

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

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 third quarter of 2017 should be read in conjunction with the MD&A for the year ended December 31, 2016, 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 2016 and the previous quarters of 2017. 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 MD&A may differ due to rounding.

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 ("Adjusted Common Shares").

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 8.

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 annualized premium sales, assets under management, mutual fund gross and net sales, segregated fund gross and net sales and sources of earnings. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

Annualized premium sales is 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. The Company believes that these measures provide useful information to its shareholders in evaluating Empire Life's underlying financial results.

Sources of earnings breaks 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. These terms are defined in the Glossary of Terms found at the end of this report. The sources of earnings components are reconciled to net income on page 14.

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. The Company believes that these measures provide useful information to its shareholders 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:

(in millions of dollars)	<b>September 30 2017</b>	December 31 2016	September 30 2016
General fund assets	<b>\$ 8,257.1</b>	\$ 7,780.2	\$ 7,918.7
Segregated fund assets	<b>8,379.7</b>	8,082.0	7,823.1
Total Empire Life assets	<b>16,636.8</b>	15,862.2	15,741.8
Mutual fund assets	<b>180.7</b>	188.9	187.7
Total assets under management	<b>\$ 16,817.5</b>	\$ 16,051.1	\$ 15,929.5

## 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 51.9% 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 including a 36.3% 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 (99.2% 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 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**

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

<b>E-L Financial consolidated</b> <i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Contribution to net income				
E-L Corporate <sup>(1)</sup>	\$ 10.6	\$ 153.5	\$ 289.3	\$ 133.8
Empire Life <sup>(2)</sup>	38.8	37.8	121.7	99.3
Net income	49.4	191.3	411.0	233.1
Other comprehensive (loss) income <sup>(2)</sup>	(20.1)	12.2	(53.1)	(6.6)
<b>Comprehensive income</b>	<b>\$ 29.3</b>	<b>\$ 203.5</b>	<b>\$ 357.9</b>	<b>\$ 226.5</b>

<b>E-L Corporate</b> <i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>				
Net (loss) gain on investments <sup>(3)</sup>	\$ (25.0)	\$ 177.4	\$ 287.1	\$ 89.9
Investment and other income	25.4	22.1	91.5	84.6
Share of associates income	9.4	16.9	22.3	19.2
	9.8	216.4	400.9	193.7
<b>Expenses</b>				
Operating	6.4	6.0	20.0	18.1
Income taxes	1.2	28.3	54.7	23.9
Non-controlling interests	(8.4)	28.6	36.9	17.9
	(0.8)	62.9	111.6	59.9
<b>Net income</b>	<b>10.6</b>	<b>153.5</b>	<b>289.3</b>	<b>133.8</b>
Other comprehensive (loss) income, net of taxes <sup>(1)</sup>	(2.3)	1.1	(43.7)	(24.0)
<b>Comprehensive income</b>	<b>\$ 8.3</b>	<b>\$ 154.6</b>	<b>\$ 245.6</b>	<b>\$ 109.8</b>

<b>Empire Life</b> <i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>				
Net premiums	\$ 217.4	\$ 218.7	\$ 624.2	\$ 659.0
Net (loss) gain on investments <sup>(3)</sup>	(214.9)	115.1	32.9	418.1
Investment income	69.8	60.0	204.0	186.2
Fee income	62.2	59.1	186.7	170.1
	134.5	452.9	1,047.8	1,433.4
<b>Expenses</b>				
Benefits and expenses	78.0	392.2	875.6	1,280.8
Income and other taxes	17.0	18.4	50.0	47.3
Non-controlling and participating policyholders' interests	0.7	4.5	0.5	6.0
	95.7	415.1	926.1	1,334.1
<b>Net income</b>	<b>38.8</b>	<b>37.8</b>	<b>121.7</b>	<b>99.3</b>
Other comprehensive (loss) income, net of taxes <sup>(2)</sup>	(17.8)	11.1	(9.4)	17.4
<b>Comprehensive income</b>	<b>\$ 21.0</b>	<b>\$ 48.9</b>	<b>\$ 112.3</b>	<b>\$ 116.7</b>

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

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

<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 \$49.4 million or \$11.60 per share for the third quarter of 2017 compared to \$191.3 million or \$47.72 per share in 2016. The decrease in net income is primarily due to E-L Corporate's net fair value losses on the global investment portfolio of \$25.0 million compared to a net gain of \$177.4 million in 2016. The global investment portfolio for the third quarter of 2017 yielded a pre-tax total return of nil for the quarter compared to 4% in the prior period. The nil return for the third quarter of 2017 is primarily attributable to the impact of the strengthening of the Canadian dollar on the global investment portfolio which offset total investment returns.

Empire Life reported net income of \$38.8 million in the third quarter of 2017 compared to \$37.8 million for the comparable period in 2016. The increase in earnings for the third quarter of 2017 compared to 2016 is primarily as a result of improved operating results in the Employee Benefits product line and lower hedge costs, partially offset by lower gains in the Individual Insurance product line.

Consolidated net income for the first nine months of 2017 was \$411.0 million or \$101.70 per share compared with \$233.1 million or \$56.38 per share in 2016. The increase in net income is due to E-L Corporate's net gain on investments of \$287.1 million compared to \$89.9 million in 2016. E-L Corporate's global investment portfolio was positively impacted by the performance of foreign equity markets with a year to date total return on the global investment portfolio of 8% compared to 3% in the prior year.

Empire Life reported net income of \$121.7 million for the first nine months of 2017 compared to \$99.3 million for the comparable period in 2016. The increase in net income was primarily due to the above mentioned items and improved operating results in the Wealth Management product line.

Consolidated comprehensive income for the third quarter of 2017 was \$29.3 million or \$6.47 per share compared to \$203.5 million or \$50.84 per share in 2016. Consolidated comprehensive income for the first nine months of 2017 was \$357.9 million or \$88.17 per share compared to \$226.5 million or \$54.70 per share in 2016. The movement in comprehensive income for both the quarter and year to date is mainly due to the reasons noted above.

On November 1, 2017 E-L Financial entered into \$100 million secured loan with the brokerage firm of a Canadian chartered bank. The proceeds from the loan were used to fund the Company's investment in preferred shares of Empire Life.

## Net equity value per share

Under IFRS, 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>	Q3 2017	Q4 2016	Q3 2016
E-L Financial shareholders' equity	\$ 5,285.4	\$ 4,954.2	\$ 4,872.5
Less: First preference shares	(300.0)	(300.0)	(300.0)
	<b>4,985.4</b>	4,654.2	4,572.5
Adjustments for investments in associates not carried at fair value:			
Carrying value	(316.1)	(309.6)	(330.6)
Fair value <sup>(1)</sup>	<b>327.5</b>	316.1	296.5
	<b>11.4</b>	6.5	(34.1)
Non-controlling interest and deferred tax	(1.0)	(0.9)	13.1
	<b>10.4</b>	5.6	(21.0)
Net equity value	\$ <b>4,995.8</b>	\$ 4,659.8	\$ 4,551.5
Common Shares <sup>(2)</sup> outstanding at year end	<b>4,019,667</b>	4,019,667	4,019,667
Net equity value per Common Share <sup>(2)</sup>	\$ <b>1,242.85</b>	\$ 1,159.26	\$ 1,132.28

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

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

## 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.

Annual	Net equity value*	Growth*
	\$	%
2007	671.81	12.7
2008	551.59	(17.8)
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
<b>Year to date</b>		
<b>September 30, 2017</b>	<b>1,242.85</b>	<b>7.5</b>
<b>Compounded annual growth in net equity value*</b>		
2007 - 2016 - 10 years		7.6
1969 - 2016 - Since inception		12.5

\* 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:

(millions of dollars, except per share amounts)	2017				2016			2015	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Revenue									
Net gain (loss) on investments <sup>(1)</sup>	\$ (239.9)	\$ 208.7	\$ 351.2	\$ (308.4)	\$ 292.4	\$ 298.7	\$ (83.2)	\$ 331.8	
Net premium income	217.4	204.4	202.5	222.4	218.7	210.6	229.8	206.3	
Investment and other income	157.5	174.6	150.1	150.0	141.2	158.7	141.0	148.7	
Associates <sup>(2)</sup>	9.4	12.1	0.7	(31.3)	16.9	8.6	(6.3)	7.3	
<b>Total</b>	<b>\$ 144.4</b>	<b>\$ 599.8</b>	<b>\$ 704.5</b>	<b>\$ 32.7</b>	<b>\$ 669.2</b>	<b>\$ 676.6</b>	<b>\$ 281.3</b>	<b>\$ 694.1</b>	
Net income (loss) <sup>(3)</sup>	\$ 49.4	\$ 97.5	\$ 264.1	\$ 100.0	\$ 191.3	\$ 103.2	\$ (61.4)	\$ 207.7	
Earnings (loss) per common share									
- basic	\$ 11.60	\$ 23.84	\$ 66.26	\$ 24.49	\$ 47.72	\$ 25.28	\$ (16.62)	\$ 51.90	
- diluted	\$ 11.31	\$ 22.30	\$ 60.41	\$ 22.77	\$ 43.52	\$ 23.48	\$ (16.62)	\$ 47.29	

<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.

Revenue for the third quarter of 2017 decreased from both the prior quarter of 2017 and the third quarter of 2016 partly due to the impact of lower net fair value investment gains for E-L Corporate and Empire Life. The decrease in E-L Corporate's net investment gains compared to the second quarter of 2017 and third quarter of 2016 is primarily due to the impact of foreign exchange movements. Empire Life reported lower net gains on investments for the third quarter of 2017 compared to 2016, primarily due to the impact of market interest rate and stock market movements on FVTPL investments.

Net premium income increased for the quarter and remained consistent with the third quarter of 2016. The increase in premium income for the quarter is due to higher sales of investment products.

## Liquidity and capital resources

### Consolidated cash flows

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

Nine months ended September 30 (millions of dollars)	E-L Financial (non-consolidated)	United	Empire Life	Consolidation adjustments	E-L Financial	
					2017	2016
Cash flows from:						
Operating activities	\$ 50.6	\$ 10.8	\$ 241.2	\$ (12.1)	\$ 290.5	\$ 251.2
Financing activities	(28.1)	(23.7)	185.2	12.1	145.5	104.0
Investing activities	(24.5)	7.5	(428.4)	—	(445.3)	(415.1)
Decrease in cash and cash equivalents	(2.0)	(5.4)	(2.0)	—	(9.3)	(59.9)
Cash and cash equivalents, at the beginning of the period	31.9	19.2	368.9	—	419.9	306.6
Cash and cash equivalents, at the end of the period	\$ 29.9	\$ 13.8	\$ 366.9	\$ —	\$ 410.6	\$ 246.7

The increase in cash provided from operating activities in 2017 relative to 2016 reflects the increase in cash earnings during the first nine months of 2017 compared to the prior year along with changes in working capital levels.

The increase in financing activity cash flows during 2017 relative to 2016 was primarily due to Empire Life's issuance of \$199.3 million of subordinated debt in the third quarter of 2017. In the first quarter of 2016, Empire Life issued \$149.5 million of preferred shares.

The change in cash from investing activities during 2017 relative to 2016 was primarily driven by the timing of portfolio investment transactions and the investment of proceeds from Empire Life's issuance of \$199.3 million of subordinated debt compared to the issuance of \$149.5 million of preferred shares in the first quarter 2016.

#### 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).

#### Nine months ended September 30

<i>(millions of dollars)</i>	<b>2017</b>	2016
Cash flows from:		
Operating activities		
Dividends from subsidiaries and associates	\$ 17.6	\$ 16.1
Dividends and interest	50.5	45.6
Expenses and taxes, net of other income	(17.5)	(27.0)
	<b>50.6</b>	34.7
Financing activities		
Cash dividends	(26.7)	(22.2)
Purchases of subsidiary shares	(1.4)	—
	<b>(28.1)</b>	(22.2)
Investing activities		
Purchases of investments	(1,014.6)	(312.9)
Proceeds from sales of investments	946.9	291.9
Net sales (purchases) of short-term investments	43.2	(19.6)
	<b>(24.5)</b>	(40.6)
Decrease in cash and cash equivalents	(2.0)	(28.1)
Cash and cash equivalents, at the beginning of the period	31.9	86.9
Cash and cash equivalents, at the end of the period	\$ 29.9	\$ 58.8

Operating cash flows for the first nine months of 2017 increased relative to the prior period reflecting changes in working capital.

On March 2, 2016, the Board of Directors approved a change to the Company's dividend policy, increasing its quarterly dividend to \$1.25 per Common Share from \$0.125 per share.

During the first quarter of 2017, for diversification reasons, E-L Financial reallocated the assets managed by one of the global investment managers. This resulted in higher investment portfolio turnover.

E-L Financial maintains sufficient liquidity through holding short-term investments, cash equivalents and high quality 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 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".

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

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
<b>Revenue</b>				
Net (loss) gain on investments	\$ (25.0)	\$ 177.4	\$ 287.1	\$ 89.9
Investment and other income	25.4	22.1	91.5	84.6
Share of associates income	9.4	16.9	22.3	19.2
	<b>9.8</b>	<b>216.4</b>	<b>400.9</b>	<b>193.7</b>
<b>Expenses</b>				
Operating	6.4	6.0	20.0	18.1
Income taxes	1.2	28.3	54.7	23.9
Non-controlling interests	(8.4)	28.6	36.9	17.9
	<b>(0.8)</b>	<b>62.9</b>	<b>111.6</b>	<b>59.9</b>
<b>Net income</b>				
Other comprehensive (loss) income, net of taxes	(2.3)	1.1	(43.7)	(24.0)
<b>Comprehensive income</b>	<b>\$ 8.3</b>	<b>\$ 154.6</b>	<b>\$ 245.6</b>	<b>\$ 109.8</b>

**Investments - corporate**

Investments - corporate includes investments in equities and short-term fixed-income investments. At September 30, 2017, investments - corporate had aggregate investments of \$4.6 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2016 of \$4.3 billion. The fair value of investments - corporate is summarized in the table below:

<i>(millions of dollars)</i>	September 30 2017	December 31 2016
Short-term investments	\$ 22.3	\$ 65.6
Preferred shares	1.1	1.1
Common shares and units		
Canadian and U.S.	2,637.7	2,776.8
Europe	1,043.9	929.0
Other *	896.7	569.2
Total	<b>4,578.3</b>	<b>4,275.0</b>
Total invested assets	<b>\$ 4,601.7</b>	<b>\$ 4,341.7</b>

\* Other investments includes equities and investment funds with exposure to Emerging Markets of \$408,690 (December 31, 2016 - \$145,131) and Japan of \$405,982 (December 31, 2016 - \$367,736).

The decrease in E-L Corporate's net income for the third quarter of 2017 is attributable to lower net fair value investment gains on the global investment portfolio. For the third quarter of 2017, E-L Corporate had net fair value losses on the global investments portfolio of \$25.0 million compared to net gains of \$177.4 million for the same period in 2016, resulting in a pre-tax return on investments of approximately nil in 2017 compared to 4% in the prior year.

During the nine months ended September 30, 2017, E-L Corporate had net gain on investments of \$287.1 million compared with \$89.9 million for the comparable period in 2016, resulting in a positive pre-tax return on investments of approximately 8% in 2017 compared to 3% in the prior year. This difference can primarily be attributed to the strong equity market performance during the nine months ended September 30, 2017 relative to the same period in the prior year.

The following table details the nine month return on investments by geographic region:

	<b>Investment return</b>
	%
Canada and U.S.	5
Europe	14
Other	12

Key contributors to the Other geographic region's investment returns included investments in Asia and emerging markets.

### Share of associates income

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

<i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Algoma	\$ 11.9	\$ 13.1	\$ 15.8	\$ 16.3
Economic	<b>(2.5)</b>	3.7	<b>6.5</b>	2.8
	<b>\$ 9.4</b>	\$ 16.8	<b>\$ 22.3</b>	\$ 19.1

Algoma's earnings for the third quarter of 2016 included net gains on shipbuilding contracts. Excluding the gains, the net income in 2017 increased 19% compared to the third quarter of 2016 mainly due to the net earnings increase in the Domestic Dry-Bulk segment. On a year to date basis, net income for 2017 includes a gain on the sale of properties and the 2016 net income includes gains from the cancellation of shipbuilding contracts. Excluding these items, the 2017 year to date results shows significant improvement over 2016. The improvements in earnings in the Domestic Dry-Bulk segment were more than sufficient to offset decreases in the Ocean Self-unloaders and Product Tanker segments.

The Company's share of Economic's net income for the third quarter of 2017 decreased over the prior year as a result of a strengthening in the Canadian dollar in 2017. Economic's global investment portfolio had a quarterly pre-tax return, gross of fees, of negative 2.6% in the third quarter of 2017 compared to a return of 4.3% for the same period in 2016. On a year to date basis, Economic's global investment portfolio had a pre-tax return, gross of fees, of 4.1% during 2017 compared to a 3.4% return in 2016.

<i>(millions of dollars)</i>	<b>September 30, 2017</b>			December 31, 2016	
	<b>Ownership</b>	<b>Carrying value</b>	<b>Fair value</b>	Carrying value	Fair value
Algoma	<b>36.3%</b>	<b>176.2</b>	<b>171.1</b>	173.2	173.2
Economic	<b>24.0%</b>	<b>139.9</b>	<b>156.4</b>	136.4	142.9
Total		<b>316.1</b>	<b>327.5</b>	309.6	316.1

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 September 30, 2017, 41% (December 31, 2016 - 49%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 12% (December 31, 2016 - 12%) in Euros and 4% (December 31, 2016 - 8%) in the Japanese Yen representing the largest foreign currency exposures.

### 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 interim 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 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 third quarter common shareholders’ net income of \$39.1 million for 2017, compared to \$38.1 million for third quarter 2016. The increase in earnings for the third quarter of 2017 compared to 2016 is primarily as a result of improved operating performance in the Employee Benefits product line and lower hedge costs, partially offset by lower gains in the Individual Insurance product lines. Year to date common shareholders’ net income was \$122.6 million compared to \$100.2 million in 2016 primarily due to the above mentioned items and improved operating performance in the Wealth Management product line. 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>	Third quarter		Year to date	
	2017	2016	2017	2016
Empire Life common shareholders’ net income	\$ 39.1	\$ 38.1	\$ 122.6	\$ 100.2
Non-controlling interests	0.3	0.3	0.9	0.9
<b>Net income, contribution to E-L Financial</b>	<b>\$ 38.8</b>	<b>\$ 37.8</b>	<b>\$ 121.7</b>	<b>\$ 99.3</b>

<b>Empire Life return on common shareholders’ equity (annualized) (“ROE”)</b>	<b>11.6%</b>	12.8%	<b>12.4%</b>	11.6%
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The following table provides a breakdown of the sources of earnings for the third quarter and year to date:

<b>Sources of Earnings</b> <i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
Expected profit on in-force business	\$ 43.6	\$ 42.2	\$ 129.5	\$ 119.6
Impact of new business	(3.8)	(1.7)	(14.1)	(9.6)
Experience gains (losses)	14.5	9.7	7.7	(1.9)
Management actions and changes in assumptions	(2.7)	7.7	27.8	34.8
Earnings on operations before income taxes	51.6	57.9	150.8	142.9
Earnings (losses) on surplus	3.4	(4.6)	19.0	(1.6)
Income before income tax	55.0	53.3	169.8	141.3
Income taxes	13.7	13.1	40.7	35.4
Empire Life’s shareholders’ net income	41.2	40.2	129.0	105.9
Dividends on preferred shares	2.1	2.1	6.4	5.7
Empire Life common shareholders’ net income	\$ 39.1	\$ 38.1	\$ 122.6	\$ 100.2

For the third quarter and year to date of 2017 common shareholders’ net income was higher relative to 2016. Despite the higher net income, ROE was lower for the third quarter of 2017 due to higher levels of common shareholders’ equity on September 30, 2017 compared to September 30, 2016. ROE for the year to date of 2017 was higher than 2016 due to the strong increase in common shareholders’ net income.

The expected profit on in-force business for the third quarter and year to date increased by 3% and 8% respectively. The growth for the year to date was primarily from growth in management and guarantee fees in the Wealth Management product line. The impact of new business was primarily driven by higher segregated fund gross sales in the third quarter and year to date of 2017. Experience gains (losses) improved in the third quarter and year to date primarily due to improved health and long-term disability claim results in the Employee Benefits product line. Gains from management actions in the Individual Insurance line were

as a result of improved matching of assets and liabilities during the year to date in 2017 and during the third quarter and year to date in 2016. Earnings on surplus increased primarily due to lower costs from Empire Life's hedging program due to stable Canadian stock prices in 2017 compared to rising Canadian stock prices in 2016.

(millions of dollars)	Date issued	As at September 30		As at December 31
		2017	2016	2016
<b>Preferred Shares &amp; Subordinated Debentures</b>				
Preferred Shares	January 2016	\$ 149.5	\$ 149.5	\$ 149.5
Subordinated debentures	May 2013	300.0	300.0	300.0
Subordinated debentures	December 2016	200.0	—	200.0
Subordinated debentures	September 2017	200.0	—	—

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth since May 2013. In the first quarter of 2016, Empire Life issued \$149.5 million of preferred shares. The holders are entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually for the period ending on April 17, 2021. After that the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada Bond yield plus 4.99%. In the fourth quarter 2016, Empire Life issued \$200 million principal amount of unsecured subordinated debentures with a maturity date at December 16, 2026. The interest rate on the debentures is 3.383% paid semi-annually until December 16, 2021. After that the interest rate will be the 3-month Canada deposit offer rate plus 1.95% from December 16, 2021 to December 16, 2026. In the third quarter of 2017, Empire Life issued \$200 million principal amount of unsecured subordinated debentures with a maturity date of March 15, 2028. The interest rate on the debentures is 3.664% paid semi-annually until March 15, 2023. After that the interest rate will be the 3-month Canada deposit offer rate plus 1.53% from March 15, 2023 to March 15, 2028. The issuances of the debentures in 2016 and 2017 have increased the interest paid relative to the third quarter of 2016 and year to date 2016. Empire Life may call for redemption on or after May 31, 2018, subject to OSFI approval, the subordinated debenture issued in May 2013.

The following table provides a summary of Empire Life results by major product line:

**Three months ended September 30**

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Revenue</b>										
Net premium income	\$ 42.7	\$ 44.5	\$ 82.0	\$ 85.0	\$ 92.6	\$ 89.1	\$ —	\$ —	\$ 217.3	\$ 218.6
Fee income	59.6	56.2	2.6	2.4	—	0.4	—	—	62.2	59.0
Investment income	9.7	10.2	0.9	0.9	46.1	47.4	13.1	1.6	69.8	60.1
Net (losses) gains on investments <sup>(1)</sup>	(12.7)	8.0	(1.9)	0.7	(196.5)	108.6	(3.8)	(2.2)	(214.9)	115.1
	99.3	118.9	83.6	89.0	(57.8)	245.5	9.3	(0.6)	134.4	452.8
<b>Expenses</b>										
Benefits and expenses	74.0	91.6	73.6	84.3	(75.1)	212.9	4.5	2.4	77.0	391.2
Income and other taxes	6.2	6.6	4.1	3.5	6.8	10.4	0.9	(1.1)	18.0	19.4
	80.2	98.2	77.7	87.8	(68.3)	223.3	5.4	1.3	95.0	410.6
<b>Net income (loss) after tax</b>	<b>\$ 19.1</b>	<b>\$ 20.7</b>	<b>\$ 5.9</b>	<b>\$ 1.2</b>	<b>\$ 10.5</b>	<b>\$ 22.2</b>	<b>\$ 3.9</b>	<b>\$ (1.9)</b>	<b>\$ 39.4</b>	<b>\$ 42.2</b>
Participating policyholders' portion									(1.8)	2.0
Dividends on preferred shares									2.2	2.1
Empire Life's common shareholders' net income									39.0	38.1
Non-controlling interests in net income									0.2	0.3
Net income attributable to owners of E-L Financial									\$ 38.8	\$ 37.8

## Nine months ended September 30

<i>(millions of dollars)</i>	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Revenue</b>										
Net premium income	\$ 102.0	\$ 136.8	\$ 248.7	\$ 253.7	\$ 273.5	\$ 268.5	\$ —	\$ —	\$ 624.2	\$ 659.0
Fee income	178.7	162.0	7.7	7.3	0.3	0.8	—	—	186.7	170.1
Investment income	29.5	30.7	2.6	2.8	133.4	130.0	38.5	22.7	204.0	186.2
Net gains (losses) on investments <sup>(1)</sup>	8.2	7.9	(1.2)	3.6	29.2	419.5	(3.3)	(12.9)	32.9	418.1
	318.4	337.4	257.8	267.4	436.4	818.8	35.2	9.8	1,047.8	1,433.4
<b>Expenses</b>										
Benefits and expenses	235.3	266.0	233.2	257.9	391.0	746.4	13.1	7.5	872.6	1,277.8
Income and other taxes	20.6	17.8	11.2	8.2	16.5	24.2	4.8	0.1	53.1	50.3
	255.9	283.8	244.4	266.1	407.5	770.6	17.9	7.6	925.7	1,328.1
<b>Net income after tax</b>	<b>\$ 62.5</b>	<b>\$ 53.6</b>	<b>\$ 13.4</b>	<b>\$ 1.3</b>	<b>\$ 28.9</b>	<b>\$ 48.2</b>	<b>\$ 17.3</b>	<b>\$ 2.2</b>	<b>\$ 122.1</b>	<b>\$ 105.3</b>
Participating policyholders' portion									(7.0)	(0.6)
Dividends on preferred shares									6.5	5.7
Empire Life's common shareholders' net income									122.6	100.2
Non-controlling interests in net income									0.9	0.9
Net income attributable to owners of E-L Financial									\$ 121.7	\$ 99.3

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

## Product Line Results - Wealth Management

<i>(millions of dollars)</i>	September 30 2017	September 30 2016
Assets under management		
General fund annuities	\$ 957.0	\$ 971.7
Segregated funds	8,359.4	7,802.5
Mutual funds	180.7	187.7

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
<b>Selected financial information</b>				
Net fixed interest annuity premiums	\$ 42.9	\$ 44.5	\$ 102.1	\$ 136.8
Segregated fund gross sales	218.5	207.0	802.7	701.3
Segregated fund net sales	15.2	6.2	83.8	65.6
Segregated fund fee income	58.7	55.2	175.6	159.1
Mutual fund gross sales	3.7	6.9	17.5	27.0
Mutual fund net sales	(8.3)	0.5	(17.9)	8.3
Mutual fund fee income	0.7	0.7	2.2	2.2
<b>Net income after tax</b>	<b>\$ 19.1</b>	<b>\$ 20.5</b>	<b>\$ 62.5</b>	<b>\$ 53.5</b>

Assets in Empire Life general fund annuities decreased by 1.5%, while segregated fund assets increased by 7.1% and mutual fund assets decreased by 3.7% during the last 12 months. While the demand for fixed interest immediate annuities increased in 2016, demand in the third quarter and year to date of 2017 has tempered by low interest rate environment. Demand for fixed interest deferred annuities has also weakened in 2017. The growth in segregated funds over the last 12 months was attributable to increased stock markets and positive net sales from new products introduced in 2014. Mutual fund assets under management decreased as a result of lower than anticipated mutual fund sales combined with the closure of three mutual

funds in the third quarter of 2017.

Premium revenue for the Wealth Management product line is composed solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund and mutual fund products. For the third quarter and year to date new fixed interest annuity deposits decreased compared to the comparable periods in 2016. Management believes that customers have started choosing equity products rather than more conservative fixed interest products due to the recent stability in the equity markets and low interest rates.

For the third quarter and year to date of 2017 segregated fund gross sales were up 5.5% and 14.5% compared to 2016, primarily due to 75% maturity guarantee product sales which increased by \$11.7 million and \$68.2 million from the third quarter and year to date in 2016 respectively. The products with 100% maturity guarantees also increased from the third quarter and year to date periods of 2016. The products with Guaranteed Minimum Withdrawal Benefit ("GMWB") decreased in the quarter, but increased year to date from the level achieved in the periods of 2016. Empire Life closed its segregated fund products that existed on October 31, 2014 to new policies and on November 3, 2014 launched a new suite of investment products including a new segregated funds family and a new version of its "GMWB" product. Fees charged to the customer on the new product line are higher than those for the former product line. The new product line's pricing and features are Empire Life's response to the economic, regulatory and competitive landscape in the segregated fund product marketplace. On October 23, 2017 Empire Life launched a new version of its GMWB product which is more capital efficient than the previous product, resulting in overall lower costs for the consumer. The industry segregated fund sales in 2017 were up approximately 13% from 2016, while Empire Life's sales have increased 14.5% over the same period.

Mutual fund gross sales for the quarter and year to date were lower than the same period in 2016. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the third quarter and year to date segregated fund fee income increased by 6.3% and 10.4%, relative to the same period in 2016. The increase was primarily due to growth in segregated fund management fees and guarantee fees. Improved stock markets since the third quarter of 2016 have also resulted in higher average assets under management and management fees earned relative to 2016.

The following table provides a breakdown of the sources of earnings for the third quarter and year to date for Wealth Management:

<b>Sources of Earnings - Wealth Management</b> <i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Expected profit on in-force business	\$ 27.2	\$ 27.2	\$ 81.6	\$ 74.5
Impact of new business	(1.8)	(0.9)	(6.4)	(4.4)
Experience (losses) gains	(0.1)	0.8	7.9	1.2
Earnings on operations before income taxes	25.3	27.1	83.1	71.3
Income taxes	6.2	6.6	20.5	17.8
Empire Life's shareholders' net income	\$ 19.1	\$ 20.5	\$ 62.6	\$ 53.5

The expected profit on in-force business for the third quarter was equal to last year as higher fee income in 2017 was offset by higher expenses in 2017. For the year to date increased expected profit on in-force business was primarily from higher fee income as a result of growth in the business and higher stock markets relative to 2016. The impact of new business was primarily driven by higher segregated fund gross sales in the third quarter and year to date of 2017. The improved experience gains for the year to date primarily relate to investment experience as a result of the appreciation in the value of interest and credit sensitive assets in the Wealth Management product line relative to 2016.

**Product Line Results - Employee Benefits**

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
<b>Selected financial information</b>				
Annualized premium sales	\$ 9.2	\$ 9.5	\$ 27.3	\$ 35.1
Net premium revenue	82.0	85.0	248.7	253.7
<b>Net income after tax</b>	<b>\$ 5.9</b>	<b>\$ 1.3</b>	<b>\$ 13.4</b>	<b>\$ 1.3</b>

For the third quarter and year to date, annualized premium sales for Employee Benefits decreased by 3.0% and 22.1% respectively in 2017 relative to 2016 which contributed to in-force premium revenue decreases of 3.6% and 1.9% for the same periods respectively. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

The following table provides a breakdown of the sources of earnings for the third quarter and year to date for Employee Benefits:

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
Expected profit on in-force business	\$ 6.0	\$ 5.0	\$ 16.5	\$ 15.2
Impact of new business	(1.9)	(1.2)	(6.3)	(4.5)
Experience gains (losses)	3.8	(1.6)	8.1	(8.3)
Earnings on operations before income taxes	7.9	2.2	18.3	2.4
Income taxes	2.0	0.9	4.9	1.1
Empire Life's shareholders' net income	\$ 5.9	\$ 1.3	\$ 13.4	\$ 1.3

Expected profit for the third quarter and year to date increased primarily as a result of improved mix of inforce business to more profitable contracts. Third quarter and year to date improvement in experience gains primarily related to improved health and long-term disability claims relative to 2016. As Empire Life balances claims management with customer experience it cannot predict whether claims improvement will continue.

**Product Line Results - Individual Insurance**

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
<b>Selected financial information</b>				
Annualized premium sales	\$ 8.5	\$ 10.5	\$ 23.7	\$ 28.0
Net premium revenue	92.5	89.1	273.5	268.5
<b>Net income after tax</b>				
Net income after tax shareholders' portion	\$ 13.5	\$ 21.5	\$ 38.4	\$ 51.9
Net (loss) income after tax policyholders' portion	(2.9)	0.7	(9.5)	(3.7)
<b>Net income after tax</b>	<b>\$ 10.5</b>	<b>\$ 22.2</b>	<b>\$ 28.9</b>	<b>\$ 48.2</b>

For the third quarter and year to date new premium sales decreased slightly from the comparable period in 2016 primarily due to the change in product mix offering by Empire Life from Universal Life to term insurance and tax changes effective January 1, 2017. The net premium revenue increased slightly as a result of higher in-force business since the third quarter of 2016. Empire Life's recently launched EstateMax<sup>®</sup> participating policy sales are lower than in the third quarter and year to date of 2016 as a result of product modifications launched late in the first quarter. EstateMax<sup>®</sup> is distributed through professional financial advisors aimed at providing simple estate planning solutions to Canadian baby boomers. In recent years Empire Life has been

shifting its product mix toward shorter-term products such as term life, while increasing prices on long-term products, due to the low long-term interest rate environment. During the fourth quarter of 2016 Empire Life decided to stop selling universal life insurance products but will continue to administer its in-force block of universal life insurance products.

The following table provides a breakdown of the sources of earnings for the third quarter and year to date for Individual Insurance (excludes policyholders' portion).

**Sources of Earnings - Individual Insurance (excludes policyholders' portion)**

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
Expected profit on in-force business	\$ 10.3	\$ 10.0	\$ 31.4	\$ 29.9
Impact of new business	(0.1)	0.4	(1.4)	(0.7)
Experience gains (losses)	10.8	10.5	(8.3)	5.2
Management actions and changes in assumptions	(2.7)	7.7	27.8	34.8
Earnings on operations before income taxes	18.3	28.6	49.5	69.2
Income taxes	4.9	7.1	11.1	17.3
Empire Life's shareholders' net income	\$ 13.4	\$ 21.5	\$ 38.4	\$ 51.9

The profitability of the Individual insurance inforce business has improved as a result of previous asset and liability management strategies. The impact of new business is modest as prices and expenses are as expected. The experience gains for the third quarter were favourable in both years primarily due to rising interest rates in 2017 and improved stock markets in 2016 respectively. The experience gains from rising interest rates and stock markets were partially offset by unfavourable surrender and lapse experience in both 2017 and 2016.

Management actions to improve asset/liability matching occurred primarily in the first half of 2017 and in the third quarter and year to date of 2016 resulting in a gain in both years. Empire Life increased its investment in real estate limited partnership units during the first quarter of 2017 and the first nine months of 2016. This investment is used to match long-term insurance contract liabilities. Management continued to make changes to the bond and equity portfolios in this quarter and year to date to reduce the mismatch between the liability and asset portfolio. Re-balancing of the bond portfolio during the third quarter of 2017 resulted in a loss for the quarter. Management made similar changes to the bond portfolio in the third quarter and year to date of 2016.

Long-term interest rate movements are demonstrated in the following table:

	Third quarter		Year to date	
	2017	2016	2017	2016
<b>Interest rate movement</b>				
30 year Canada federal government bond yield				
End of period	<b>2.47 %</b>	1.67 %	<b>2.47 %</b>	1.67 %
Beginning of period	<b>2.14 %</b>	1.72 %	<b>2.31 %</b>	2.16 %
Change during period	<b>0.33 %</b>	(0.05)%	<b>0.16 %</b>	(0.49)%
30 year Province of Ontario spread				
End of period	<b>0.80 %</b>	1.00 %	<b>0.80 %</b>	1.00 %
Beginning of period	<b>0.85 %</b>	1.05 %	<b>0.90 %</b>	1.05 %
Change during period	<b>(0.05)%</b>	(0.05)%	<b>(0.10)%</b>	(0.05)%
30 year A rated corporate spread (including financials)				
End of period	<b>1.46 %</b>	1.73 %	<b>1.46 %</b>	1.73 %
Beginning of period	<b>1.41 %</b>	1.81 %	<b>1.60 %</b>	1.92 %
Change during period	<b>0.05 %</b>	(0.08)%	<b>(0.14)%</b>	(0.19)%
30 year A rated financials spread				
End of period	<b>1.99 %</b>	2.26 %	<b>1.99 %</b>	2.26 %
Beginning of period	<b>1.90 %</b>	2.35 %	<b>2.01 %</b>	2.19 %
Change during period	<b>0.09 %</b>	(0.09)%	<b>(0.02)%</b>	0.07 %

Interest rate movements impact both bond asset fair values and insurance contract liabilities. In the third quarter and year to date of 2017 and 2016, the decrease in interest rates (including spreads described above) caused lower bond prices, which resulted in a bond asset fair value loss.

Stock market movements are demonstrated in the following table:

	Third quarter		Year to date	
	2017	2016	2017	2016
<b>Stock market movement</b>				
S&P/TSX Composite Index				
End of period	<b>15,634.9</b>	14,725.9	<b>15,634.9</b>	14,725.9
Beginning of period	<b>15,182.2</b>	14,064.6	<b>15,287.6</b>	13,010.0
Percentage change during period	<b>3.0%</b>	4.7%	<b>2.3%</b>	13.2%
S&P 500 Index				
End of period	<b>2,519.4</b>	2,168.3	<b>2,519.4</b>	2,168.3
Beginning of period	<b>2,423.4</b>	2,098.9	<b>2,238.8</b>	2,043.9
Percentage change during period	<b>4.0%</b>	3.3%	<b>12.5%</b>	6.1%

In the third quarter and year to date of 2017 the increase in stock markets caused common share asset fair value gains. However, the impact of these gains is significantly reduced by increased insurance contract liabilities.

**Results - Capital and Surplus**

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
<b>Net income after tax</b>				
Net income (loss) after shareholders' portion	\$ 2.7	\$ (3.1)	\$ 14.8	\$ (0.8)
Net income after tax policyholders' portion	1.2	1.3	2.5	3.1
Net income (loss) after tax	\$ 3.9	\$ (1.8)	\$ 17.3	\$ 2.3

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.

The following table provides a breakdown of the sources of earnings for the third quarter and year to date for Capital and Surplus (excludes policyholders' portion).

**Sources of Earnings - Capital and Surplus (excludes policyholders' portion)**

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2017	2016	2017	2016
Income from investments	\$ 10.0	\$ 7.2	\$ 37.2	\$ 37.2
Losses on hedging instruments	(2.2)	(9.2)	(5.2)	(31.3)
Interest and other expenses	(4.5)	(2.5)	(13.1)	(7.5)
Earnings (loss) before income taxes	3.3	(4.6)	18.9	(1.6)
Income taxes	0.6	(1.5)	4.2	(0.8)
Empire Life's shareholders' net income (loss)	\$ 2.7	\$ (3.1)	\$ 14.7	\$ (0.8)

Income from investments increased in the third quarter of 2017 compared to third quarter 2016 primarily because of higher assets in surplus. During the third quarter and year to date of 2017, Empire Life experienced lower losses on its hedging program primarily due to the moderate rise in Canadian stock prices in 2017 compared to relatively steeper price increases in 2016 (discussed in the Risk Management section later in this report). Increased interest expense was due to Empire Life's issuance of \$200 million of subordinated debt during the fourth quarter of 2016.

**Capital Resources**

	September 30 2017	June 30 2017	March 31 2017	December 31 2016	September 30 2016
<b>MCCSR Ratio</b>	<b>274.2%</b>	249.2%	258.0%	248.3%	213.0%

Empire Life continues to maintain a strong balance sheet and capital position. Empire Life's debentures and preferred shares are rated by DBRS Limited ("DBRS") and A.M. Best Company, Inc. ("A.M. Best"). On May 24, 2017, DBRS confirmed its ratings of Empire Life including its issuer rating of "A" (sixth highest of 20 categories), its subordinated debt rating of "A (low)" (seventh highest of 20 categories), its financial strength rating of "A" (sixth highest of 22 categories) and its Preferred Share rating of Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend.

On June 1 2017, A.M. Best confirmed its ratings of Empire Life including its "A Excellent" financial strength rating (third highest of 16 categories) its "a" long-term issuer credit rating (sixth highest of 21 categories), its "bbb+" subordinated debt rating (eighth highest of 21 categories), and its "bbb" Preferred Share rating (ninth highest of 21 categories). All ratings have a stable trend.

Empire Life's risk-based regulatory capital ratio, as measured by MCCSR, of 274.2% as at September 30, 2017 continues to be significantly above the requirements set by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as Empire Life's minimum internal targets.

The increase in the MCCR ratio for the third quarter was primarily due to the \$200 million debenture issue on September 15, 2017. The increase in capital since the third quarter 2016 was primarily due to Empire Life's issuance of \$200 million principal amount of unsecured subordinated debentures on December 16, 2016, \$200 million principal amount of unsecured subordinated debentures on September 15, 2017 and strong earnings for the three quarters ending September 30, 2017.

<i>(millions of dollars)</i>	<b>September 30 2017</b>	June 30 2017	March 31 2017	December 31 2016	September 30 2016
<b>Available regulatory capital</b>					
Tier 1	\$ 1,310.5	\$ 1,248.8	\$ 1,248.2	\$ 1,206.1	\$ 1,123.1
Tier 2	877.1	741.8	713.2	707.2	540.7
<b>Total</b>	<b>\$ 2,187.6</b>	<b>\$ 1,990.6</b>	<b>\$ 1,961.4</b>	<b>\$ 1,913.3</b>	<b>\$ 1,663.8</b>
<b>Required regulatory capital</b>	<b>\$ 797.9</b>	<b>\$ 798.7</b>	<b>\$ 760.1</b>	<b>\$ 770.7</b>	<b>\$ 781.2</b>

The increase in Tier 1 available regulatory capital in the third quarter of 2017 was primarily due to net income and a decrease in the negative reserves which increase Tier 1 and decrease Tier 2 capital.

The increase in Tier 2 available regulatory capital for the third quarter of 2017 is primarily due to Empire Life's issuance of \$200 million principal amount of unsecured subordinated debt, subject to the maximum allowed by regulatory guidelines.

Regulatory capital requirements decreased during the third quarter of 2017 from lower market risk and insurance company risk such as lapse risk due to an increase in long term interest rates. This was partly offset by increased asset default risk, mortality risk and segregated fund guarantees as a result of normal business growth.

Effective January 1, 2018 MCCR will be replaced by the Life Insurance Capital Adequacy Test ("LICAT"). The LICAT is intended to improve the quality of available capital and provide a better alignment of the risk measures with the long-term economics of the life insurance business. The LICAT will behave differently under various economic scenarios when compared to MCCR. As a result LICAT ratios are not comparable to the MCCR ratio. Although OSFI has not released the final LICAT Guidelines, significant work has been done by Empire Life in preparation for the implementation of LICAT. Empire Life has a strong capital position under MCCR and will continue to have a strong capital position under the LICAT framework.

## **Risk Management**

### **Caution Related to Sensitivities**

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on 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 the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for the Company's future net income, OCI, and capital sensitivities. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

## Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life has a semi-static hedging program. The objective of the hedging program is to partially protect Empire Life from possible future MCCSR ratio declines that might result from adverse stock market price changes. The hedging program currently employs put options and short positions on key equity indices. The extent of options 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 MCCSR purposes related to segregated fund guarantees, but does not have policy liabilities related to these guarantees on its balance sheet. Therefore a by-product of hedging MCCSR exposure is income statement volatility, as the gains or losses from hedging instruments are not offset by changes in policy liabilities related to segregated fund guarantees on the income statement. During the third quarter and year to date of 2017, Empire Life experienced a \$1.6 million loss and a \$3.8 million loss after tax respectively on its hedging program primarily due to stable Canadian stock prices compared to a loss of \$6.8 million and \$22.9 million respectively for the comparable period in 2016 primarily due to rising Canadian stock prices in 2016.

Empire Life's MCCSR ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of September 30, 2017, Empire Life had \$8.4 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.1 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	<b>September 30 2017</b>	December 31 2016
<b>Percentage of segregated fund liabilities with:</b>		
75% maturity guarantee and a 75% death benefit guarantee	<b>1.9%</b>	1.2%
75% maturity guarantee and a 100% death benefit guarantee	<b>48.6%</b>	49.7%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	<b>6.5%</b>	6.1%
100% maturity and death benefit guarantees	<b>43.0%</b>	43.0%

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 ignores all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, generally policy-based guarantees 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 were issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased.

The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e., negative amounts are not permitted so zero is used instead, as described below) and other regulatory constraints, and this often makes the sensitivity impacts non-linear. Generally as stock markets and interest rates rise the magnitude of the negative liabilities will also rise. In the first table below, Empire Life discloses the sensitivity of net income to changes in segregated fund guarantee insurance contract liabilities. There is a net loss resulting from a 20% and a 30% decrease at September 30, 2017 and at December 31 for 2016, but otherwise the amounts shown in the table are nil. These liabilities (present value of future benefits and expenses minus the present value of future fee revenue) are calculated using stochastic modeling techniques based on a range of future economic scenarios. The liabilities are the greater of: (i) the average of the amounts determined in the worst 20% of the scenarios; and (ii) zero. For the nil amounts shown in this table, the liability for Empire Life was negative. Therefore, the alternative level of zero is applied in these tests (zero floor) resulting in a net income impact of nil. Based on stock market levels at September 30, 2017 and December 31 for 2016, the sensitivity of Empire Life shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

<i>(millions of dollars after tax)</i>	<b>Increase</b>		<b>Decrease</b>		
	<b>20%</b>	<b>10%</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>
<b>Sensitivity to segregated fund guarantees:</b>					
<b>September 30, 2017 Shareholders' net income</b>	<b>\$ nil</b>	<b>\$ nil</b>	<b>\$ nil</b>	<b>\$(26.4)</b>	<b>\$(138.0)</b>
December 31, 2016 Shareholders' net income	\$ nil	\$ nil	\$ nil	\$(9.7)	\$(117.2)

As per the sensitivity table, the impact of stock market changes on the segregated fund guarantee liabilities is not linear. As noted earlier, Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at September 30, 2017 and December 31, 2016, the sensitivity of Empire Life shareholders' net income (including changes in segregated fund guarantee insurance contract liabilities) resulting from stock market increases and decreases is as follows (excluding the effect of Empire Life's equity risk hedging program):

<i>(millions of dollars after tax)</i>	<b>Increase</b>		<b>Decrease</b>		
	<b>20%</b>	<b>10%</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>
<b>Sensitivity excluding equity risk hedge</b>					
<b>September 30, 2017 Shareholders' net income</b>	<b>\$47.8</b>	<b>\$23.9</b>	<b>\$(23.9)</b>	<b>\$(74.2)</b>	<b>\$(217.2)</b>
December 31, 2016 Shareholders' net income	\$50.6	\$25.3	\$(25.3)	\$(60.3)	\$(196.2)

The equity risk hedging program provides relief in adverse scenarios, but incurs losses in positive scenarios.

The September 30, 2017 and December 31, 2016 amounts in the following table include the effect of Empire Life's equity risk hedging program (described above):

<i>(millions of dollars after tax)</i>	<b>Increase</b>		<b>Decrease</b>		
	<b>20%</b>	<b>10%</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>
<b>Sensitivity including equity risk hedge</b>					
<b>September 30, 2017 Shareholders' net income</b>	<b>\$41.8</b>	<b>\$20.8</b>	<b>\$(20.0)</b>	<b>\$(64.3)</b>	<b>\$(197.8)</b>
December 31, 2016 Shareholders' net income	\$36.0	\$17.7	\$(15.7)	\$(35.6)	\$(147.7)

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.

Based on stock market levels on the dates indicated below the sensitivity of Empire Life's MCCR ratio to stock market increases and decreases for all Empire Life stock market exposures, including segregated fund guarantees, is as follows (excluding the effect of Empire Life's equity risk hedging program):

Excluding equity risk hedge MCCR	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>Sensitivity to stock markets (percentage points)</b>					
<b>September 30, 2017 MCCR ratio</b>	<b>1.7</b>	<b>1.0</b>	<b>(17.2)</b>	<b>(40.1)</b>	<b>(53.7)</b>
December 31, 2016 MCCR ratio	(0.7)	(0.2)	(12.1)	(35.3)	(40.1)

The September 30, 2017 and December 31, 2016 amounts in the following table include the effect of Empire Life's equity risk hedging program (described below):

Including equity risk hedge MCCR	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>Sensitivity to stock markets (percentage points)</b>					
<b>September 30, 2017 MCCR ratio</b>	<b>(0.7)</b>	<b>(0.2)</b>	<b>(16.1)</b>	<b>(37.6)</b>	<b>(48.8)</b>
December 31, 2016 MCCR ratio	(5.4)	(2.6)	(9.7)	(30.4)	(30.2)

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees and the resulting actuarial liabilities and MCCR required capital for Empire Life segregated funds is as follows:

Segregated Funds <i>(millions of dollars)</i>	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Actuarial Liabilities	MCCR Required Capital
	Fund Value	Amount at Risk	Fund Value	Amount at Risk	Fund Value	Amount at Risk		
<b>September 30, 2017</b>	<b>\$ 2,579.0</b>	<b>\$ 614.8</b>	<b>\$ 51.4</b>	<b>\$ 1.1</b>	<b>\$ 606.1</b>	<b>\$ 6.1</b>	<b>\$ nil</b>	<b>\$ 168.1</b>
December 31, 2016	\$ 2,529.8	\$ 627.1	\$ 36.5	\$ 1.2	\$ 323.7	\$ 4.2	\$ nil	\$ 150.5

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 September 30, 2017, the aggregate amount at risk for all three categories of risk is \$622.0 million. At December 31, 2016, the aggregate amount at risk for these three categories of risk was \$632.5 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 actuarial 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. The amounts at risk at September 30, 2017 decreased slightly from the December 2016 levels for GMWB withdrawal benefit exposure as equity market performance is positive for 2017 year to date. The quarterly update of segregated fund policy data on our stochastic model resulted in an increase in required regulatory capital.

In addition, Empire Life's MCCR ratio is sensitive 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 September 30, 2017 and December 31, 2016, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR"). The first column below excludes the impact of market value changes in AFS bonds. The AFS bonds provide a natural economic offset to the interest rate risk attributable to Empire Life's product liabilities. The second column below shows the impact if the AFS bonds were sold to realize the gains from a 50 basis point decrease in interest rates.

	<b>Before the sale of AFS assets</b>	<b>After the sale of AFS assets</b>
	<b>50bps decrease</b>	<b>50bps decrease</b>
<b>Sensitivity to market interest rates:</b>		
<b>September 30, 2017 MCCR ratio</b>	<b>-23.5%</b>	<b>-17.6%</b>
December 31, 2016 MCCR ratio	-19.5%	-14.5%

Duncan N.R. Jackman

Chairman, President and Chief Executive Officer

November 7, 2017