



**Financial Corporation Limited**

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**SECOND QUARTER REPORT**  
**June 30, 2019**



# Financial Highlights

(Millions of dollars, except per share amounts)

Six months ended June 30	2019	2018
Net Equity Value per Common Share <sup>(1)</sup>	\$ 1,397.35	\$ 1,349.93
Net Income per Common Share	\$ 87.38	\$ 42.26
Comprehensive Income per Common Share	\$ 100.43	\$ 41.07
<b>Contribution to Shareholders' Net Income:</b>		
E-L Corporate	\$ 288	\$ 78
Empire Life	63	96
<b>Shareholders' Net Income</b>	<b>351</b>	<b>174</b>
Preferred Shareholder Dividends	8	8
<b>Net Income attributable to Common Shareholders'</b>	<b>\$ 343</b>	<b>\$ 166</b>

## E-L Corporate

Shareholders' Net Income	\$ 288	\$ 78
Investments - Corporate	\$ 4,948	\$ 4,926
Investments in Associates	\$ 319	\$ 333

## Empire Life

Common Shareholders' Net Income	\$ 63	\$ 96
Net Premiums and Fee Income	\$ 593	\$ 548
Assets Under Management <sup>(1)</sup>	\$ 17,824	\$ 17,268
Life Insurance Capital Adequacy Test Total Ratio ("LICAT") (%)	149	161

<sup>(1)</sup> See Non-GAAP measures within the Management's Discussion and Analysis

### NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company's external auditors have not performed a review of these unaudited interim condensed consolidated financial statements of E-L Financial Corporation Limited.

**REPORT ON E-L FINANCIAL CORPORATION LIMITED**

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The following Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of E-L Financial Corporation Limited ("E-L Financial" or the "Company") for the second quarter of 2019 should be read in conjunction with the MD&A for the year ended December 31, 2018, the Company's annual audited consolidated financial statements and the notes related thereto, the quarterly unaudited interim condensed consolidated financial statements and notes contained in this report, as well as the Company's MD&A and unaudited interim condensed consolidated financial statements for the quarters of 2018 and the previous quarter of 2019. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Figures in this MD&A may differ due to rounding. This MD&A is dated as of August 8, 2019.

This MD&A contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, any forward-looking statements within this discussion will occur, or if they do, that any benefits may be derived from them.

Unless otherwise stated, all per share amounts are based on the average number of Common Shares and Series A Convertible Preference Shares outstanding for the period, adjusted for the Company's proportionate interest in its own common shares held indirectly through investments in associates.

Additional information relating to the Company, including its Annual Information Form, may be found at [www.sedar.com](http://www.sedar.com).

**Forward-looking statements and information**

Certain statements in this MD&A about the Company's current and future plans, expectations and intentions, results, market share growth and profitability, strategic objectives or any other future events or developments constitute forward-looking statements and information within the meaning of applicable securities laws. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements and information. Although management believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because there can be no assurance that they will prove to be correct. By their nature, such forward-looking statements and information are subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, market risks including equity risks, hedging risks, interest rate risks, foreign exchange rate risks; liquidity risks; credit risks including counterparty risks; insurance risks including mortality risks, policyholder behaviour risks, expense risks, morbidity risks, product design and pricing risks, underwriting and claims risks, reinsurance risks; operational risks, including legal and regulatory risks, model risks, human resources risks, third party risks, technology, information security and business continuity risks; and business risks, including risks with respect to competition, risks with respect to financial strength, capital adequacy risks, risks with respect to distribution channels, risks with respect to changes to applicable income tax legislation, risks with respect to litigation, risks with respect to reputation, risks with respect to risk management policies, risks with respect to intellectual property, risks with respect to significant ownership of common shares. Please see the section titled "Description of the Business" in E-L Financial's Annual Information Form available at [www.sedar.com](http://www.sedar.com) for more details on these risks.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements and information include that the general economy remains stable;

assumptions on interest rates, mortality rates and policy liabilities; and capital markets continue to provide access to capital. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate potential benefits and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks are, without limitation, based on the assumptions and subject to the risks set out above.

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. When relying on the Company's forward-looking statements and information to make decisions, investors and others should carefully consider the foregoing factors, assumptions and other uncertainties and potential events. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof or the date indicated, and to not use such forward-looking information for anything other than its intended purpose. The Company undertakes no obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise after the date of this document, except as required by law.

### **Non-GAAP measures**

The MD&A contains information using non-GAAP measures. Current Canadian GAAP is IFRS for the Company's consolidated financial statements. The Company believes that these measures provide useful information to its shareholders in evaluating the Company's financial results. Where non-GAAP measures are used, descriptions have been provided as to the nature of the adjustments made.

The MD&A contains reference to net equity value, net equity value per common share and growth in net equity value per common share. Net equity value per common share is described and reconciled to shareholders' equity on page 7. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

The MD&A also contains non-consolidated cash flow information of E-L Financial which is a non-GAAP presentation. The information is useful as it separates the Company's cash flows from the cash flows of its subsidiaries. This information is reconciled to the consolidated cash flows on page 9.

Other non-GAAP measures are also used in The Empire Life Insurance Company ("Empire" or "Empire Life") section of the MD&A. These include references to return on common shareholders' equity, source of earnings, assets under management, annualized premium sales, gross and net sales for mutual funds, segregated funds and fixed annuities. These provide investors with supplemental measures of its operating performance and to highlight trends in its core business that may not otherwise be apparent when relying solely on GAAP financial measures. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Empire Life's management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

Return on Empire Life's common shareholders' equity is a profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income. Quarterly and year to date returns are calculated on an annualized basis.

Sources of earnings break down Empire Life earnings into several categories which are useful to assess the performance of the business. These categories include expected profit from in-force business, impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. The sources of earnings components are reconciled to Empire Life's net income on page 14 of this report.

Annualized premium sales are used as a method of measuring sales volume. It is equal to the premium expected to be received in the first twelve months for all new individual insurance and employee benefit policies sold during the period. Mutual fund gross and net sales and segregated fund gross and net sales are also used as measures of sales volume. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

Assets under management is a non-GAAP measure of the assets managed by Empire Life, which includes general fund assets, mutual fund assets and segregated fund assets. They represent the total assets of Empire Life and the assets its customers invest in. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

The following table provides a reconciliation of assets under management to total assets in Empire Life's financial statements:

<i>(in millions of dollars)</i>	<b>June 30 2019</b>	<b>December 31 2018</b>
General fund assets	\$ 9,336	\$ 8,447
Segregated fund assets	8,341	7,823
Total Empire Life assets	17,677	16,270
Mutual fund assets	147	145
<b>Total assets under management</b>	<b>\$ 17,824</b>	<b>\$ 16,415</b>

## The Company

E-L Financial operates as an investment and insurance holding company. In managing its operations, the Company distinguishes between two operating segments, E-L Corporate and Empire Life.

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies and other private companies. E-L Financial holds a 52.2% interest in a closed-end investment corporation, United Corporations Limited ("United") which is listed on the Toronto Stock Exchange. United is an investment vehicle for long-term growth through investments in common equities. The invested assets and operations of United are consolidated and included in the E-L Corporate segment. In addition, E-L Corporate has two significant investments in associates which are a 36.8% interest in Algoma Central Corporation ("Algoma") and a 24.0% interest in Economic Investment Trust Limited ("Economic"). Algoma and Economic are accounted for using the equity method.

The Company's investment in Empire Life (99.4% interest) is consolidated by E-L Financial. The Empire Life operating segment underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products.

The Company's strategy is to accumulate shareholder value through long-term capital appreciation and dividend and interest income from its investments. E-L Financial oversees its investments through representation on the Boards of Directors of the subsidiaries and the other companies in which the Company has significant shareholdings.

**Overview of results attributable to shareholders of E-L Financial**

E-L Financial consolidated (millions of dollars)	Second quarter		Year to date	
	2019	2018	2019	2018
<b>Contribution to net income</b>				
E-L Corporate <sup>(1)</sup>	\$ 22	\$ 51	\$ 288	\$ 78
Empire Life <sup>(2)</sup>	20	57	63	96
<b>Net income</b>	<b>42</b>	<b>108</b>	<b>351</b>	<b>174</b>
Other comprehensive income (loss) <sup>(2)</sup>	12	5	51	(5)
<b>Comprehensive income</b>	<b>\$ 54</b>	<b>\$ 113</b>	<b>\$ 402</b>	<b>\$ 169</b>

The following tables summarize the results of the Company's business segments:

E-L Corporate (millions of dollars)	Second quarter		Year to date	
	2019	2018	2019	2018
Revenue				
Net (loss) gain on investments <sup>(3)</sup>	\$ (19)	\$ 42	\$ 322	\$ 64
Investment and other income	51	50	81	75
Share of associates income	7	7	9	5
	<b>39</b>	<b>99</b>	<b>412</b>	<b>144</b>
Operating expenses	9	9	18	18
Income taxes	7	17	55	22
Non-controlling interests	1	22	51	26
	<b>17</b>	<b>48</b>	<b>124</b>	<b>66</b>
<b>Net income</b>	<b>22</b>	<b>51</b>	<b>288</b>	<b>78</b>
Other comprehensive (loss) income, net of taxes <sup>(1)</sup>	(4)	2	(8)	2
<b>Comprehensive income</b>	<b>\$ 18</b>	<b>\$ 53</b>	<b>\$ 280</b>	<b>\$ 80</b>

Empire Life (millions of dollars)	Second quarter		Year to date	
	2019	2018	2019	2018
Revenue				
Net premiums	\$ 225	\$ 205	\$ 463	\$ 416
Net gain (loss) on investments <sup>(3)</sup>	229	33	640	(47)
Investment income	83	83	158	151
Fee income	66	67	130	132
	<b>603</b>	<b>388</b>	<b>1,391</b>	<b>652</b>
Benefits and expenses	569	308	1,297	514
Income and other taxes	10	22	27	39
Non-controlling and participating policyholders' interests	4	1	4	3
	<b>583</b>	<b>331</b>	<b>1,328</b>	<b>556</b>
<b>Net income</b>	<b>20</b>	<b>57</b>	<b>63</b>	<b>96</b>
Other comprehensive income (loss), net of taxes <sup>(2)</sup>	16	3	59	(7)
<b>Comprehensive income</b>	<b>\$ 36</b>	<b>\$ 60</b>	<b>\$ 122</b>	<b>\$ 89</b>

<sup>(1)</sup> Net of non-controlling interests

<sup>(2)</sup> Net of non-controlling interests and participating policyholders' amounts

<sup>(3)</sup> Includes fair value change on fair value through profit and loss ("FVTPL") investments and realized gains on available for sale ("AFS") investments

E-L Financial reported consolidated net income of \$42 million or \$9.70 per common share for the second quarter of 2019, compared to \$108 million, or \$26.56 per common share in 2018. The decrease in net income is primarily due to a net loss on investments within the E-L Corporate segment. E-L Corporate reported a net loss on investments of \$19 million in the second quarter of 2019 compared to a net gain of \$42 million in 2018. The pre-tax total return on investments for the second quarter of 2019 was 0% compared to 2% in the prior year. During the second quarter of 2019, foreign currency negatively impacted investment returns due to an appreciation of the Canadian dollar relative to most major currencies.

The Empire Life segment reported net income of \$20 million for the second quarter of 2019 compared to \$57 million in 2018. The net income for 2019 decreased primarily due to unfavourable changes in bond yields, which contributed to an increase in insurance contract liabilities that more than offset the impact of fair value gains on fixed income investments in the Individual Insurance product line. Lower earnings in the Wealth Management and Employee Benefits product lines were primarily driven by less favourable expense and claims experience relative to the second quarter of 2018.

Consolidated net income for the first six months of 2019 was \$351 million, or \$87.38 per common share compared with \$174 million, or \$42.26 per common share in 2018. The increase in net income is primarily due to higher year to date net gains on investments within the E-L Corporate segment. E-L Corporate reported a net gain on investments of \$322 million for the first six months of 2019 compared to \$64 million in 2018. E-L Corporate's global investment portfolio had a pre-tax total return of 8% for the six months ended June 30, 2019 compared to a pre-tax total return of 3% in the prior year. Investments in Canada, U.S. and Europe were the largest contributors to the 2019 investment performance with a positive pre-tax total return of approximately 11%.

The Empire Life segment reported net income of \$63 million for the six months ended June 30, 2019 compared to \$96 million in 2018. The net income for 2019 decreased primarily due to the above mentioned items.

Consolidated comprehensive income for the second quarter of 2019 was \$54 million, or \$12.86 per common share compared to \$113 million, or \$27.67 per common share in 2018. Other comprehensive income ("OCI") for the second quarter of 2019 was \$12 million compared to \$5 million in 2018. The increase in OCI is primarily due to unrealized fair value gains on Empire Life's available for sale ("AFS") investments, partly offset by a loss on the remeasurement of post-employment defined benefit plan liabilities. The gain and loss on each of these components was primarily due to a combination of decreases in interest rates and favourable equity markets during the second quarter of 2019.

Consolidated comprehensive income for the first six months of 2019 was \$402 million, or \$100.43 per common share compared to \$169 million, or \$41.07 per common share in 2018. The increase is primarily due to the above mentioned items.



**Net equity value per common share**

Investments in Algoma and Economic are accounted for using the equity method and are not carried at fair value. Therefore, to provide an indication of the accumulated shareholder value, the following table adjusts shareholders' equity to reflect investments in associates at fair value:

<i>(millions of dollars, except per share amounts)</i>	<b>Q2 2019</b>	Q4 2018	Q2 2018
E-L Financial shareholders' equity	\$ <b>5,908</b>	\$ 5,523	\$ 5,704
Less: First preference shares	<b>(300)</b>	(300)	(300)
	<b>5,608</b>	5,223	5,404
Adjustments for investments in associates not carried at fair value:			
Carrying value	<b>(319)</b>	(335)	(334)
Fair value <sup>(1)</sup>	<b>331</b>	315	362
	<b>12</b>	(20)	28
Non-controlling interest and deferred tax	<b>(3)</b>	5	(6)
	<b>9</b>	(15)	22
Net equity value	\$ <b>5,617</b>	\$ 5,208	\$ 5,426
Common Shares <sup>(2)</sup> outstanding at period end	<b>4,019,667</b>	4,019,667	4,019,667
<b>Net equity value per common share<sup>(2) (3)</sup></b>	\$ <b>1,397.35</b>	\$ 1,295.65	\$ 1,349.93

<sup>(1)</sup> Based on quoted market prices

<sup>(2)</sup> Common Shares includes Series A Convertible Preference Shares

<sup>(3)</sup> See non-GAAP measures

**Growth in net equity value**

The Company's objective is to build long-term shareholder value by compounding growth in net equity value per common share over the long term. Set out below is a table that shows the net equity value per common share and growth for the respective fiscal periods. The growth in net equity value includes dividends paid to common shareholders.

<b>Annual</b>	<b>Net equity value*</b>	<b>Growth*</b>
	\$	%
2009	681.51	23.6
2010	747.28	9.7
2011	642.98	(13.9)
2012	740.49	15.2
2013	872.45	28.0
2014	970.65	11.3
2015	1,089.23	12.3
2016	1,159.26	6.8
2017	1,316.64	14.0
2018	1,295.65	(1.2)
<b>Year to date</b>		
June 30, 2019	1,397.35	8.0
<b>Compounded annual growth in net equity value*</b>		
2009 - 2018 - 10 years		9.7
1969 - 2018 - Since inception		12.4

\* This chart was drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

## Summary of quarterly results

The following table summarizes the quarterly results:

<i>(millions of dollars, except per share amounts)</i>	2019				2018		2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue								
Net gain (loss) on investments <sup>(1)</sup>	\$ 209	\$ 753	\$ (419)	\$ (112)	\$ 75	\$ (58)	\$ 527	\$ (240)
Net premium income	225	238	237	221	205	211	210	217
Investment and other income	200	168	175	175	199	158	173	158
Associates <sup>(2)</sup>	7	3	(5)	10	7	(3)	14	9
Total	\$ 641	\$ 1,162	\$ (12)	\$ 294	\$ 486	\$ 308	\$ 924	\$ 144
Net income (loss) <sup>(3)</sup>	\$ 42	\$ 309	\$ (238)	\$ 96	\$ 108	\$ 66	\$ 257	\$ 49
Earnings per common share								
- basic	\$ 9.70	\$ 77.68	\$ (61.62)	\$ 23.33	\$ 26.56	\$ 15.69	\$ 64.47	\$ 11.60
- diluted	\$ 9.70	\$ 71.45	\$ (61.62)	\$ 22.08	\$ 24.12	\$ 15.15	\$ 58.80	\$ 11.31

<sup>(1)</sup> Fair value change on FVTPL investments and realized gain (loss) on AFS investments

<sup>(2)</sup> Share of income (loss) of associates

<sup>(3)</sup> Attributable to shareholders

## Quarterly trend analysis

The consolidated revenue and consolidated net income of the Company are expected to fluctuate on a quarterly basis given its two segments. In particular, equity market movements, changes in interest rates, underwriting results, policy liability discount rates and policy reserve adjustments are likely to cause fluctuations. Investment income includes dividend income earned by the Company. In general, dividends earned on investments outside North America peak in the second and fourth quarters of the year.

Revenue for the second quarter of 2019 decreased from the prior quarter mainly due to the impact of lower net investment gains for both E-L Corporate and Empire Life. The decrease in net investment gains in the second quarter of 2019 is due to lower equity returns and the movements in long-term interest rates. The revenue for the second quarter of 2019 increased over the second quarter of 2018 primarily due to an increase in Empire Life's net investment gains. FVTPL investments experienced an increase in the quarter reflecting the significant decline in long-term interest rates throughout 2019 versus an increase in long-term interest rates for the same period in 2018. This change in revenue is more than offset by corresponding changes in the net change in insurance and investment contract liabilities in the expenses section of the results.

Net premiums for the second quarter of 2019 increased from the second quarter of 2018 primarily due to growth in fixed annuity premiums in the Wealth Management line. Net premiums for the second quarter of 2019 declined compared to the first quarter of 2019.

## Liquidity and cash flows

### Consolidated cash flows

The condensed cash flows of United and Empire Life, as well as E-L Financial non-consolidated and consolidated are presented below:

Six months ended June 30 (millions of dollars)	E-L Financial (non- consolidated)	United	Empire Life	Consolidation adjustments	E-L Financial Consolidated	
					2019	2018
Cash flows from:						
Operating activities	\$ 72	\$ (13)	\$ 175	\$ (50)	\$ 184	\$ 157
Financing activities	(20)	(20)	(48)	47	(41)	(346)
Investing activities	(33)	13	(140)	3	(157)	132
Increase (decrease) in cash and cash equivalents	19	(20)	(13)	—	(14)	(58)
Cash and cash equivalents, beginning of the period	75	53	205	—	333	339
Cash and cash equivalents, end of the period	\$ 94	\$ 33	\$ 192	\$ —	\$ 319	\$ 281

The increase in cash provided from operating activities in 2019 relative to 2018, reflects the increase in cash earnings during 2019 compared to the prior period, along with changes in working capital levels.

The increase in cash used for investing activities and lower cash used for financing activities in 2019 was primarily driven by Empire Life, with lower sales of securities relative to 2018 when a portion of the investment portfolio was sold to fund the redemption of \$300 million of subordinated debentures in May 2018.

## Non-consolidated cash flows of E-L Financial

E-L Financial's corporate cash flows from operating activities, before payment of dividends, are primarily comprised of dividends and interest received, less operating expenses and income taxes.

The following table details the non-consolidated cash flows of the Company on a direct basis, excluding the cash flows of the subsidiaries. This table has been prepared to assist the reader in isolating the cash flows of E-L Financial (non-consolidated).

**Six months ended June 30**

<i>(millions of dollars)</i>	<b>2019</b>	2018
Cash flows from:		
Operating activities		
Dividends from subsidiaries	\$ 45	\$ 29
Dividends and interest	43	45
Expenses and taxes, net of other income	(16)	(35)
	<b>72</b>	39
Financing activities		
Cash dividends	(18)	(18)
Margin loan	—	(10)
Interest paid on borrowings	(1)	(1)
Purchases of subsidiary shares	(1)	(1)
	<b>(20)</b>	(30)
Investing activities		
Purchases of investments	(263)	(277)
Proceeds from sales of investments	235	247
Net (purchases) sales of short-term investments	(17)	21
Dividends from associates	12	4
	<b>(33)</b>	(5)
Increase in cash and cash equivalents	19	4
Cash and cash equivalents, beginning of the period	75	25
Cash and cash equivalents, end of the period	<b>\$ 94</b>	<b>\$ 29</b>

For the six month period ended June 30, 2019, the non-consolidated cash flows of E-L Financial increased by \$65 million compared to 2018.

Operating cash flows for the second quarter of 2019 increased \$33 million over the prior year partly due to increases in dividends received from Empire Life and United and a reduction in income taxes paid in 2019. During the first quarter of 2017, for diversification reasons, E-L Financial re-allocated the assets managed from one of the global investment managers. This caused a higher investment portfolio turnover in 2017 compared to the 2019 and 2018 period, resulting in higher income taxes paid during 2018.

E-L Financial maintains sufficient liquidity through holding cash equivalents and a sufficient amount of marketable investments that may be sold, if necessary, to fund new investment opportunities and to meet any operating cash flow requirements.

**Analysis of business segments**

The remainder of this MD&A discusses the individual results of operations and financial condition of the Company's business segments: E-L Corporate and Empire Life.

**E-L CORPORATE**

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies, a limited partnership and other private companies.

Investments in Economic and Algoma are reported as investments in associates and are discussed below. Investments in equities and fixed income securities held directly by E-L Financial and through United are combined to form "Investments – corporate".

**Investments - corporate**

Investments - corporate includes investments in equities and short-term fixed-income investments. At June 30, 2019, investments - corporate had aggregate investments of \$4.9 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2018 of \$4.6 billion. The fair value of investments - corporate is summarized in the table below:

<i>(millions of dollars)</i>	<b>June 30 2019</b>	December 31 2018
Short-term investments	\$ 17	\$ —
Preferred shares	2	3
Common shares and units		
Canada and U.S.	2,688	2,464
Europe and United Kingdom	1,149	1,078
Emerging Markets	477	469
Japan	478	463
Other	137	119
Total	4,929	4,593
<b>Total invested assets</b>	<b>\$ 4,948</b>	<b>\$ 4,596</b>

The following table provides a summary of E-L Corporate's results:

<i>(millions of dollars)</i>	<b>Second quarter</b>		<b>Year to date</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
Revenue				
Net (loss) gain on investments	\$ (19)	\$ 42	\$ 322	\$ 64
Investment and other income	51	50	81	75
Share of associates income	7	7	9	5
	39	99	412	144
Operating expenses	9	9	18	18
Income taxes	7	17	55	22
Non-controlling interests	1	22	51	26
	17	48	124	66
<b>Net income</b>	<b>22</b>	<b>51</b>	<b>288</b>	<b>78</b>
Other comprehensive (loss) income, net of taxes	(4)	2	(8)	2
<b>Comprehensive income</b>	<b>\$ 18</b>	<b>\$ 53</b>	<b>\$ 280</b>	<b>\$ 80</b>

The decrease in E-L Corporate's net income for the second quarter of 2019 compared to the prior year is primarily due to a net loss on investments of \$19 million compared to a net gain of \$42 million for the same period in 2018. The pre-tax total return on investments for the second quarter of 2019 was 0% compared to 2% in the prior year. During the second quarter of 2019, foreign currency negatively impacted investment returns due to an appreciation of the Canadian dollar relative to most major currencies.

During the six months ended June 30, 2019, E-L Corporate had a net gain on investments of \$322 million compared to \$64 million for the comparable period in 2018 resulting in a positive pre-tax total return on investments of 8% in 2019 compared to 3% in the prior year. Investments in Canada, U.S. and Europe were the largest contributors to the 2019 year to date investment performance with a positive pre-tax total return of approximately 11%.

### Share of associates income

The details of E-L Corporate's share of income of associates are as follows:

<i>(millions of dollars)</i>	Second quarter		Year to date	
	2019	2018	2019	2018
Algoma	\$ 8	\$ 5	\$ —	\$ 3
Economic *	(1)	2	9	2
	\$ 7	\$ 7	\$ 9	\$ 5

\* Year to date includes a \$1.0 million impairment loss (June 30, 2018 - \$nil).

Algoma's net income for the second quarter of 2019 increased over 2018, primarily driven by higher earnings in the Product Tankers and Ocean Self-Unloaders business segments. These segments benefited from the addition of vessels and sustained customer demand.

For the six months ended June 30, 2019, Algoma's net earnings declined compared to the prior period mostly due to a seasonal net loss in the Domestic Dry-Bulk segment and losses in the Global Short Sea Shipping business segments.

Economic owns, directly and indirectly, long-term investments in the common shares of some publicly-traded Canadian companies, and a managed global investment portfolio of common shares of publicly-traded global companies.

Economic's global investment portfolio had a quarterly pre-tax total return, gross of fees, of 1% in the second quarter of 2019 versus a comparative return of 2% in the second quarter of 2018. On a year to date basis, Economic's global investment portfolio had a pre-tax return, gross of investment management fees, of 9% during 2019 compared to a 3% return in 2018.

<i>(millions of dollars)</i>	June 30, 2019			December 31, 2018	
	Ownership	Carrying value	Fair value	Carrying value	Fair value
Algoma	36.8%	\$ 176	\$ 188	\$ 199	\$ 179
Economic	24.0%	143	143	136	136
Total		\$ 319	\$ 331	\$ 335	\$ 315

Additional information relating to Algoma and Economic may be found on their respective profiles at [www.sedar.com](http://www.sedar.com).

### Risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance.

### Market risk

Market risk is the most significant risk impacting E-L Corporate as its investing activities are influenced by market price, foreign currency and interest rate risk. As the Company's investment portfolio is represented by Canadian and global equities, the value of its investments will vary from day to day depending on a number of market factors including economic conditions, global events, market news, and on the performance of the issuers of the securities in which the Company invests. Changes in foreign currency exchange rates will also affect the value of investments of non-Canadian dollar securities. As of June 30, 2019, 43% (December 31, 2018 - 42%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 11% (December 31, 2018 - 11%) in Euros and 10% (December 31, 2018 - 10%) in the Japanese Yen representing the largest foreign currency exposures. The Company also holds investments within emerging markets. Investments in emerging markets are more likely to experience political, economic and social instability, which may result in higher levels of market value volatility.

### Credit risk

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact the Company is included in the Annual Information Form which is available at [www.sedar.com](http://www.sedar.com). Disclosures regarding E-L Corporate's financial instruments, including financial risk management, are included in Notes 3, 5 and 9 to the consolidated financial statements.

### Outlook

The Company's future earning prospects are dependent on the successful management of its E-L Corporate portfolio and on the continued profitability of its insurance company subsidiary. The performance of the E-L Corporate portfolio is impacted by global securities markets and the selection of equity and fixed income investments. The Company continues to maintain its strategy of accumulating shareholder value through long-term capital appreciation and dividend and interest income.

## REPORT ON EMPIRE LIFE

Empire Life provides a broad range of life insurance and wealth management products, employee benefit plans and financial services to meet the needs of individuals, professionals and businesses through a network of Independent Financial Advisors (“IFA”), Managing General Agents (“MGA”), National Account firms, Mutual Fund Dealers and Employee Benefits brokers and representatives.

Empire Life reported second quarter common shareholders’ net income of \$20 million for 2019, compared to \$57 million for second quarter 2018. The decrease in earnings was primarily a result of unfavourable changes in bond yields, which contributed to an increase in insurance contract liabilities that more than offset the impact of fair value gains on fixed income investments in the Individual Insurance product line. Lower earnings in the Wealth Management and Employee Benefits product lines were primarily driven by less favourable expense and claims experience relative to the second quarter of 2018. Year to date common shareholder’s net income was \$63 million compared to \$96 million in 2018, primarily due to the above mentioned items.

Empire Life’s net income attributable to the owners of E-L Financial, after adjustment for non-controlling interests, is shown in the following table:

<i>(millions of dollars)</i>	Second quarter		Year to date	
	2019	2018	2019	2018
Empire Life common shareholders’ net income	\$ 20	\$ 57	\$ 63	\$ 96
Non-controlling interests	—	—	—	1
<b>Net income, contribution to E-L Financial</b>	<b>\$ 20</b>	<b>\$ 57</b>	<b>\$ 63</b>	<b>\$ 95</b>

<b>Empire Life return on common shareholders’ equity (quarterly annualized)</b>	<b>5.1%</b>	<b>15.6%</b>	<b>8.2%</b>	<b>13.2%</b>
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The following table provides a breakdown of the sources of earnings for the second quarter:

<i>(millions of dollars)</i>	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Expected profit on in-force business	\$ 27	\$ 31	\$ 6	\$ 5	\$ 12	\$ 16			\$ 46	\$ 52
Impact of new business	(3)	(2)	(6)	(1)	2	2			(6)	(1)
Experience gains (losses)	2	2	1	3	(16)	3			(13)	8
Management actions and changes in assumptions	—	—	—	—	(9)	10			(9)	10
Earnings (loss) on operations before income taxes	26	31	2	7	(10)	31	—	—	17	69
Earnings on surplus	—	—	—	—	—	—	12	11	12	11
Income (loss) before income tax	26	31	2	7	(10)	31	12	11	29	80
Income taxes	6	8	—	2	(4)	7	2	2	5	19
Empire Life’s shareholders’ net income (loss)	\$ 20	\$ 23	\$ 4	\$ 5	\$ (6)	\$ 24	\$ 10	\$ 9	\$ 24	\$ 61
Dividends on preferred shares <sup>(1)</sup>									(3)	(3)
<b>Empire Life common shareholders’ net income</b>									<b>\$ 20</b>	<b>\$ 57</b>



For the six months ended June 30	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>(millions of dollars)</i>										
Expected profit on in-force business	\$ 58	\$ 59	\$ 12	\$ 11	\$ 26	\$ 32			\$ 97	\$ 102
Impact of new business	(6)	(4)	(9)	(4)	7	4			(8)	(4)
Experience gains (losses)	1	1	4	12	(15)	(3)			(10)	10
Management actions and changes in assumptions	—	—	—	—	(10)	11			(10)	11
Earnings on operations before income taxes	54	56	7	19	8	44	—	—	70	119
Earnings on surplus	—	—	—	—	—	—	20	15	20	15
Income before income tax	54	56	7	19	8	44	20	15	90	134
Income taxes	13	14	2	5	—	9	4	3	19	31
Empire Life's shareholders' net income	\$ 41	\$ 42	\$ 6	\$ 14	\$ 8	\$ 34	\$ 16	\$ 12	\$ 70	\$ 103
Dividends on preferred shares <sup>(1)</sup>									(7)	(7)
<b>Empire Life common shareholders' net income</b>									<b>\$ 63</b>	<b>\$ 96</b>

<sup>(1)</sup> 2019 year includes \$2 million (2018 - \$1 million) preference share dividends to E-L Financial

The expected profit on in-force business for the second quarter decreased by 12% and 5% on a year to date basis, driven primarily by lower profit in the Individual Insurance product line and, to a lesser extent, by reduced margins on a lower asset base in the Wealth Management product line.

The impact of new business strain was greater in 2019 compared to 2018 mainly driven by the Employee Benefits product line and, to a lesser extent, in the Wealth Management product line. The impact of new business for the Individual Insurance product line was positive for each of the 2019 and 2018 periods. The impact of new business is positive when the present value of future profits from the new business exceeds the sum of the margins in the initial policy liabilities for that business plus the expenses incurred at the point of sale.

Experience gains for the second quarter of 2019 and year to date declined from 2018 primarily due to decreases in bond yields which contributed to an increase in policy liabilities that more than offset fair value gains on fixed income investments in the Individual Insurance product line, and less favourable claims experience in the Employee Benefits product line.

Management actions and changes in assumptions declined in the second quarter and year to date due to changes in the fixed income investment portfolio as part of management's ongoing activities to improve the matching of assets and liabilities in the Individual Insurance product line. Enhanced matching generates improved profitability when bond yields are higher, and reduced profitability when bond yields are relatively low.

Earnings on surplus increased for the quarter and year to date primarily due to higher income from invested assets in 2019 and lower interest expenses, partly offset by higher costs for Empire Life's hedging program.

## Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended June 30 and year to date for 2019 and 2018. A discussion of results is provided in the Product Line section of the MD&A.

Three months ended June 30 <i>(millions of dollars)</i>	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Revenue</b>										
Net premium	\$ 40	\$ 29	\$ 88	\$ 84	\$ 97	\$ 93	\$ —	\$ —	\$ 225	\$ 205
Fee income	63	63	3	3	—	—	—	—	66	66
Investment income	10	10	1	1	55	55	16	17	83	83
Net gains (losses) on investments <sup>(1)</sup>	4	(2)	3	—	221	35	—	(1)	228	33
	118	101	96	87	373	183	17	17	603	388
<b>Expenses</b>										
Benefits and expenses	91	70	93	78	381	153	4	6	568	307
Income and other taxes	6	8	3	4	(1)	9	3	2	11	23
	98	77	95	82	380	162	7	8	580	330
<b>Net income (loss) after tax</b>	\$ 20	\$ 23	\$ 1	\$ 5	\$ (8)	\$ 20	\$ 10	\$ 9	\$ 24	\$ 57
Participating policyholders' portion									—	(3)
Dividends on preferred shares									3	3
Empire Life's common shareholders' net income									20	57
Non-controlling interests in net income									—	—
Net income attributable to owners of E-L Financial									\$ 20	\$ 57

Six months ended June 30 <i>(millions of dollars)</i>	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Revenue</b>										
Net premium	\$ 94	\$ 61	\$ 177	\$ 169	\$ 193	\$ 186	\$ —	\$ —	\$ 463	\$ 416
Fee income	124	126	6	5	—	—	—	—	130	132
Investment income	20	19	2	2	103	97	32	32	158	151
Net gains (losses) on investments <sup>(1)</sup>	23	(7)	5	—	615	(36)	(4)	(4)	641	(47)
	261	200	190	176	911	248	29	28	1,391	652
<b>Expenses</b>										
Benefits and expenses	207	143	177	153	904	205	8	12	1,297	513
Income and other taxes	13	14	6	10	5	13	4	3	29	40
	220	157	184	162	908	219	12	15	1,324	553
<b>Net income after tax</b>	\$ 41	\$ 42	\$ 6	\$ 14	\$ 4	\$ 29	\$ 17	\$ 13	\$ 67	\$ 98
Participating policyholders' portion									(3)	(5)
Dividends on preferred shares									7	7
Empire Life's common shareholders' net income									63	96
Non-controlling interests in net income									—	1
Net income attributable to owners of E-L Financial									\$ 63	\$ 95

<sup>(1)</sup> Includes fair value change on FVTPL investments and realized gains on AFS investments

**Product Line Results - Wealth Management**

<b>Key Operating Results</b> <i>(millions of dollars)</i>	<b>Second quarter</b>		<b>Year to date</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Fixed Annuities</b>				
Assets under management	\$ 967	\$ 951	\$ 967	\$ 951
Gross sales	40	29	94	61
Net sales	8	4	12	(3)
<b>Segregated Funds</b>				
Assets under management	8,323	8,579	8,323	8,579
Gross sales	189	202	410	470
Net sales	(108)	(16)	(192)	(52)
Fee income	62	62	122	124
<b>Mutual Funds</b>				
Assets under management	147	171	147	171
Gross sales	2	3	5	9
Net sales	(6)	(7)	(13)	(15)
Fee income	1	1	1	1
<b>Net Premiums</b>	\$ 40	\$ 29	\$ 94	\$ 61
<b>Benefits and Expenses</b>	92	70	207	143
<b>Net income after tax</b>	\$ 20	\$ 23	\$ 41	\$ 42

Fixed annuities assets under management increased by 2% during the last 12 months. Gross sales in the second quarter were 38% higher, and 54% higher on a year to date basis compared to 2018, reflecting a shift in the market to guaranteed wealth products that often occurs after challenging and volatile equity markets.

Segregated fund assets under management are lower relative to the same period in 2018, partially reflecting the equity market volatility over the last 12 months as segregated fund assets declined near the end of 2018 and have partially rebounded in 2019. For the second quarter of 2019, gross sales were 6% lower than the same period in 2018 and 13% lower on a year to date basis. On November 12, 2018, Empire Life launched a new no load purchase option within the Guaranteed Investment Fund ("GIF") and Class Plus 3.0 product lines, and added four global fund options to Class Plus 3.0. The no load option gives clients full access to their investments without any surrender charges. On May 28, 2018, Empire Life introduced seven new global funds, a fee for service option and a preferred pricing program to provide clients with more global and lower cost investment options within the GIF product line of segregated funds.

Segregated fund fee income was stable in the second quarter and is slightly lower on a year to date basis, reflecting the decrease in average assets under management in 2019 relative to the same period in 2018.

Mutual fund assets under management decreased during the last 12 months due to lower mutual fund sales. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

During the second quarter, net income for this product line decreased by \$3 million and decreased by \$1 million on a year to date basis, driven primarily by increases in operating expenses.

**Product Line Results - Employee Benefits**

<b>Key Operating Results</b> <i>(millions of dollars)</i>	<b>Second quarter</b>		<b>Year to date</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Annualized premium sales	\$ 26	\$ 10	\$ 48	\$ 36
Net premiums	88	84	177	169
<b>Net income after tax</b>	<b>\$ 1</b>	<b>\$ 5</b>	<b>\$ 6</b>	<b>\$ 14</b>

Annualized premium sales were 160% higher in the second quarter and 33% higher on a year to date basis compared to the prior year, primarily due to a large block transfer from a new strategic distribution partner. In addition, Empire Life continues to increase sales of its core products in the small to medium sized business market. Empire Life continues to enter into strategic partnerships to expand market share.

Net premiums for the second quarter and year to date 2019 increased by 5% relative to the same periods in 2018. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Net income for the quarter and year to date decreased primarily due to less favourable claims experience across all benefit types compared to more favourable experience for health and long-term disability benefits for the corresponding period in 2018.

**Product Line Results - Individual Insurance**

<b>Key Operating Results</b> <i>(millions of dollars)</i>	<b>Second quarter</b>		<b>Year to date</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Shareholders'</b>				
Annualized premium sales	\$ 6	\$ 7	\$ 11	\$ 11
Net premiums	68	68	138	140
Net (loss) income after tax	(7)	24	8	34
<b>Policyholders'</b>				
Annualized premium sales	4	4	8	7
Net premiums	29	24	55	46
Net loss after tax	(1)	(4)	(4)	(5)
<b>Net (loss) income after tax</b>	<b>\$ (8)</b>	<b>\$ 20</b>	<b>\$ 4</b>	<b>\$ 29</b>

For the second quarter of 2019 shareholders' annualized premium sales declined slightly and were stable on a year to date basis compared to 2018, while policyholders' annualized premium sales were level for the second quarter and increased slightly on a year to date basis. Shareholders' total net premiums were stable in the second quarter and slightly lower on a year to date basis while policyholders' net premiums increased in the second quarter of 2019 and year to date compared to the same period in 2018, reflecting recent strength in policyholders' new premium sales. In November 2018, Empire Life introduced Guaranteed Life Protect, which offers customers guaranteed, lifetime coverage with no health or lifestyle questions asked.

Shareholders' net income for this product line declined to a net loss for the second quarter of 2019 and lower overall net income on a year to date basis. Bond market yields declined on a quarter and year to date basis. While the decline in yields increased the fair value gains on fixed income assets supporting insurance contract liabilities, these gains were more than offset by increases in the corresponding insurance contract liabilities, primarily contributing to the decline in net income relative to the same quarter and year to date period last year.

## Results - Capital and Surplus

Key Operating Results (millions of dollars)	Second quarter		Year to date	
	2019	2018	2019	2018
Income from investments	\$ 18	\$ 18	\$ 38	\$ 29
Losses on hedging instruments	(2)	(1)	(10)	(2)
Interest and other expenses	(4)	(6)	(8)	(12)
Earnings before income taxes	12	11	20	15
Income taxes	2	2	4	3
Net income after tax shareholders' portion	10	8	16	12
Net income after tax policyholders' portion	1	—	1	1
<b>Net income after tax</b>	<b>\$ 10</b>	<b>\$ 9</b>	<b>\$ 17</b>	<b>\$ 13</b>

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Shareholders' Capital and Surplus and to Policyholders' Surplus.

Income from investments in the second quarter of 2019 was consistent with 2018 levels. For the year to date higher yields on invested assets was the primary contributor to the increase over 2018. Losses on the hedging program (discussed in the Risk Management section) in the second quarter was generally in line with the same period in 2018. The higher losses experienced in the first quarter of 2019 accounted for the year to date variance compared with 2018. The decrease in interest expense was due to Empire Life's redemption of \$300 million of subordinated debentures in May 2018.

### Sources of capital

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth. Details of the Empire Life's outstanding subordinated debt and preferred shares are as follows:

Subordinated debentures (millions of dollars)	Date Issued	Earliest redemption date	Interest rate	Face amounts as at	
				June 30 2019	December 31 2018
Series 2016-1 <sup>(1)</sup>	Dec. 2016	December 16, 2021	3.383%	\$ 200	\$ 200
Series 2017-1 <sup>(2)</sup>	Sept. 2017	March 15, 2023	3.664%	\$ 200	\$ 200

<sup>(1)</sup> Unsecured Debentures due 2026. From December 16, 2021, interest is payable at 1.95% over the 3-month Canadian Deposit Offering Rate ("CDOR").

<sup>(2)</sup> Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

Preferred Shares (millions of dollars)	Date Issued	Earliest redemption date	Yield	Principal amounts as at	
				June 30 2019	December 31 2018
Preferred shares	January 2016	April 17, 2021	5.75%	\$ 150	\$ 150
Preferred shares	November 2017	January 17, 2023	4.90%	\$ 100	\$ 100

Empire Life's debentures and preferred shares are rated by DBRS Limited ("DBRS") and A.M. Best Company, Inc. ("A.M. Best").

Empire Life's DBRS issuer rating is "A" (sixth highest of 20 categories), its subordinated debt rating is "A (low)" (seventh highest of 20 categories), its financial strength rating is "A" (sixth highest of 22 categories) and its Preferred Share rating is Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life's position as a consistently performing life insurer with a proven track record of generating stable earnings while maintaining a conservative risk profile.

A.M. Best ratings of Empire Life are "A Excellent" financial strength rating (third highest of 16 categories), "a" long-term issuer credit rating (sixth highest of 21 categories), "bbb+" Subordinated Debt rating (eighth

highest of 21 categories), and “bbb” Preferred Share rating (ninth highest of 21 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's balance sheet strength, which A.M. Best categorizes as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

### Regulatory Capital

The Life Insurance Capital Adequacy Test (“LICAT”) is intended to improve the measurement of the life insurer’s solvency position by recognizing the long-term economics of the life insurance business. Empire Life had a strong capital position under MCCR and continues to have a strong capital position under the LICAT framework. Empire Life is required to maintain a minimum Core Ratio of 55% and a Total Ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total capital.

As of June 30, 2019, the Total Ratio and Core Ratio remained relatively unchanged from December 31, 2018.

LICAT (millions of dollars)	June 30 2019	March 31 2019	December 31 2018	September 30 2018	June 30 2018
<b>Available capital</b>					
Tier 1	\$ 1,549	\$ 1,507	\$ 1,476	\$ 1,526	\$ 1,513
Tier 2	674	692	653	608	614
Total	\$ 2,223	\$ 2,200	\$ 2,129	\$ 2,134	\$ 2,127
<b>Surplus allowance and eligible deposits</b>	\$ 937	\$ 921	\$ 887	\$ 1,001	\$ 1,005
<b>Base solvency buffer</b>	\$ 2,115	\$ 2,083	\$ 2,029	\$ 1,908	\$ 1,949
<b>LICAT Total Ratio</b>	<b>149%</b>	150%	149%	164%	161%
<b>LICAT Core Ratio</b>	<b>104%</b>	103%	103%	117%	114%

### Risk Management

#### Caution Related to Sensitivities

In the sections that follow, Empire Life provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on 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 can 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 Empire Life’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 Empire Life’s future net income, OCI, and capital sensitivities. Given the nature of these calculations, Empire Life cannot provide assurance that actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

#### Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. The Company has a semi-static hedging program. The hedging program may employ derivative positions including put options and futures. The extent of derivatives used is monitored and managed on an ongoing basis, giving consideration to equity risk and the level of available capital.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes but does not have policy liabilities on the statement of financial position related to segregated fund guarantees. Therefore, a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. During the second quarter and year to date of 2019, the Company's hedge costs were \$1.3 million and \$7.3 million after tax respectively. This compares to hedge costs of \$1 million and \$1 million for the same periods in 2018.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of June 30, 2019, Empire Life had \$8.3 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.0 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	<b>June 30 2019</b>	December 31 2018
<b>Percentage of segregated fund liabilities with:</b>		
75% maturity guarantee and a 75% death benefit guarantee	<b>3%</b>	3%
75% maturity guarantee and a 100% death benefit guarantee	<b>47%</b>	47%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	<b>7%</b>	7%
Guaranteed minimum withdrawal benefit ("GMWB")	<b>43%</b>	43%

All Empire Life segregated fund guarantees are policy-based (not deposit-based), thereby generally lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. Policy-based guarantees consider all of the deposits in the customer's policy (whether the fund value is below or above the guaranteed amount) to arrive at an overall net guarantee payment, whereas deposit-based guarantees consider only the deposits where the fund value is below the guaranteed amount and ignore all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, policy-based guarantees generally pay less than deposit-based guarantees. For segregated fund guarantee insurance contract liabilities, the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period-end stock markets are high relative to market levels at the time that segregated fund policies are issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies are issued, the sensitivity is increased.

The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e., negative liability amounts are not permitted so zero is used instead, as described below) and other regulatory constraints, which often makes the sensitivity impacts non-linear. The liabilities are the greater of: (i) the average of the amounts determined by averaging the results from adverse economic scenarios; and (ii) zero.

Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at June 30, 2019 and December 31, 2018, the sensitivity of Empire Life shareholders' net income and LICAT ratio resulting from stock market increases and decreases is provided in the following tables.

Sensitivity to equity risk Impact on net income ( <i>millions of dollars after tax</i> )	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>As at June 30, 2019</b>					
Segregated Fund Guarantees	\$ nil	\$ nil	\$ (9)	\$ (81)	\$ (219)
Other Equity Risk	33	15	(12)	(20)	(66)
Equity Hedge	(2)	(2)	5	16	39
<b>Total</b>	<b>\$ 31</b>	<b>\$ 14</b>	<b>\$ (17)</b>	<b>\$ (85)</b>	<b>\$ (246)</b>

As at December 31, 2018

Segregated Fund Guarantees	\$ 3	\$ 3	\$ (11)	\$ (129)	\$ (269)
Other Equity Risk	38	18	(15)	(46)	(118)
Equity Hedge	(6)	(4)	9	26	50
<b>Total</b>	<b>\$ 35</b>	<b>\$ 16</b>	<b>\$ (16)</b>	<b>\$ (150)</b>	<b>\$ (337)</b>

Sensitivity to equity risk Impact on LICAT	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>As at June 30, 2019</b>					
Segregated Fund Guarantees	3%	—%	(6)%	(14)%	(20)%
Other Equity Risk	—%	—%	—%	—%	(1)%
Equity Hedge	(1)%	(1)%	1%	3%	4%
<b>Total</b>	<b>1%</b>	<b>(1)%</b>	<b>(5)%</b>	<b>(11)%</b>	<b>(17)%</b>

As at December 31, 2018

Segregated Fund Guarantees	3%	—%	(10)%	(16)%	(22)%
Other Equity Risk	—%	(1)%	—%	—%	(2)%
Equity Hedge	(2)%	(1)%	1%	2%	3%
<b>Total</b>	<b>1%</b>	<b>(1)%</b>	<b>(9)%</b>	<b>(14)%</b>	<b>(21)%</b>

Empire Life's equity market sensitivity for segregated fund guarantees in a 20% and 30% stock market decline decreased primarily as a result of improved equity markets during the first half of 2019. The segregated fund guarantee liability became positive at December 31, 2018 after an equity market decline in the fourth quarter. This increased net income sensitivity as any changes to the liability when it is above the zero floor will flow through net income.

In 2019, the Company updated the methodology for calculating equity risk sensitivities. The new method refines the assumptions used in calculating the baseline LICAT equity requirements as at the reporting date. In the table above, figures presented for the impact of equity risk on LICAT as at December 31, 2018 are restated to conform with the updated methodology.

Empire Life also has a reinsurance agreement to cede a portion of Empire Life's segregated fund death benefit exposure. All Empire Life segregated fund policyholders with death benefit guarantees of at least \$2 million are included in this agreement. Empire Life does not reinsure any other insurer's segregated fund products.



The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees and the resulting policy liabilities and LICAT base solvency buffer for June 30, 2019 for Empire Life's segregated funds is provided in the following table:

Segregated Funds <i>(millions of dollars)</i>	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Policy Liabilities	LICAT Capital
	Fund Value	Amount at Risk	Fund Value	Amount at Risk	Fund Value	Amount at Risk		
June 30, 2019	\$ 2,671	\$ 838	\$ 127	\$ 4	\$ 1,777	\$ 24	\$ nil	\$ 448
December 31, 2018	\$ 2,689	\$ 1,057	\$ 301	\$ 24	\$ 3,789	\$ 165	\$ \$4	\$ 433

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at June 30, 2019, the aggregate amount at risk for all three categories of risk was \$866 million. At December 31, 2018, the aggregate amount at risk for these three categories of risk was \$1,246 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

The level of policy liabilities and required regulatory capital in the above table is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist on future payments to GMWB policyholders, or upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders.

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in assumed initial reinvestment rate ("IRR") for non-participating insurance business and segregated fund guarantees for June 30, 2019 and December 31, 2018, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR"). The AFS bonds provide a natural economic offset to the interest rate risk attributable to Empire Life's product liabilities.

Sensitivity to market interest rates LICAT:	Impact of 50 bps decrease
June 30, 2019 LICAT total ratio	(2)%
December 31, 2018 LICAT total ratio	(5)%

**E-L Financial Corporation Limited**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**UNAUDITED**  
**(in thousands of Canadian dollars)**

	June 30 2019	December 31 2018
<b>Assets</b>		
Cash and cash equivalents	\$ 319,142	\$ 332,558
Investments - corporate (Note 3)	4,948,291	4,596,188
Investments - insurance (Note 4)	8,979,921	8,073,649
Investments in associates (Note 5)	319,077	334,913
Insurance receivable	49,243	46,701
Other assets	149,291	140,636
Segregated fund assets (Note 7)	8,340,918	7,822,790
<b>Total assets</b>	<b>\$ 23,105,883</b>	<b>\$ 21,347,435</b>
<b>Liabilities</b>		
Reinsurance liabilities	867,753	788,801
Insurance contract liabilities	5,936,284	5,242,462
Investment contract liabilities	26,896	25,154
Deferred tax liabilities	231,635	198,356
Other liabilities	247,451	242,503
Borrowings	488,930	488,767
Segregated fund liabilities (Note 7)	8,340,918	7,822,790
<b>Total liabilities</b>	<b>\$ 16,139,867</b>	<b>\$ 14,808,833</b>
<b>Equity</b>		
Capital stock	\$ 372,388	\$ 372,388
Retained earnings	5,501,913	5,168,573
Accumulated other comprehensive income ("AOCI") (loss) ("AOCL")	33,580	(17,664)
<b>Total E-L Financial shareholders' equity</b>	<b>5,907,881</b>	<b>5,523,297</b>
Non-controlling interests in subsidiaries ("NCI")	1,020,915	979,142
Participating policyholders' interests ("PAR")	37,220	36,163
<b>Total equity</b>	<b>6,966,016</b>	<b>6,538,602</b>
<b>Total liabilities and equity</b>	<b>\$ 23,105,883</b>	<b>\$ 21,347,435</b>

**Approved by the Board**

Duncan N.R. Jackman, Director

James F. Billett, Director

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

**E-L Financial Corporation Limited**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**UNAUDITED**

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

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
<b>Revenue</b>				
Gross premiums	\$ 269,517	\$ 243,846	\$ 544,702	\$ 487,071
Premiums ceded to reinsurers	(44,217)	(38,610)	(81,516)	(70,844)
Net premiums	225,300	205,236	463,186	416,227
Investment and other income (Note 6)	200,030	199,374	368,824	357,294
Share of income of associates (Note 5)	6,562	7,315	9,346	4,724
Fair value change in fair value through profit or loss investments	203,659	73,340	956,482	17,699
Realized gain (loss) on available for sale investments (Note 4)	5,629	1,433	5,554	(577)
	<b>641,180</b>	<b>486,698</b>	<b>1,803,392</b>	<b>795,367</b>
<b>Expenses</b>				
Gross claims and benefits	465,454	248,097	1,075,416	392,272
Claims and benefits ceded to reinsurers	6,340	(32,226)	29,493	(61,988)
Net claims and benefits	471,794	215,871	1,104,909	330,284
Change in investment contracts provision	124	(120)	230	(29)
Commissions	49,239	46,176	97,944	93,756
Operating	52,814	47,541	103,946	94,933
Interest expense	4,187	6,661	8,323	13,074
Premium taxes	5,315	5,263	10,527	10,273
	<b>583,473</b>	<b>321,392</b>	<b>1,325,879</b>	<b>542,291</b>
<b>Income before income taxes</b>	<b>57,707</b>	<b>165,306</b>	<b>477,513</b>	<b>253,076</b>
<b>Income tax expense</b>	<b>11,385</b>	<b>34,587</b>	<b>71,720</b>	<b>50,571</b>
<b>Net income</b>	<b>46,322</b>	<b>130,719</b>	<b>405,793</b>	<b>202,505</b>
Less: Participating policyholders' income (loss)	104	(3,208)	(2,934)	(4,663)
Non-controlling interests in net income	4,246	25,731	57,822	33,456
	<b>4,350</b>	<b>22,523</b>	<b>54,888</b>	<b>28,793</b>
<b>E-L Financial shareholders' net income</b>	<b>\$ 41,972</b>	<b>\$ 108,196</b>	<b>\$ 350,905</b>	<b>\$ 173,712</b>
<b>Earnings per share attributable to E-L Financial shareholders</b>				
<b>Basic</b>	<b>\$ 9.70</b>	<b>\$ 26.56</b>	<b>\$ 87.38</b>	<b>\$ 42.26</b>
<b>Diluted</b>	<b>\$ 9.70</b>	<b>\$ 24.12</b>	<b>\$ 81.18</b>	<b>\$ 39.26</b>

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

**E-L Financial Corporation Limited**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**UNAUDITED**  
(in thousands of Canadian dollars)

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
<b>Net income</b>	<b>\$ 46,322</b>	<b>\$ 130,719</b>	<b>\$ 405,793</b>	<b>\$ 202,505</b>
<b>Other comprehensive income (“OCI”) (loss) (“OCL”), net of taxes (Note 8)</b>				
Items that may be reclassified subsequently to net income:				
Net unrealized fair value change on available for sale investments (“AFS”)	<b>22,671</b>	(2,468)	<b>69,720</b>	(9,249)
Share of (OCL) OCI of associates	<b>(2,547)</b>	1,308	<b>(5,465)</b>	2,645
	<b>20,124</b>	(1,160)	<b>64,255</b>	(6,604)
Items that will not be reclassified to net income:				
Net remeasurement of defined benefit plans	<b>(5,818)</b>	5,867	<b>(6,805)</b>	930
Share of (OCL) OCI of associates	<b>(1,977)</b>	608	<b>(2,831)</b>	215
	<b>(7,795)</b>	6,475	<b>(9,636)</b>	1,145
<b>Total OCI (OCL)</b>	<b>12,329</b>	5,315	<b>54,619</b>	(5,459)
<b>Comprehensive income</b>	<b>58,651</b>	136,034	<b>460,412</b>	197,046
Less: Participating policyholders' comprehensive income (loss)	<b>476</b>	(2,503)	<b>1,057</b>	(5,735)
Non-controlling interests in comprehensive income	<b>3,783</b>	25,990	<b>57,206</b>	33,755
	<b>4,259</b>	23,487	<b>58,263</b>	28,020
<b>E-L Financial shareholders' comprehensive income</b>	<b>\$ 54,392</b>	<b>\$ 112,547</b>	<b>\$ 402,149</b>	<b>\$ 169,026</b>

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

**E-L Financial Corporation Limited**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**UNAUDITED**  
**(in thousands of Canadian dollars)**

	E-L Financial shareholders' equity				NCI	PAR	Total equity
	Capital stock	Retained earnings	AOCI	Total			
At January 1, 2019	\$ 372,388	\$ 5,168,573	\$ (17,664)	\$ 5,523,297	\$ 979,142	\$ 36,163	\$ 6,538,602
Net income (loss)	—	350,905	—	350,905	57,822	(2,934)	405,793
OCI (OCL)	—	—	51,244	51,244	(616)	3,991	54,619
Comprehensive income	—	350,905	51,244	402,149	57,206	1,057	460,412
Dividends	—	(17,824)	—	(17,824)	(14,330)	—	(32,154)
Acquisition of subsidiary shares	—	259	—	259	(1,103)	—	(844)
At June 30, 2019	\$ 372,388	\$ 5,501,913	\$ 33,580	\$ 5,907,881	\$ 1,020,915	\$ 37,220	\$ 6,966,016

	E-L Financial shareholders' equity				NCI	PAR	Total equity
	Capital stock	Retained earnings	AOCI	Total			
At January 1, 2018	\$ 372,388	\$ 5,171,997	\$ 8,564	\$ 5,552,949	\$ 974,907	\$ 43,221	\$ 6,571,077
Net income (loss)	—	173,712	—	173,712	33,456	(4,663)	202,505
(OCL) OCI	—	—	(4,686)	(4,686)	299	(1,072)	(5,459)
Comprehensive income (loss)	—	173,712	(4,686)	169,026	33,755	(5,735)	197,046
Dividends	—	(17,824)	—	(17,824)	(12,702)	—	(30,526)
Acquisition of subsidiary shares	—	—	—	—	(754)	—	(754)
At June 30, 2018	\$ 372,388	\$ 5,327,885	\$ 3,878	\$ 5,704,151	\$ 995,206	\$ 37,486	\$ 6,736,843

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

**E-L Financial Corporation Limited**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**UNAUDITED**  
(in thousands of Canadian dollars)

	<b>Six months ended</b>	
	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Net inflow (outflow) of cash related to the following activities:</b>		
<b>Operating</b>		
Net income	\$ 405,793	\$ 202,505
Items not affecting cash resources:		
Change in insurance and investment contract liabilities	771,775	21,805
Realized (gain) loss on available for sale of investments	(5,554)	577
Fair value change in fair value through profit or loss investments	(956,482)	(17,699)
Deferred taxes	37,019	(858)
Share of income of associates	(9,346)	(4,724)
Amortization related to investments	(42,912)	(42,497)
Other items	20,034	17,083
	<b>220,327</b>	<b>176,192</b>
Net change in other assets and liabilities	<b>(35,882)</b>	<b>(19,680)</b>
	<b>184,445</b>	<b>156,512</b>
<b>Financing</b>		
Cash dividends to shareholders	(17,824)	(17,824)
Cash dividends by subsidiaries to non-controlling interests	(14,330)	(12,702)
Purchases of subsidiary shares	(844)	(754)
Repayment of margin loan	—	(10,000)
Redemption of subordinated debt	—	(300,000)
Interest paid on borrowings	(7,959)	(4,716)
	<b>(40,957)</b>	<b>(345,996)</b>
<b>Investing</b>		
Purchases of investments	(1,346,057)	(1,260,346)
Proceeds from sale or maturity of investments	1,205,906	1,293,486
Net (purchases) sales of short-term investments	(23,394)	92,916
Net (purchases) sales of other assets	(8,978)	1,228
Dividends from associates	15,619	4,574
	<b>(156,904)</b>	<b>131,858</b>
<b>Decrease in cash and cash equivalents</b>	<b>(13,416)</b>	<b>(57,626)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>332,558</b>	<b>338,989</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 319,142</b>	<b>\$ 281,363</b>
<b>Fair value hierarchy for cash and cash equivalents:</b>		
Level 1	\$ 77,370	\$ 37,267
Level 2	241,772	244,096
	<b>\$ 319,142</b>	<b>\$ 281,363</b>

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

## 1. Business operations

E-L Financial Corporation Limited (the “Company”) is an investment and insurance holding company, publicly traded on the Toronto Stock Exchange and incorporated under the laws of Ontario.

The head office, principal address and registered office of the Company is located at 165 University Avenue, Toronto, Ontario, M5H 3B8.

The interim condensed consolidated financial statements were approved by the Company’s Board of Directors on August 8, 2019.

## 2. Significant accounting policies

### (a) Basis of preparation

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) and follow the same accounting policies and methods as the most recent annual financial statements. These unaudited interim condensed 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) Accounting changes

#### i) New accounting pronouncements adopted in 2019

##### *IFRS 16 Leases*

The Company adopted IFRS 16 effective January 1, 2019. The 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 adoption of IFRS 16 on January 1, 2019 did not have a significant impact on the Company’s consolidated financial statements.

#### ii) New accounting pronouncements issued but not yet effective

##### *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 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 at 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 different solutions 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'. 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 fulfills 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.

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 Notes 3 and 4 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 has considered the total insurance liabilities, which include segregated fund liabilities, against total liabilities and have concluded that the Company meets both criteria noted above.

The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its consolidated financial statements.

#### *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.

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.

### 3. Investments – corporate

#### Invested assets

Investments – corporate includes the investments held at the corporate level of E-L Financial and the investment holdings of its subsidiary, United Corporations Limited (“United”).

The following table provides a comparison of carrying values by class of asset:

<b>Carrying value</b>	June 30 2019	December 31 2018
Short-term investments - Canadian corporate	\$ 16,508	\$ —
Preferred shares	1,733	2,631
Derivative asset	—	205
Common shares and units		
Canadian	709,084	673,593
U.S.	1,979,445	1,790,533
Europe and United Kingdom	1,149,137	1,077,867
Other	1,092,384	1,051,359
Total common shares and units	4,930,050	4,593,352
<b>Total</b>	<b>\$ 4,948,291</b>	<b>\$ 4,596,188</b>

The Company’s investment in common shares and units includes shares of public and private companies and units in pooled funds. As at June 30, 2019 and December 31, 2018 all of the invested assets have been designated FVTPL.

#### Investments – measured at fair value

The table below provides a comparison of the fair values by class of asset:

<b>Fair value</b>	As at June 30, 2019			
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Short-term investments - Canadian corporate	\$ —	\$ 16,508	\$ —	\$ 16,508
Preferred shares	675	—	1,058	1,733
Derivative asset	—	—	—	—
Common shares and units				
Canadian	26,527	78,839	603,718	709,084
U.S.	1,761,244	130,781	87,420	1,979,445
Europe and United Kingdom	993,310	70,148	85,679	1,149,137
Other	652,504	384,188	55,692	1,092,384
Total common shares and units	3,433,585	663,956	832,509	4,930,050
<b>Total</b>	<b>\$ 3,434,260</b>	<b>\$ 680,464</b>	<b>\$ 833,567</b>	<b>\$ 4,948,291</b>

Fair value	As at December 31, 2018			
	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Preferred shares	\$ —	\$ 1,573	\$ 1,058	\$ 2,631
Derivative asset	—	205	—	205
Common shares and units				
Canadian	34,979	63,917	574,697	673,593
U.S.	1,591,987	122,041	76,505	1,790,533
Europe and United Kingdom	938,276	57,278	82,313	1,077,867
Other	619,787	378,823	52,749	1,051,359
Total common shares and units	3,185,029	622,059	786,264	4,593,352
Total	\$ 3,185,029	\$ 623,837	\$ 787,322	\$ 4,596,188

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. Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. There were no transfers of financial instruments between Level 1, Level 2 or Level 3 for the period ended June 30, 2019 or during the year ended December 31, 2018. Included in Level 2 are the Company's investments in pooled funds and limited partnerships which at June 30, 2019 had a carrying value of \$663,956 (December 31, 2018 - \$622,059).

Included in Level 3 are investments in common and preferred shares in private companies. A summary of changes in the fair values of Level 3 financial instruments measured at FVTPL for the period:

	2019	2018
Balance - January 1	\$ 787,322	\$ 891,547
Net fair value change	46,245	(14,675)
Balance - June 30	\$ 833,567	\$ 876,872

#### Investment commitments

In the normal course of business, outstanding investment commitments are not reflected in the consolidated financial statements. As of June 30, 2019, the Company has \$85,871 (December 31, 2018 - \$51,840) in unfunded commitments for units in Canadian limited partnerships.

#### Derivative financial instrument

On November 1, 2017, the Company entered into an interest rate swap with a \$100,000 notional principal. The use of derivatives is measured in terms of notional principal amounts, which serve as the basis for calculating payments but is not the actual amount that is exchanged. At June 30, 2019 the fair value of the interest rate swap was a liability of \$1,602 (December 31, 2018 - asset of \$205).

For analysis of the Company's risks arising from financial instruments, refer to Note 9 – Risk management.

#### 4. Investments – insurance

##### The Empire Life Insurance Company (“Empire Life”) invested assets

The following table provides a comparison of carrying values by class of asset:

Carrying Value Asset category	As at June 30, 2019			As at 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
<b>Short-term investments</b>						
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
<b>Total short-term investments</b>	<b>34,845</b>	<b>—</b>	<b>34,845</b>	<b>23,970</b>	<b>3,989</b>	<b>27,959</b>
<b>Bonds</b>						
Federal government	129,280	205,069	334,349	89,389	184,088	273,477
Provincial governments	3,610,236	502,888	4,113,124	3,109,456	490,369	3,599,825
Municipal governments	106,728	95,761	202,489	97,472	77,965	175,437
<b>Total Canadian government bonds</b>	<b>3,846,244</b>	<b>803,718</b>	<b>4,649,962</b>	<b>3,296,317</b>	<b>752,422</b>	<b>4,048,739</b>
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
<b>Total Canadian corporate bonds</b>	<b>1,957,064</b>	<b>785,998</b>	<b>2,743,062</b>	<b>1,689,457</b>	<b>782,938</b>	<b>2,472,395</b>
<b>Total foreign bonds</b>	<b>10,147</b>	<b>—</b>	<b>10,147</b>	<b>8,946</b>	<b>—</b>	<b>8,946</b>
<b>Total bonds</b>	<b>5,813,455</b>	<b>1,589,716</b>	<b>7,403,171</b>	<b>4,994,720</b>	<b>1,535,360</b>	<b>6,530,080</b>
Preferred shares - Canadian	394,209	10,091	404,300	384,760	11,100	395,860
<b>Common shares</b>						
<b>Canadian</b>						
Common	575,909	56,959	632,868	553,337	51,813	605,150
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
<b>Total common shares</b>	<b>773,759</b>	<b>57,735</b>	<b>831,494</b>	<b>742,603</b>	<b>52,520</b>	<b>795,123</b>
Derivative assets	4,485	—	4,485	10,424	—	10,424
<b>Loans and receivables:</b>						
Mortgages	—	—	181,629	—	—	193,074
Loans on policies	—	—	53,508	—	—	51,949
Policy contract loans	—	—	66,489	—	—	69,180
<b>Total</b>	<b>\$ 7,020,753</b>	<b>\$ 1,657,542</b>	<b>\$ 8,979,921</b>	<b>\$ 6,156,477</b>	<b>\$ 1,602,969</b>	<b>\$ 8,073,649</b>

Empire Life investments – measured at fair value

The table below provides a comparison of the fair values by class of asset:

Fair value Asset category	As at June 30, 2019			As at December 31, 2018		
	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value
Short-term investments	\$ —	\$ 34,845	\$ 34,845	\$ —	\$ 27,959	\$ 27,959
Bonds	—	7,403,171	7,403,171	—	6,530,080	6,530,080
Preferred shares	404,300	—	404,300	395,860	—	395,860
Common shares	717,568	113,926	831,494	684,481	110,642	795,123
Derivative assets	4,485	—	4,485	9,760	664	10,424
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
<b>Total</b>	<b>\$ 1,126,353</b>	<b>\$ 7,860,058</b>	<b>\$ 8,986,411</b>	<b>\$ 1,090,101</b>	<b>\$ 6,983,865</b>	<b>\$ 8,073,966</b>

The fair value of mortgages has been calculated by discounting cash flows of each mortgage at a discount rate appropriate to its remaining term to maturity. The discount rates are determined based on regular competitive rate surveys. The fair values of loans on policies and policy contract loans approximates their carrying values, due to the life insurance contracts that secure them.

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers of financial instruments between Level 1, Level 2 or Level 3 during the period ended June 30, 2019 or during the year ended December 31, 2018.

Impairment

AFS investments

Based on an impairment review of the AFS investments at June 30, 2019, Empire Life reclassified a pre-tax loss of \$166 from OCI to net income due to write downs of impaired AFS common and preferred shares (June 30, 2018 - \$136). Impairment was assessed on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss.

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 commitment are payable at any time up to and including April 30, 2021.

### Empire Life 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.

	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
<b>Total</b>	<b>\$ 633,744</b>	<b>\$ 4,485</b>	<b>\$ 870</b>	<b>\$ 524,162</b>	<b>\$ 10,424</b>	<b>\$ 760</b>

All contracts mature in less than one year.

For analysis of the risks arising from financial instruments, refer to Note 9 – Risk management.

### 5. Investments in associates

The Company has two investments in associates, all of which are held within the E-L Corporate segment.

Algoma Central Corporation (“Algoma”) is incorporated in Canada and is listed on the Toronto Stock Exchange under the symbol “ALC”. Algoma owns and operates the largest Canadian flag fleet of dry and liquid bulk carriers operating on the Great Lakes - St. Lawrence Waterway.

Economic Investment Trust Limited (“Economic”) is a closed-end investment corporation incorporated in Canada and is listed on the Toronto Stock Exchange under the symbol “EVT”. Economic is an investment vehicle for long-term growth through investments in common equities.

	Ownership	June 30 2019		December 31 2018	
		Carrying value	Fair value	Carrying value	Fair value
Algoma	36.8%	\$ 176,239	\$ 188,074	\$ 199,288	\$ 179,307
Economic	24.0%	142,838	142,838	135,625	135,625
<b>Total</b>		<b>\$ 319,077</b>	<b>\$ 330,912</b>	<b>\$ 334,913</b>	<b>\$ 314,932</b>

The following table details the movement during the period:

	6 months	12 months
	June 30, 2019	December 31, 2018
Balance, beginning of the period	\$ 334,913	\$ 330,050
Income recorded in the statements of income:		
Share of income	10,305	16,169
Net impairment loss	(959)	(6,352)
	9,346	9,817
Share of other comprehensive (loss) income	(9,563)	3,258
	(217)	13,075
Dividends received during the period	(15,619)	(8,212)
<b>Balance, end of the period</b>	<b>\$ 319,077</b>	<b>\$ 334,913</b>

The Company's associates are measured using the equity method. As at June 30, 2019, the fair value of the investments in associates was \$330,912 (December 31, 2018 - \$314,932). Fair value is based on the close price for each investment multiplied by the corresponding number of common shares held.

Based on an impairment review of the investments in associates at June 30, 2019, an impairment loss of \$959 (June 30, 2018 - \$nil) on Economic has been recorded in net income. The recoverable amount was based on quoted market prices, which are classified as Level 1 in the fair value measurement hierarchy.

Summarized below are the assets, liabilities, revenue, net income and comprehensive income of the Company's associates.

	<b>Algoma</b>		<b>Economic</b>	
	June 30 2019	December 31 2018	June 30 2019	December 31 2018
Cash and cash equivalents	\$ 26,670	\$ 25,539	\$ 20,272	\$ 17,359
Other current assets	125,827	174,448	888,994	854,657
Non-current assets	1,073,474	911,906	—	—
	1,225,971	1,111,893	909,266	872,016
Current liabilities	250,412	75,301	860	2,860
Non-current liabilities	335,524	334,037	70,123	66,584
	585,936	409,338	70,983	69,444
<b>Net assets</b>	<b>\$ 640,035</b>	<b>\$ 702,555</b>	<b>\$ 838,283</b>	<b>\$ 802,572</b>

	<b>Algoma</b>		<b>Economic</b>	
	2019	2018	2019	2018
Revenue	\$ 231,022	\$ 199,930	\$ 53,483	\$ 11,851
Net (loss) income	\$ (687)	\$ 5,303	\$ 44,808	\$ 8,604
Other comprehensive (loss) income	(22,320)	8,986	—	—
<b>Total comprehensive (loss) income</b>	<b>\$ (23,007)</b>	<b>\$ 14,289</b>	<b>\$ 44,808</b>	<b>\$ 8,604</b>

At June 30, 2019 Algoma has commitments of \$57,021 (December 31, 2018 - \$47,747) mainly relating to the purchase of new vessels.

The Company received the following dividends during the period from the associates:

	<b>Algoma</b>		<b>Economic</b>		<b>Total</b>	
	2019	2018	2019	2018	2019	2018
Dividends received	\$ 13,435	\$ 2,687	\$ 2,184	\$ 1,887	\$ 15,619	\$ 4,574

## 6. Investment and other income

Investment and other income is comprised of the following:

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Interest income on:				
Available for sale	\$ 15,208	\$ 15,288	\$ 30,225	\$ 28,819
Fair value through profit or loss investments	51,372	51,076	98,069	91,865
Loans and receivables	2,954	4,109	7,120	8,340
Fee income	66,344	66,227	130,177	131,686
Dividend income	62,836	61,481	100,698	93,669
Other	1,316	1,193	2,535	2,915
<b>Total</b>	<b>\$ 200,030</b>	<b>\$ 199,374</b>	<b>\$ 368,824</b>	<b>\$ 357,294</b>

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Interest income received	\$ 50,994	\$ 49,479	\$ 85,564	\$ 90,748
Dividend income received	89,067	76,377	125,905	107,813
<b>Total</b>	<b>\$ 140,061</b>	<b>\$ 125,856</b>	<b>\$ 211,469</b>	<b>\$ 198,561</b>

## 7. Segregated funds

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

	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 assets	17,521	19,418
	8,408,428	7,883,214
Less segregated funds held within general fund investments	(67,510)	(60,424)
<b>Total</b>	<b>\$ 8,340,918</b>	<b>\$ 7,822,790</b>

b) The following table presents the investments of the segregated funds measured on a recurring basis at fair value classified by the fair value hierarchy:

	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
<b>Total</b>	<b>\$ 6,009,102</b>	<b>\$ 2,381,805</b>	<b>\$ 8,390,907</b>	<b>\$ 5,851,470</b>	<b>\$ 2,012,326</b>	<b>\$ 7,863,796</b>

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.

c) The following table presents the change in segregated funds:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Segregated funds - beginning of the 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 funds - end of the 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 Empire Life's estimated liability for those guarantees.

## 8. Other comprehensive income (loss)

The following table summarizes the changes in the components of OCI (OCL), net of tax:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Items that may be reclassified subsequently to net income:				
Net unrealized fair value change on AFS investments				
Unrealized fair value change on AFS investments	\$ 26,826	\$ (695)	\$ 73,830	\$ (8,410)
Less: Realized gain on AFS investments reclassified to net income	(4,155)	(1,773)	(4,110)	(839)
	22,671	(2,468)	69,720	(9,249)
Share of (OCL) OCI of associates	(2,547)	1,308	(5,465)	2,645
	20,124	(1,160)	64,255	(6,604)
Items that will not be reclassified to net income:				
Net remeasurement of defined benefit plans	(5,818)	5,867	(6,805)	930
Share of employee future benefits of associates	(1,977)	608	(2,831)	215
	(7,795)	6,475	(9,636)	1,145
OCI (OCL), net of tax	\$ 12,329	\$ 5,315	\$ 54,619	\$ (5,459)

OCI (OCL) is presented net of income taxes.



The following tax amounts are included in each component of OCI (OCL):

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Items that may be reclassified subsequently to net income:				
Net unrealized fair value change on AFS investments				
Unrealized fair value change on AFS investments	\$ 9,722	\$ (252)	\$ 26,852	\$ (3,069)
Less: Realized gain on AFS investments reclassified to net income	(1,472)	(539)	(1,444)	(131)
	8,250	(791)	25,408	(3,200)
Share of (OCL) OCI of associates	—	200	(835)	404
	8,250	(591)	24,573	(2,796)
Items that will not be reclassified to net income:				
Net remeasurement of defined benefit plans				
	(2,115)	2,136	(2,472)	343
Share of employee future benefits of associates				
	(302)	92	(432)	32
	(2,417)	2,228	(2,904)	375
Total income taxes recognized in OCI (OCL)	\$ 5,833	\$ 1,637	\$ 21,669	\$ (2,421)

## 9. Risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. The Company is exposed to financial risks arising from its investing activities. For investment risks, the Company is exposed to credit risk, liquidity risk and various market risks including interest rate risk, equity risk and foreign currency risk.

The disclosures in Notes 3, 4 and 5 provide the breakdown of investments by type and by geographic region based on the underlying risk. The fair values of these investments are inherently volatile and frequently change in value as a result of factors beyond the Company's control, including general economic and capital market conditions.

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. Given the nature of these calculations, the Company cannot provide assurance that actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

*Credit risk*

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes a financial loss to another party.

The gross credit risk exposure for the Company related to its financial instruments is as follows:

	June 30 2019	December 31 2018
Cash and cash equivalents	\$ 319,142	\$ 332,558
Short-term investments	51,353	27,959
Bonds	7,403,171	6,530,080
Preferred shares	406,033	398,491
Derivative assets	4,485	10,629
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	53,395	38,302
Insurance receivables	49,243	46,701
<b>Total</b>	<b>\$ 8,692,259</b>	<b>\$ 7,794,898</b>

The Company has securities lending agreements with its custodian. Under these agreements, 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 these securities lending agreements.

At June 30, 2019 the Company had loaned securities with a fair value of \$3,070,119 (December 31, 2018 - \$2,999,001) and received approximately \$3,157,262 (December 31, 2018 - \$3,081,416) in collateral.

### Concentration of credit risk

The following table discloses the holdings of fixed income securities in the ten issuers, excluding the federal governments, to which the operating segments had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds:

	E-L Corporate		Empire Life	
	June 30 2019	December 31 2018	June 30 2019	December 31 2018
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the operating segments had the greatest exposure	\$ 16,508	\$ —	\$ 4,719,887	\$ 4,248,837
Percentage of the segment's total cash and investments	0%	0%	52%	51%
Exposure to the largest single issuer of corporate bonds	nil	nil	\$ 197,877	\$ 181,684
Percentage of the segment's total cash and investments	0%	0%	2%	2%

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

#### a) Investments in bonds and debentures

Empire Life	June 30, 2019		December 31, 2018	
	Fair value	%	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%

#### b) Preferred shares

Empire Life's preferred share investments are all issued by Canadian companies with 1% (December 31, 2018 – 1%) of these investments rated as P1 as at June 30, 2019, 97% (December 31, 2018 – 99%) rated as P2 and the remaining 2% (December 31, 2018 - nil%) rated as P3.

#### c) Mortgages

Empire Life's 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.

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

#### E-L Corporate:

##### Composition of E-L Corporate's liquidity:

	June 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 127,377	\$ 127,637
Short-term investments	16,508	—
Total	\$ 143,885	\$ 127,637

Empire Life:

The following table provides bonds by contractual maturity (using the earliest contractual maturity date):

	June 30, 2019		December 31, 2018	
	Fair value	%	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%
<b>Total</b>	<b>\$ 7,403,171</b>	<b>100%</b>	<b>\$ 6,530,080</b>	<b>100%</b>

*Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. For the Company, the most significant market risks are interest rate risk, equity risk and foreign currency risk.

a) Interest rate risk

Empire Life

The following tables summarize the estimated immediate financial impact on shareholder's net income and OCI of a result of an immediate change in interest rates:

June 30, 2019	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
Shareholders' net income	\$ 11,430	\$ (12,578)	\$ 21,829	\$ (26,432)
Shareholders' OCI	\$ (44,696)	\$ 53,290	\$ (80,795)	\$ 115,177

  

June 30, 2018	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
Shareholders' net income	\$ 15,329	\$ (17,312)	\$ 29,231	\$ (36,479)
Shareholders' OCI	\$ (39,918)	\$ 47,084	\$ (72,669)	\$ 101,334

b) Equity risk

E-L Corporate

The following table summarizes the potential impact on E-L Corporate of a change in global equity markets. E-L Corporate used a 10% increase or decrease in equity markets as such a change is considered to be a reasonably possible change in equity markets based on historic results and is a useful comparator as it is commonly used. E-L Corporate used a 20% increase or decrease in its equity market sensitivity to illustrate that changes in equity markets in excess of 10% may result in both linear and non-linear impacts, and a 20% change in equity markets is a commonly used additional sensitivity factor.

The calculations below assume that all other variables are held constant and that all of E-L Corporate's equities move according to a one-to-one correlation with the equity markets.

	June 30, 2019		June 30, 2018	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Corporate Investments:				
Investments - corporate				
10% fluctuation	\$ 355,516	\$ nil	\$ 355,165	\$ nil
20% fluctuation	\$ 711,032	\$ nil	\$ 710,330	\$ nil
Investments in associates				
10% fluctuation	\$ 14,926	\$ nil	\$ 14,735	\$ nil
20% fluctuation	\$ 29,852	\$ nil	\$ 29,470	\$ nil

#### Empire Life

The following table summarizes the estimated potential impact on Empire Life of a change in global equity markets. Empire Life 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 Empire Life's 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 represent the impact on shareholders' net income, including segregated fund guarantees.

	June 30, 2019		June 30, 2018	
	Effect on shareholders' net income <sup>(1)</sup>	Effect on shareholders' OCI	Effect on shareholders' net income <sup>(1)</sup>	Effect on shareholders' OCI
Empire Life				
10% increase	\$ 13,635	\$ 2,798	\$ 21,600	\$ 2,756
10% decrease	\$ (16,880)	\$ (2,798)	\$ (15,659)	\$ (2,756)
20% increase	\$ 31,067	\$ 5,597	\$ 46,213	\$ 5,512
20% decrease	\$ (84,750)	\$ (5,597)	\$ (104,336)	\$ (5,512)

<sup>(1)</sup> Includes the estimated impact on fee income net of trailer commissions after tax for a three month period.

#### Concentration of common equity holdings

E-L Corporate's largest exposure to common equities relates to its investment in associates of \$319,077 (December 31, 2018 – \$334,913) which represents 6% (December 31, 2018 – 6%) of E-L Corporate's total assets.

The following table identifies the concentration of common equity holdings within investments - insurance:

	June 30 2019	December 31 2018
Empire Life		
Exposure to the ten largest common share holdings	\$ 364,261	\$ 352,369
As a percentage of the segment's total cash and investments	4%	4%
Exposure to the largest single issuer of common shares	\$ 113,538	\$ 110,324
As a percentage of the segment's total cash and investments	1%	1%

c) Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and create an adverse effect on earnings and equity when measured in the Company's functional currency.

A 10% fluctuation in the U.S. dollar would have the following impact:

E-L Corporate: Approximately \$150,298 (June 30, 2018 – \$151,450) on shareholders' net income and \$9,986 (June 30, 2018 – \$6,150) on other comprehensive income.

Empire Life: Approximately \$nil (June 30, 2018 – \$nil) on shareholders' net income and \$nil (June 30, 2018 – \$nil) on other comprehensive income.

**10. Operating segments**

In managing its investments, the Company distinguishes between E-L Corporate and its investment in Empire Life. The Company's E-L Corporate segment includes United, the Company's closed-end investment subsidiary, investments in associates and investments - corporate. Empire Life underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products.

The following is an analysis of significant items of profit and loss by operating segment, operating segment assets and operating segment liabilities, reconciled to the Company's consolidated financial statements. The accounting policies applied by the operating segments are the same as those for the Company as a whole.

Three months ended	E-L Corporate	Empire Life	Total
<b>June 30, 2019</b>			
Revenue	\$ 37,833	\$ 603,347	\$ 641,180
Shareholders' net income	\$ 21,942	\$ 20,030	\$ 41,972
<b>June 30, 2018</b>			
Revenue	\$ 98,926	\$ 387,772	\$ 486,698
Shareholders' net income	\$ 51,325	\$ 56,871	\$ 108,196
<b>Six months ended</b>			
<b>June 30, 2019</b>			
Revenue	\$ 412,029	\$ 1,391,363	\$ 1,803,392
Shareholders' net income	\$ 288,222	\$ 62,683	\$ 350,905
<b>June 30, 2018</b>			
Revenue	\$ 143,809	\$ 651,558	\$ 795,367
Shareholders' net income	\$ 78,393	\$ 95,319	\$ 173,712
<hr/>			
	E-L Corporate	Empire Life	Total
<b>June 30, 2019</b>			
Segment assets <sup>(1)</sup>	\$ 5,428,768	\$ 17,677,115	\$ 23,105,883
Segment liabilities	\$ 334,889	\$ 15,804,979	\$ 16,139,867
<b>December 31, 2018</b>			
Segment assets <sup>(1)</sup>	\$ 5,077,738	\$ 16,269,697	\$ 21,347,435
Segment liabilities	\$ 321,852	\$ 14,486,981	\$ 14,808,833

<sup>(1)</sup> Segment assets for E-L Corporate include investments in associates of \$319,077 (December 31, 2018 - \$334,913).

## **11. Subordinated debt**

On May 31, 2018, Empire Life 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.

## **12. Capital management**

Empire Life 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, Empire Life’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, Empire Life was in compliance with these ratios.

## Glossary of Terms

### **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 the Company's share of AOCI from its associates. These items have been recognized in comprehensive income, but excluded from net income.

### **Active Market**

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

### **Available For Sale (“AFS”) Financial Assets**

Non-derivative financial assets that are designated as available for sale or that are not classified as loans and receivables, held to maturity investments, or held for trading.

### **Canadian Asset Liability Method (“CALM”)**

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

### **Canadian Institute of Actuaries (“CIA”)**

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

### **Canadian Life and Health Insurance Association (“CLHIA”)**

The 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.



**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.

**Impact of 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.

**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”) Loss (“OCL”)**

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as OCI or 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 (“PAR”)**

The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. Empire Life 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. Quarterly and year to date returns are calculated on an annualized basis.

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STOCK EXCHANGE LISTINGS:

Common Shares	ELF
First Preference Shares, Series 1	ELF.PR.F
First Preference Shares, Series 2	ELF.PR.G
First Preference Shares, Series 3	ELF.PR.H

WEBSITE:

[www.e-lfinancial.ca](http://www.e-lfinancial.ca)

REPORTING PROCEDURE FOR ACCOUNTING MATTERS

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

Mr. James Billett  
E-L Financial Corporation Limited  
165 University Avenue, 10th Floor  
Toronto, Ontario  
M5H 3B8  
Email: [jfbillett@rogers.com](mailto:jfbillett@rogers.com)  
Phone: 416-284-6440

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 or auditing matters.



