\$ 1,286,079	\$ 2,268,922	\$ 1,009,925	\$ 1,308,299	\$ 2,318,224

4. Segregated Funds

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

As at	June 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 5,369	\$ 22,220
Short-term investments	708,537	496,849
Bonds	1,673,268	1,512,174
Common and preferred shares	6,003,733	5,832,553
Other net assets	17,521	19,418
	8,408,428	7,883,214
Less segregated funds held within general fund investments	(67,510)	(60,424)
Total	\$ 8,340,918	\$ 7,822,790

(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, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 5,369	\$ —	\$ 5,369	\$ 22,220	\$ —	\$ 22,220
Short-term investments	—	708,537	708,537	—	496,849	496,849
Bonds	—	1,673,268	1,673,268	—	1,512,174	1,512,174
Common and preferred shares	6,003,733	—	6,003,733	5,829,250	3,303	5,832,553
Total	\$ 6,009,102	\$ 2,381,805	\$ 8,390,907	\$ 5,851,470	\$ 2,012,326	\$ 7,863,796

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2019 or during the year ended December 31, 2018. There were no level 3 investments as at June 30, 2019 or December 31, 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)

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

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Segregated fund assets - beginning of period	\$ 8,410,686	\$ 8,405,483	\$ 7,822,790	\$ 8,681,892
Additions to segregated funds:				
Amount received from policyholders	195,949	232,649	423,464	507,740
Interest	14,430	13,713	30,133	26,203
Dividends	94,546	45,754	127,440	76,337
Other income	6,368	6,534	12,457	13,563
Net realized gains on sale of investments	62,053	91,286	107,441	154,244
Net unrealized increase in fair value of investments	(73,962)	143,728	555,138	—
	299,384	533,664	1,256,073	778,087
Deductions from segregated funds:				
Amounts withdrawn or transferred by policyholders	304,219	248,973	615,919	559,388
Net unrealized decrease in fair value of investments	—	—	—	153,509
Management fees and other operating costs	63,322	66,833	114,940	123,716
	367,541	315,806	730,859	836,613
Net change in segregated funds held within general fund investments	(1,611)	(24,915)	(7,086)	(24,940)
Segregated fund assets - end of period	\$ 8,340,918	\$ 8,598,426	\$ 8,340,918	\$ 8,598,426

(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			For the three months ended		
	June 30, 2019			June 30, 2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 130,404	\$ (30,439)	\$ 99,965	\$ 124,476	\$ (28,687)	\$ 95,789
Health premiums	98,745	(13,739)	85,006	90,416	(9,879)	80,537
Total life and health premiums	229,149	(44,178)	184,971	214,892	(38,566)	176,326
Annuity premiums	40,368	(39)	40,329	28,954	(44)	28,910
Total insurance premiums	\$ 269,517	\$ (44,217)	\$ 225,300	\$ 243,846	\$ (38,610)	\$ 205,236

	For the six months ended			For the six months ended		
	June 30, 2019			June 30, 2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 256,965	\$ (57,458)	\$ 199,507	\$ 245,693	\$ (53,014)	\$ 192,679
Health premiums	194,013	(24,320)	169,693	180,580	(17,744)	162,836
Total life and health premiums	450,978	(81,778)	369,200	426,273	(70,758)	355,515
Annuity premiums	93,724	262	93,986	60,798	(86)	60,712
Total insurance premiums	\$ 544,702	\$ (81,516)	\$ 463,186	\$ 487,071	\$ (70,844)	\$ 416,227

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 June 30, 2019			For the three months ended June 30, 2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 64,236	\$ (20,975)	\$ 43,261	\$ 75,654	\$ (26,531)	\$ 49,123
Health claims	69,527	(6,503)	63,024	59,755	(4,243)	55,512
Total life and health claims	133,763	(27,478)	106,285	135,409	(30,774)	104,635
Annuity benefits	47,696	(696)	47,000	42,614	250	42,864
Benefits and claims paid	\$ 181,459	\$ (28,174)	\$ 153,285	\$ 178,023	\$ (30,524)	\$ 147,499

	For the six months ended June 30, 2019			For the six months ended June 30, 2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 119,878	\$ (36,233)	\$ 83,645	\$ 130,305	\$ (45,904)	\$ 84,401
Health claims	134,145	(11,728)	122,417	121,465	(8,271)	113,194
Total life and health claims	254,023	(47,961)	206,062	251,770	(54,175)	197,595
Annuity benefits	113,158	(1,498)	111,660	95,805	(428)	95,377
Benefits and claims paid	\$ 367,181	\$ (49,459)	\$ 317,722	\$ 347,575	\$ (54,603)	\$ 292,972

(b) Change in insurance contract liabilities and reinsurance ceded

	For the three months ended June 30, 2019			For the three months ended June 30, 2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ 247,798	\$ 38,896	\$ 286,694	\$ 63,552	\$ (1,710)	\$ 61,842
Health	21,503	(4,406)	17,097	4,598	(433)	4,165
Total life and health	269,301	34,490	303,791	68,150	(2,143)	66,007
Annuity	6,287	24	6,311	(6,416)	441	(5,975)
Change in insurance contract liabilities	\$ 275,588	\$ 34,514	\$ 310,102	\$ 61,734	\$ (1,702)	\$ 60,032
Change attributable to:						
Normal changes - New Business	10,785	604	11,389	(4,062)	(1,452)	(5,514)
- In-Force Business	264,803	33,910	298,713	65,796	(250)	65,546
Change in insurance contract liabilities	\$ 275,588	\$ 34,514	\$ 310,102	\$ 61,734	\$ (1,702)	\$ 60,032

	For the six months ended June 30, 2019			For the six months ended June 30, 2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ 628,037	\$ 86,725	\$ 714,762	\$ 49,631	\$ (6,006)	\$ 43,625
Health	44,746	(7,623)	37,123	1,769	(457)	1,312
Total life and health	672,783	79,102	751,885	51,400	(6,463)	44,937
Annuity	19,810	(150)	19,660	(22,181)	(922)	(23,103)
Change in insurance contract liabilities	\$ 692,593	\$ 78,952	\$ 771,545	\$ 29,219	\$ (7,385)	\$ 21,834
Change attributable to:						
Normal changes - New Business	34,995	295	35,290	4,980	(1,657)	3,323
- In-Force Business	657,598	78,657	736,255	24,239	(5,728)	18,511
Change in insurance contract liabilities	\$ 692,593	\$ 78,952	\$ 771,545	\$ 29,219	\$ (7,385)	\$ 21,834

Condensed Notes to the Interim Consolidated Financial Statements

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

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

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

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

	For the three months ended June 30, 2019			For the three months ended June 30, 2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 36,548	\$ 9,722	\$ 26,826	\$ (947)	\$ (252)	\$ (695)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(5,627)	(1,472)	(4,155)	(2,312)	(539)	(1,773)
Remeasurements of post-employment benefit liabilities	(7,933)	(2,115)	(5,818)	8,003	2,136	5,867
Total other comprehensive income (loss)	\$ 22,988	\$ 6,135	\$ 16,853	\$ 4,744	\$ 1,345	\$ 3,399

	For the six months ended June 30, 2019			For the six months ended June 30, 2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 100,682	\$ 26,852	\$ 73,830	\$ (11,479)	\$ (3,069)	\$ (8,410)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(5,554)	(1,444)	(4,110)	(970)	(131)	(839)
Remeasurements of post-employment benefit liabilities	(8,296)	(2,212)	(6,084)	2,183	584	1,599
Total other comprehensive income (loss)	\$ 86,832	\$ 23,196	\$ 63,636	\$ (10,266)	\$ (2,616)	\$ (7,650)

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

	For the three months ended June 30, 2019			For the three months ended June 30, 2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 35,104	\$ 9,339	\$ 25,765	\$ (1,696)	\$ (454)	\$ (1,242)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(5,070)	(1,317)	(3,753)	(2,189)	(504)	(1,685)
Remeasurements of post-employment benefit liabilities	(7,571)	(2,019)	(5,552)	7,637	2,038	5,599
Shareholder portion of policyholder other comprehensive income (loss)	28	7	21	31	9	22
Total other comprehensive income (loss)	\$ 22,491	\$ 6,010	\$ 16,481	\$ 3,783	\$ 1,089	\$ 2,694

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 six months ended			For the six months ended		
	June 30, 2019			June 30, 2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 93,757	\$ 25,005	\$ 68,752	\$ (10,020)	\$ (2,680)	\$ (7,340)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(4,864)	(1,254)	(3,610)	(715)	(59)	(656)
Remeasurements of post-employment benefit liabilities	(7,920)	(2,112)	(5,808)	2,083	557	1,526
Shareholder portion of policyholder other comprehensive income (loss)	424	113	311	(148)	(40)	(108)
Total other comprehensive income (loss)	\$ 81,397	\$ 21,752	\$ 59,645	\$ (8,800)	\$ (2,222)	\$ (6,578)

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

	For the three months ended			For the three months ended		
	June 30, 2019			June 30, 2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 1,444	\$ 383	\$ 1,061	\$ 749	\$ 202	\$ 547
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(557)	(155)	(402)	(123)	(35)	(88)
Remeasurements of post-employment benefit liabilities	(362)	(96)	(266)	366	98	268
Shareholder portion of policyholder other comprehensive income (loss)	(28)	(7)	(21)	(31)	(9)	(22)
Total other comprehensive income (loss)	\$ 497	\$ 125	\$ 372	\$ 961	\$ 256	\$ 705

	For the six months ended			For the six months ended		
	June 30, 2019			June 30, 2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 6,925	\$ 1,847	\$ 5,078	\$ (1,459)	\$ (389)	\$ (1,070)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(690)	(190)	(500)	(255)	(72)	(183)
Remeasurements of post-employment benefit liabilities	(376)	(100)	(276)	100	27	73
Shareholder portion of policyholder other comprehensive income (loss)	(424)	(113)	(311)	148	40	108
Total other comprehensive income (loss)	\$ 5,435	\$ 1,444	\$ 3,991	\$ (1,466)	\$ (394)	\$ (1,072)

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		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Basic and diluted EPS				
Common shareholders' net income	\$ 20,144	\$ 57,266	\$ 63,080	\$ 95,981
Weighted average number of common shares outstanding	985,076	985,076	985,076	985,076
Basic and diluted EPS	\$ 20.45	\$ 58.14	\$ 64.04	\$ 97.44

9. Capital Stock

As at	June 30, 2019			December 31, 2018		
	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	May 2, 2019	985,076	\$ 17.440800	\$ 17,181	June 11, 2019
	February 27, 2019	985,076	\$ 17.440800	\$ 17,181	April 4, 2019
	October 31, 2018	985,076	\$ 10.151501	\$ 10,000	December 5, 2018
	August 3, 2018	985,076	\$ 10.151501	\$ 10,000	September 12, 2018
	May 3, 2018	985,076	\$ 10.151501	\$ 10,000	June 8, 2018
	February 27, 2018	985,076	\$ 10.151501	\$ 10,000	April 3, 2018
Preferred shareholder dividends					
Series 1	May 2, 2019	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2019
	February 27, 2019	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2019
	October 31, 2018	5,980,000	\$ 0.359375	\$ 2,149	January 17, 2019
	August 3, 2018	5,980,000	\$ 0.359375	\$ 2,149	October 17, 2018
	May 3, 2018	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2018
	February 27, 2018	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2018
Series 3	May 2, 2019	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2019
	February 27, 2019	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2019
	October 31, 2018	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2019
	August 3, 2018	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2018
	May 3, 2018	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2018
	February 27, 2018	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2018

On August 1, 2019, subsequent to the date of these Interim Consolidated Financial Statements, the Board approved the following cash dividends:

- \$17,181 (\$17.4408 per share) on the issued and outstanding Common Shares, payable on September 12, 2019.
- \$2,149 (\$0.359375 per share) on the issued and outstanding Series 1 Preferred Shares, payable on October 17, 2019.
- \$1,225 (\$0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on October 17, 2019.

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 June 30, 2019				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 40,329	\$ 88,446	\$ 96,525	\$ —	\$ 225,300
Interest income	7,819	1,401	46,067	13,604	68,891
Total investment income	10,098	1,151	55,312	16,437	82,998
Fair value change in fair value through profit or loss assets	3,241	3,404	201,694	(3,534)	204,805
Realized gain (loss) on fair value through profit or loss assets	853	(153)	19,022	(1,451)	18,271
Realized gain (loss) on available for sale assets including impairment write downs	99	85	86	5,359	5,629
Fee income from external customers	62,884	3,411	32	17	66,344
Net benefits and claims	47,000	64,763	41,522	—	153,285
Net change in insurance contract liabilities	6,311	4,830	298,961	—	310,102
Change in investment contract provision	124	—	—	—	124
Policy dividends	—	—	8,407	—	8,407
Amortization of property and equipment and intangibles	571	624	1,157	—	2,352
Total operating expenses	18,409	12,626	12,700	349	44,084
Net commission expense	19,730	10,122	19,387	—	49,239
Interest expense	—	—	—	3,596	3,596
Premium tax	—	2,266	3,049	—	5,315
Investment and capital tax	—	—	950	—	950
Income tax expense (recovery)	6,212	416	(4,661)	2,656	4,623
Net income (loss) after tax	19,718	1,321	(7,644)	10,227	23,622

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 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

	For the six months ended June 30, 2019				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 93,986	\$ 176,597	\$ 192,603	\$ —	463,186
Interest income	15,520	3,139	88,114	27,461	134,234
Total investment income	19,957	2,205	103,119	32,399	157,680
Fair value change in fair value through profit or loss assets	23,416	4,505	585,445	(5,809)	607,557
Realized gain (loss) on fair value through profit or loss assets	12	102	30,017	(2,922)	27,209
Realized gain (loss) on available for sale assets including impairment write downs	99	85	175	5,195	5,554
Fee income from external customers	123,847	6,260	137	(67)	130,177
Net benefits and claims	111,660	125,373	80,689	—	317,722
Net change in insurance contract liabilities	19,660	8,192	743,693	—	771,545
Change in investment contract provision	230	—	—	—	230
Policy dividends	—	—	15,642	—	15,642
Amortization of property and equipment and intangibles	1,161	1,206	2,310	—	4,677
Total operating expenses	34,681	24,357	25,839	708	85,585
Net commission expense	40,710	19,863	37,371	—	97,944
Interest expense	—	—	—	7,152	7,152
Premium tax	—	4,500	6,027	—	10,527
Investment and capital tax	—	—	1,900	—	1,900
Income tax expense (recovery)	13,313	1,898	(3,244)	4,255	16,222
Net income (loss) after tax	41,063	5,571	3,579	16,681	66,894

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 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 fair value through profit or loss assets	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

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

As at	June 30, 2019				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 967,266	\$ 161,205	\$ 5,810,637	\$ 2,397,089	\$ 9,336,197
Segregated funds	8,322,839	—	18,079	—	8,340,918
Total assets	\$ 9,290,105	\$ 161,205	\$ 5,828,716	\$ 2,397,089	\$ 17,677,115

As at	December 31, 2018				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 944,448	\$ 153,194	\$ 5,057,860	\$ 2,291,405	\$ 8,446,907
Segregated funds	7,805,676	—	17,114	—	7,822,790
Total assets	\$ 8,750,124	\$ 153,194	\$ 5,074,974	\$ 2,291,405	\$ 16,269,697

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. Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. There was \$22,908 (December 31, 2018, \$13,000) of outstanding commitments as at June 30, 2019. These outstanding commitments are 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 manages its regulatory capital in order to meet the regulatory capital adequacy requirements of the Insurance Companies Act (Canada) as established and monitored by OSFI. 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, 2019, 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 2018 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 2018 Annual Report.

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) 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, 2019			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 13,721	\$ (16,987)	\$ 31,264	\$ (85,287)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 2,816	\$ (2,816)	\$ 5,632	\$ (5,632)
Policyholders' other comprehensive income	\$ 1,418	\$ (1,418)	\$ 2,836	\$ (2,836)

	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)

*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, 2019	December 31, 2018
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 364,261	\$ 352,369
Percentage of total cash and investments	4.0%	4.3%
Exposure to the largest single issuer of common equities	\$ 113,538	\$ 110,324
Percentage of total cash and investments	1.2%	1.3%

(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, 2019			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 11,502	\$ (12,658)	\$ 21,967	\$ (26,600)
Policyholders' net income	\$ 235	\$ (256)	\$ 450	\$ (536)
Shareholders' other comprehensive income	\$ (44,979)	\$ 53,628	\$ (81,307)	\$ 115,907
Policyholders' other comprehensive income	\$ (1,951)	\$ 2,153	\$ (3,699)	\$ 4,509

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 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

(3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at June 30, 2019, a 10% fluctuation in the US dollar would have an impact of approximately \$nil (June 30, 2018, \$nil) on net income, \$nil (June 30, 2018, \$nil) on shareholders' OCI and \$nil (June 30, 2018, \$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, 2019	December 31, 2018
Cash and cash equivalents	\$ 191,765	\$ 204,921
Short-term investments	34,845	27,959
Bonds	7,403,171	6,530,080
Preferred shares	404,300	395,860
Derivative assets	4,485	10,424
Mortgages	181,629	193,074
Reinsurance	103,811	95,975
Loans on policies	53,508	51,949
Policy contract loans	66,489	69,180
Accrued investment income	44,580	35,388
Insurance receivables	49,243	46,701
Trade accounts receivable	16,447	14,326
Total	\$ 8,554,273	\$ 7,675,837

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, 2019		December 31, 2018	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 341,976	5%	\$ 281,470	4%
AA	687,786	9%	628,471	10%
A	5,185,507	70%	4,561,261	70%
BBB (and lower ratings)	1,187,902	16%	1,058,878	16%
Total	\$ 7,403,171	100%	\$ 6,530,080	100%

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)

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, 2019		December 31, 2018	
Provincial bond holdings	\$	4,113,124	\$	3,599,825
Percentage of total bond holdings		55.6%		55.1%

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

As at	June 30, 2019		December 31, 2018	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 95,157	1%	\$ 87,560	1%
1 - 5 years	790,717	11%	810,260	12%
5 - 10 years	760,465	10%	743,107	11%
Over 10 years	5,756,832	78%	4,889,153	76%
Total	\$ 7,403,171	100%	\$ 6,530,080	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, 2019		December 31, 2018	
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$	4,719,887	\$	4,248,837
Percentage of total cash and investments		51.5%		51.3%
Exposure to the largest single issuer of corporate bonds	\$	197,877	\$	181,684
Percentage of total cash and investments		2.2%		2.2%

*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, 2018, 1%) rated as P1, 97% rated as P2 (December 31, 2018, 99%) and the remaining 2% ((December 31, 2018, nil %) rated as P3.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$180,165 or 99% (December 31, 2018, \$193,074 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.

Other Comprehensive Income (OCI)

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as Other Comprehensive Income ("OCI") or Other Comprehensive Loss ("OCL"). When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. Remeasurements of post-employment benefit liabilities are also recorded as OCI or OCL. These remeasurements will not be reclassified to net income and will remain in AOCI.

Office of the Superintendent of Financial Institutions Canada (OSFI)

The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Participating Policies

The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account.

Return on Common Shareholders' Equity (ROE)

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

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EMPIRE LIFE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Empire Life is among the top 10 life insurance companies in Canada¹ and is rated A (Excellent) by A.M. Best Company². Our mission is to make it simple, fast and easy for Canadians to build wealth, generate income, and achieve financial security.

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

¹ Based on total assets as reported in December 31, 2018 OSFI filings.

² As at June 14, 2019. For the latest rating, access www.ambest.com.

Transfer Agent and Registrar

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

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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