

**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 first 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. 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.

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).

**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 The Empire Life Insurance Company ("Empire" or "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 51.8% 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>(thousands of dollars)</i>	<b>First quarter</b>	
	<b>2017</b>	<b>2016</b>
Contribution to net income (loss)		
E-L Corporate <sup>(1)</sup>	\$ 214,344	\$ (98,306)
Empire Life <sup>(2)</sup>	49,752	36,933
Net income (loss)	264,096	(61,373)
Other comprehensive loss <sup>(2)</sup>	(29,202)	(25,957)
<b>Comprehensive income (loss)</b>	<b>\$ 234,894</b>	<b>\$ (87,330)</b>

<b>E-L Corporate</b> <i>(thousands of dollars)</i>	<b>First quarter</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue</b>		
Net gain (loss) on investments <sup>(3)</sup>	\$ 269,702	\$ (153,859)
Investment and other income	24,269	25,466
Share of associates income (loss)	736	(6,328)
	294,707	(134,721)
<b>Expenses</b>		
Operating	6,643	6,108
Income taxes	38,758	(15,228)
Non-controlling interests	34,962	(27,295)
	80,363	(36,415)
<b>Net income (loss)</b>	<b>214,344</b>	<b>(98,306)</b>
Other comprehensive loss, net of taxes <sup>(1)</sup>	(38,169)	(22,739)
<b>Comprehensive income (loss)</b>	<b>\$ 176,175</b>	<b>\$ (121,045)</b>

<b>Empire Life</b> <i>(thousands of dollars)</i>	<b>First quarter</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue</b>		
Net premiums	\$ 202,394	\$ 229,775
Net gain on investments <sup>(3)</sup>	81,574	70,663
Investment income	64,557	60,785
Fee income	61,276	54,763
	409,801	415,986
<b>Expenses</b>		
Benefits and expenses	338,841	361,685
Income and other taxes	20,093	16,568
Non-controlling and participating policyholders' interests	1,115	800
	360,049	379,053
<b>Net income</b>	<b>49,752</b>	<b>36,933</b>
Other comprehensive income (loss), net of taxes <sup>(2)</sup>	8,967	(3,218)
<b>Comprehensive income</b>	<b>\$ 58,719</b>	<b>\$ 33,715</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 \$264.1 million or \$66.26 per share for the first quarter of 2017 compared with a loss of \$61.4 million or \$16.62 per share in 2016. The increase in net income is due to E-L Corporate's net gain on investments of \$269.7 million compared to a net loss of \$153.9 million in 2016. E-L Corporate's investments for the first quarter of 2017 yielded a pre-tax total return of 6% mainly due to positive investment returns on global equities. At March 31, 2017, 84% (December 31, 2016 - 85%) of E-L Corporate's investments were denominated in foreign currencies with 45% (December 31, 2016 - 48%) and 11% (December 31, 2016 - 14%) exposed to U.S. and European equities respectively.

Empire Life reported net income of \$49.8 million in the first quarter of 2017 compared to \$36.9 million for the comparable period in 2016. The increase in net income was due primarily to higher Wealth Management profits, resulting from strong stock market performance in 2017 and favourable Employee Benefits claims experience. Empire Life continues to improve its matching of assets and liabilities in the Individual Insurance product line by increasing its investment in real estate partnership units and by making changes to its bond and equity investments. The improved matching position resulted in strong performance in that product line for the quarter.

Consolidated comprehensive income for the first quarter of 2017 was \$234.9 million or \$58.82 per share compared with a loss of \$87.3 million or \$23.23 per share in 2016. The movement in comprehensive income for the quarter is mainly due to the reasons noted above.

### 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>(thousands of dollars, except per share amounts)</i>	Q1 2017	Q4 2016	Q1 2016
E-L Financial shareholders' equity	\$ 5,180,181	\$ 4,954,199	\$ 4,576,586
Less: First preference shares	(300,000)	(300,000)	(300,000)
	<b>4,880,181</b>	4,654,199	4,276,586
Adjustments for investments in associates not carried at fair value:			
Carrying value	(304,956)	(309,644)	(311,777)
Fair value <sup>(1)</sup>	<b>323,245</b>	316,131	313,514
	<b>18,289</b>	6,487	1,737
Non-controlling interest and deferred tax	(3,944)	(860)	5,739
	<b>14,345</b>	5,627	7,476
Net equity value	\$ 4,894,526	\$ 4,659,826	\$ 4,284,062
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>	\$ 1,217.64	\$ 1,159.26	\$ 1,065.78

<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 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>March 31, 2017</b>	<b>1,217.64</b>	<b>5.1</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			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Revenue</b>								
Net gain (loss) on investments <sup>(1)</sup>	\$ 351	\$ (307)	\$ 292	\$ 298	\$ (83)	\$ 332	\$ (118)	\$ (327)
Net premium income	202	221	219	211	230	206	208	203
Investment and other income	150	150	141	159	141	149	142	159
Associates <sup>(2)</sup>	1	(32)	17	9	(6)	7	8	8
<b>Total</b>	<b>\$ 704</b>	<b>\$ 32</b>	<b>\$ 669</b>	<b>\$ 677</b>	<b>\$ 282</b>	<b>\$ 694</b>	<b>\$ 240</b>	<b>\$ 43</b>
Net income (loss) <sup>(3)</sup>	\$ 264	\$ 100	\$ 191	\$ 103	\$ (61)	\$ 208	\$ 28	\$ 37
<b>Earnings (loss) per common share</b>								
- basic	\$ 66.26	\$ 24.49	\$ 47.72	\$ 25.28	\$ (16.62)	\$ 51.90	\$ 6.20	\$ 8.33
- diluted	\$ 60.41	\$ 22.77	\$ 43.52	\$ 23.48	\$ (16.62)	\$ 47.29	\$ 6.20	\$ 8.33

<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 first quarter of 2017 increased significantly from both the prior quarter and the first quarter of 2016 partially due to the impact of higher net investment gains for E-L Corporate. The increase in E-L Corporate's net investment gains is primarily due to higher global equity returns in local currencies. Also during the fourth quarter of 2016 Empire Life reported a net investment loss which resulted primarily from decreases in bond prices.

Net premium income decreased during the first quarter of 2017 compared to both the prior quarter and the first quarter of 2016. The decrease is primarily attributed to lower fixed interest annuity premiums offset partially by an increase in fee income.

### 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:

Three months ended March 31 (thousands of dollars)	E-L Financial (non- consolidated)	United	Empire Life	Consolidation adjustments	E-L Financial	
					2017	2016
Cash flows from:						
Operating activities	\$ 8,794	\$ 8,585	\$ 79,531	\$ (1,263)	\$ 95,647	\$ 85,473
Financing activities	(8,912)	(6,287)	(2,149)	1,263	(16,085)	140,137
Investing activities	19,254	(3,516)	(89,566)	—	(73,828)	(248,488)
Increase (decrease) in cash and cash equivalents	19,136	(1,218)	(12,184)	—	5,734	(22,878)
Cash and cash equivalents, at the beginning of the period	31,877	19,156	368,873	—	419,906	306,546
Cash and cash equivalents, at the end of the period	\$ 51,013	\$ 17,938	\$ 356,689	\$ —	\$ 425,640	\$ 283,668

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

The change in financing activity cash flows during 2017 relative to 2016 was primarily due to Empire Life's issuance of \$149.5 million of preferred shares during the first quarter of 2016.

The decrease in cash from investing activities during 2017 relative to 2016 was primarily driven by the timing of portfolio investment transactions which in the first quarter of 2016 included the investment of the proceeds from Empire Life's issuance of preferred shares.

## 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).

**Three months ended March 31**

<i>(thousands of dollars)</i>	<b>2017</b>	2016
Cash flows from:		
Operating activities		
Dividends from subsidiaries and associates	\$ 4,211	\$ 3,341
Dividends and interest	11,612	14,692
Expenses and taxes, net of other income	(7,029)	(14,919)
	<b>8,794</b>	3,114
Financing activities		
Cash dividends	(8,912)	(4,390)
Investing activities		
Purchases of investments	(769,589)	(192,552)
Proceeds from sales of investments	724,785	163,768
Net sales of short-term investments	64,058	875
	<b>19,254</b>	(27,909)
Increase (decrease) in cash and cash equivalents	<b>19,136</b>	(29,185)
Cash and cash equivalents, at the beginning of the period	<b>31,877</b>	86,906
Cash and cash equivalents, at the end of the period	<b>\$ 51,013</b>	\$ 57,721

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

On March 2, 2016, the Board 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 during the quarter and net realized investment gains of \$166.5 million.

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.

**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 information that is useful 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 4. 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 6.

Other non-GAAP measures are also used in the 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 inforce 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 13.

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>March 31 2017</b>	December 31 2016	March 31 2016
General fund assets	\$ 7,947	\$ 7,780	\$ 7,316
Segregated fund assets	<b>8,261</b>	8,082	7,399
Total Empire Life assets	<b>16,208</b>	15,862	14,715
Mutual fund assets	<b>191</b>	189	177
Total assets under management	<b>\$ 16,399</b>	\$ 16,051	\$ 14,892

### **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>(thousands of dollars)</i>	<b>First quarter</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue</b>		
Net gain (loss) on investments	\$ 269,702	\$ (153,859)
Investment and other income	24,269	25,466
Share of associates income (loss)	736	(6,328)
	<b>294,707</b>	<b>(134,721)</b>
<b>Expenses</b>		
Operating	6,643	6,108
Income taxes	38,758	(15,228)
Non-controlling interests	34,962	(27,295)
	<b>80,363</b>	<b>(36,415)</b>
<b>Net income (loss)</b>	<b>214,344</b>	<b>(98,306)</b>
Other comprehensive loss, net of taxes	(38,169)	(22,739)
<b>Comprehensive income (loss)</b>	<b>\$ 176,175</b>	<b>\$ (121,045)</b>

**Investments - corporate**

Investments - corporate includes investments in equities and short-term fixed-income investments. At March 31, 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>(thousands of dollars)</i>	<b>March 31 2017</b>	<b>December 31 2016</b>
Short-term investments	\$ 1,500	\$ 65,558
Preferred shares	1,058	1,058
Common shares and units		
Canadian and U.S.	2,767,530	2,776,772
Europe	999,558	928,978
Other *	782,049	569,230
Total	<b>4,549,137</b>	<b>4,274,980</b>
Total invested assets	<b>\$ 4,551,695</b>	<b>\$ 4,341,596</b>

\* Other investments includes \$408,164 (December 31, 2016 - \$364,666) of equities and investment funds with exposure to Japan.

The increase in E-L Corporate's net income for the first quarter is attributable to net investment gains on the global investment portfolio. For the first quarter of 2017, E-L Corporate had a net gain on investments of \$269.7 million compared to a loss of \$153.9 million for the same period in 2016, resulting in a positive pre-tax return on investments of approximately 6% in 2017 compared to a negative return of 3% in the prior year. The investment returns for the first quarter of 2017 were attributed to the strong performance of global equities. The investment loss for the comparable period in 2016 was due to negative investment returns combined with the impact of a stronger Canadian dollar.

During the first quarter of 2017 E-L Financial reduced the assets managed by one of the global investment managers. This resulted in changes in investment portfolio allocations, including a reduction to assets allocated to short-term investments and higher positions in geographic regions outside of Canada, U.S. and Europe.

The following table details the three month return on investment by geographic region:

	<b>Investment return</b>
	%
Canada and U.S.	5
Europe	7
Other	9

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

### Share of associates income

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

<i>(thousands of dollars)</i>	<b>First quarter</b>	
	<b>2017</b>	2016
Algoma	<b>\$ (5,877)</b>	\$ (2,783)
Economic	<b>6,613</b>	(3,545)
	<b>\$ 736</b>	\$ (6,328)

Algoma's earnings for 2016 include a gain from the cancellation of shipbuilding contracts. Excluding this gain, there was a 16% reduction in the loss for the first quarter of 2017 compared to the prior year. Results for the first quarter typically reflect a loss due to the reduced level of shipping activity during the winter and the timing of maintenance spending. During 2017, better winter conditions and an earlier opening of the St. Lawrence Seaway canal system contributed to higher volumes within the Domestic Dry-Bulk segment and a lower net loss for the first quarter compared to 2016.

The Company's share of Economic's net income for the first quarter of 2017 increased over the prior year due to higher net investment gains for the global investment portfolio. Economic's global investment portfolio had a quarterly pre-tax return, gross of fees, of 5% in the first quarter of 2017 compared to a negative 4% for the same period in 2016.

<i>(thousands of dollars)</i>	<b>March 31, 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>\$ 164,136</b>	<b>\$ 178,317</b>	\$ 173,226	\$ 173,226
Economic	<b>24.0%</b>	<b>140,820</b>	<b>144,928</b>	136,418	142,905
Total		<b>\$ 304,956</b>	<b>\$ 323,245</b>	\$ 309,644	\$ 316,131

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 March 31, 2017, 45% (December 31, 2016 - 49%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 11% (December 31, 2016 - 12%) in Euro and 9% (December 31, 2016 - 8%) in Japanese Yen representing the largest foreign currency exposures.

### Credit risk

E-L Corporate participates in securities lending which could expose the Company to the risk of counterparty failure. RBC Investor Services Trust (RBC IS), the Company's custodian, acts as lending agent. RBC IS is responsible to return the borrowed securities to the Company when required, and RBC IS indemnifies the Company in the event of borrower default. The Company has recourse to the Royal Bank of Canada in the event of a failure by RBC IS to discharge its obligations to the Company.

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 first quarter common shareholders’ net income of \$50.2 million for 2017, compared to \$37.2 million for first quarter 2016. The increase in earnings for the first quarter of 2017 compared to 2016 is as a result of improved operating performance and capital market gains. 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>	<b>First quarter</b>	
	<b>2017</b>	2016
Empire Life common shareholders’ net income	<b>\$ 50.2</b>	\$ 37.2
Non-controlling interests	<b>0.4</b>	0.3
<b>Net income, contribution to E-L Financial</b>	<b>\$ 49.8</b>	\$ 36.9
<b>Empire Life return on common shareholders’ equity (annualized) (“ROE”)</b>	<b>15.7%</b>	13.4%

The following table provides a breakdown of the sources of earnings for the first quarter:

<b>Sources of Earnings</b> <i>(millions of dollars)</i>	<b>First quarter</b>	
	<b>2017</b>	2016
Expected profit on in-force business	<b>\$ 43.3</b>	\$ 38.7
Impact of new business	<b>(4.8)</b>	(3.7)
Experience (losses) gains	<b>(0.4)</b>	3.7
Management actions and changes in assumptions	<b>29.6</b>	11.2
Earnings on operations before income taxes	<b>67.7</b>	49.9
Earnings on surplus	<b>1.8</b>	2.3
Income before income tax	<b>69.5</b>	52.2
Income taxes	<b>17.2</b>	13.6
Empire Life’s shareholders’ net income	<b>52.3</b>	38.6
Dividends on preferred shares	<b>2.1</b>	1.4
Empire Life common shareholders’ net income	<b>\$ 50.2</b>	\$ 37.2

For the first quarter of 2017 common shareholders’ net income and ROE were higher relative to 2016 due to higher profit from the Wealth Management and Employee Benefits product line primarily from continued robust stock market performance in 2017 and favourable claims experience respectively.

The expected profit on in-force business increased by 12% primarily from growth in management and guarantee fees in the Wealth Management product lines. This was partly offset by the impact of higher new business expenses incurred in the Individual insurance product line relative to 2016. Experience gains were lower relative to 2016 in the Individual Insurance line, but this was partly offset by improved investment experience gains in the Wealth Management fixed interest annuity line. Empire Life realized significant management action gains in the Individual Insurance line as a result of improved matching of assets and liabilities. Earnings on surplus decreased primarily due to losses from the sale of available for sale bonds (“AFS”) bonds in 2017 compared to gains in 2016.

During 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. In the fourth quarter 2016 Empire Life issued \$200 million principal amount of unsecured subordinated debentures with a maturity date of

December 16, 2026. The interest rate on the debentures until December 16, 2021 is 3.383%, and the rate from December 16, 2021 until December 16, 2026 is equal to the 3-month Canadian Bankers' Acceptance Rate plus 1.95%. The issuance of preferred shares and the debenture in 2016 have increased the preferred share dividend and the interest paid relative to the first quarter of 2016.

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

**Three months ended March 31**

<i>(millions of dollars)</i>	<b>Wealth Management</b>		<b>Employee Benefits</b>		<b>Individual Insurance</b>		<b>Capital &amp; Surplus</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>										
Net premium income	\$ 27	\$ 56	\$ 84	\$ 84	\$ 91	\$ 90	\$ —	\$ —	\$ 202	\$ 230
Fee income	58	53	3	2	—	—	—	—	61	55
Investment income	10	10	1	1	42	39	12	11	65	61
Net gains (losses) on investments <sup>(1)</sup>	17	(14)	—	2	69	87	(4)	(5)	82	70
	112	105	88	89	202	216	8	6	410	416
<b>Expenses</b>										
Benefits and expenses	75	81	81	86	178	191	4	3	338	361
Income and other taxes	9	6	3	2	8	8	1	1	21	17
	84	87	84	88	186	199	5	4	359	378
<b>Net income after tax</b>	<b>\$ 28</b>	<b>\$ 18</b>	<b>\$ 4</b>	<b>\$ 1</b>	<b>\$ 16</b>	<b>\$ 17</b>	<b>\$ 3</b>	<b>\$ 2</b>	<b>\$ 51</b>	<b>\$ 38</b>
Participating policyholders' portion									(1)	(1)
Dividends on preferred shares									2	1
Empire Life's common shareholders' net income									50	38
Non-controlling interests in net income									—	1
Net income attributable to owners of E-L Financial									\$ 50	\$ 37

<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>	<b>March 31 2017</b>	<b>March 31 2016</b>
Assets under management		
General fund annuities	\$ 956	\$ 958
Segregated fund	8,240	7,379
Mutual fund	191	177

<i>(millions of dollars)</i>	<b>First quarter</b>	
	<b>2017</b>	<b>2016</b>
<b>Selected financial information</b>		
Net fixed interest annuity premiums	\$ 27	\$ 56
Segregated fund gross sales	300	284
Segregated fund net sales	27	50
Segregated fund fee income	57	51
Mutual fund gross sales	9	11
Mutual fund net sales	(2)	5
Mutual fund fee income	1	1
<b>Net income after tax</b>	<b>\$ 28</b>	<b>\$ 18</b>

Assets in Empire Life general fund annuities decreased by less than 1%, while segregated fund assets increased by 12% during the last 12 months. While the demand for fixed interest immediate annuities increased in 2016, demand in the first quarter of 2017 has tempered significantly. 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. The increase in mutual funds over the last 12 months is primarily attributable to an increase in the stock markets.

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 first quarter new fixed interest annuity deposits decreased compared to the first quarter of 2016. Management believes that customers have started choosing equity products rather than more conservative fixed interest products due to the recent rise in the equity markets.

For the first quarter of 2017 segregated fund gross sales were up 6 % compared to 2016, primarily due to 75% maturity guarantee product sales which increased by \$21 million from the first quarter in 2016. The products with the Guaranteed Minimum Withdrawal Benefit ("GMWB") decreased by \$14 million from the first quarter of 2016 while other segregated fund sales increased modestly. 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. While the industry sales for the first quarter of 2017 were relatively unchanged from 2016, Empire Life's sales have increased over the same period.

Mutual fund gross sales for the quarter were weak and are still a small component of our Wealth Management assets under management. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the quarter segregated fund fee income increased by 12% relative to the same quarter in 2016. The increase was primarily due to growth in segregated fund management fees and guarantee fees. Improved stock markets since the first quarter of 2016 have also resulted in higher average assets under management and management fees earned relative to 2016.

During the first quarter of 2017 earnings from Wealth Management increased by \$10 million. The following table provides a breakdown of the components of this year over year change in net income:

<i>(millions of dollars)</i>	<b>First quarter</b>
<b>Components of increase</b>	
Improved investment experience	<b>7</b>
Increase in in-force profit margins	<b>3</b>
<b>Total</b>	<b>\$ 10</b>

The improved investment experience relative to 2016 is primarily as a result of the appreciation in the value of interest and credit sensitive assets in the Investment product line relative to 2016.

Higher net income on in-force business in 2017 was primarily due to higher fee income as a result of growth in the business and higher stock markets relative to 2016.

**Product Line Results - Employee Benefits**

<i>(millions of dollars)</i>	<b>First quarter</b>	
	<b>2017</b>	<b>2016</b>
<b>Selected financial information</b>		
Annualized premium sales	<b>\$ 8</b>	<b>\$ 13</b>
Net premium revenue	<b>84</b>	<b>84</b>
<b>Net income after tax</b>	<b>\$ 4</b>	<b>\$ 1</b>

For the first quarter 2017, annualized premium sales in Employee Benefits decreased by 40% in comparison to the first quarter of 2016. In-force premium revenue decreased by less than 1% for the quarter relative to the same periods in 2016. Empire Life continues to focus on profitable sales in the employee benefits market where price competition has intensified as a result of weak economic conditions in certain parts of Canada. The increase in net income in 2017 was primarily due to improved long-term disability and health claims. 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>	<b>First quarter</b>	
	<b>2017</b>	<b>2016</b>
<b>Selected financial information</b>		
Annualized premium sales	<b>\$ 7</b>	<b>\$ 8</b>
Net premium revenue	<b>91</b>	<b>90</b>
<b>Net income after tax</b>		
Net income after tax shareholders' portion	<b>\$ 19</b>	<b>\$ 19</b>
Net loss after tax policyholders' portion	<b>(3)</b>	<b>(2)</b>
<b>Net income after tax</b>	<b>\$ 16</b>	<b>\$ 17</b>

First quarter new sales decreased slightly from 2016 first quarter sales primarily due to the change in product mix 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 first quarter of 2016. Empire Life's recently launched EstateMax® participating policy sales are lower than in the first quarter of 2016 as a result of product modifications launched late in the first quarter. EstateMax® 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.

During the first quarter 2017 earnings from this product line decreased by \$1 million relative to 2016. The following table provides a breakdown of the components of this year over year change in net income:

<i>(millions of dollars)</i>	<b>First quarter</b>
<b>Components of increase</b>	
Worsened investment experience	(11)
Worsened mortality experience	(2)
Worsened new business strain	(1)
Management actions to improve asset/liability matching	13
<b>Total</b>	<b>\$ (1)</b>

The reduced investment experience arose from a loss of \$6 million after tax in the first quarter of 2017 in comparison to an after tax gain of \$5 million in 2016. Mortality experience in the first quarter of 2017 was worse than 2016. Mortality experience will fluctuate from quarter to quarter, however management does not view mortality worsening overall. Expenses were slightly higher than expected in the quarter causing a strain on new business. Management actions to improve asset/liability matching resulted in increased profit of \$13 million after tax. The improved matching position resulted in a gain from updating insurance contract liabilities. Empire Life increased its investment in real estate limited partnership units during the quarter. 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 to reduce the mismatch between the liability and asset portfolio.

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

	<b>First quarter</b>	
	<b>2017</b>	<b>2016</b>
<b>Interest rate movement</b>		
30 year Canada federal government bond yield		
End of period	2.31 %	2.00 %
Beginning of period	2.31 %	2.16 %
Change during period	— %	(0.16)%
30 year Province of Ontario spread		
End of period	0.85 %	1.10 %
Beginning of period	0.90 %	1.05 %
Change during period	(0.05)%	0.05 %
30 year A rated corporate spread (including financials)		
End of period	1.49 %	1.80 %
Beginning of period	1.60 %	1.92 %
Change during period	(0.11)%	(0.12)%
30 year A rated financials spread		
End of period	1.87 %	2.30 %
Beginning of period	2.01 %	2.19 %
Change during period	(0.14)%	0.11 %

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

Stock market movements are demonstrated in the following table:

	First quarter	
	2017	2016
<b>Stock market movement</b>		
S&P/TSX Composite Index		
End of period	15,548	13,494
Beginning of period	15,288	13,010
Percentage change during period	1.7%	3.7%
S&P 500 Index		
End of period	2,363	2,060
Beginning of period	2,239	2,044
Percentage change during period	5.5%	0.8%

In the first quarter of 2017 the increase in stock markets caused common share asset fair value gains. However, these gains are significantly reduced by increased insurance contract liabilities.

### Results - Capital and Surplus

During the first quarter, capital and surplus net income increased by \$1 million, primarily due to hedging program results. During the first quarter of 2017, Empire Life experienced a loss of \$3 million after tax on its hedging program primarily due to rising Canadian stock prices compared to a loss of \$7 million for the comparable period in 2016 (discussed in the Risk Management section later in this report).

### Capital Resources

	March 31 2017	December 31 2016	September 30 2016	June 30 2016	March 31 2016
<b>MCCSR Ratio</b>	<b>258%</b>	248%	213%	213%	219%

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 27, 2016, 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 December 16, 2016, Empire issued \$200 million principal amount of unsecured subordinated debentures due December 16, 2026 by way of private placement in Canada. On December 15, 2016 DBRS assigned a subordinated debt rating of "A (low)" with a stable trend to these debentures.

On May 27, 2016, A.M. Best confirmed its ratings of Empire Life including its issuer rating of "a" (sixth highest of 21 categories), its subordinated debt rating of "bbb+" (eighth highest of 21 categories), its financial strength rating of "A (Excellent)" (third highest of 16 categories) and its Preferred Share rating of "bbb" (ninth highest of 21 categories). All ratings have a stable trend. On December 16, 2016 A.M. Best assigned a subordinated debt rating of "bbb+" with a stable trend to Empire's December 16, 2016 subordinated debenture issue.

Empire Life's risk-based regulatory capital ratio, as measured by MCCSR, of 258% as at March 31, 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 MCCR ratio increased 10 percentage points in the first quarter of 2017. The increase for the first quarter was primarily due to increases in available regulatory capital and a reduction of required capital. The increase in capital since the first quarter 2016 was primarily due to Empire Life's issuance of \$200 million principal amount of unsecured subordinated debentures on December 16, 2016. The MCCR ratio increase from the first quarter 2016 was also due to strong earnings for the four quarters ending March 31, 2017.

<i>(millions of dollars)</i>	<b>March 31 2017</b>	December 31 2016	September 30 2016	June 30 2016	March 31 2016
<b>Available regulatory capital</b>					
Tier 1	\$ 1,248	\$ 1,206	\$ 1,123	\$ 1,089	\$ 1,078
Tier 2	713	707	541	535	528
<b>Total</b>	<b>\$ 1,961</b>	<b>\$ 1,913</b>	<b>\$ 1,664</b>	<b>\$ 1,624</b>	<b>\$ 1,606</b>
<b>Required regulatory capital</b>	<b>\$ 760</b>	<b>\$ 771</b>	<b>\$ 781</b>	<b>\$ 762</b>	<b>\$ 734</b>

The increase in Tier 1 available regulatory capital in the first quarter of 2017 was primarily due to net income.

The Tier 2 available regulatory capital increase for the first quarter of 2017 is primarily related to statutory adjustments such as unrealized gains on available for sale assets.

Regulatory capital requirements increased from market risk and insurance company risk such as lapse risk, mortality risk and segregated fund guarantees as a result of normal business growth. The increase in capital requirements from business growth was more than offset by a reduction of asset default and foreign currency risk from the partial sale of Empire Life's \$US equity portfolio.

## 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 MCCR 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 MCCR 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 MCCR

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 first quarter of 2017 and 2016 Empire Life experienced a loss of \$3 million and \$7 million after tax respectively on its hedging program primarily due to rising Canadian stock prices.

Empire Life's MCCR ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of March 31, 2017, 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>March 31 2017</b>	December 31 2016
<b>Percentage of segregated fund liabilities with:</b>		
75% maturity guarantee and a 75% death benefit guarantee	<b>1.4%</b>	1.2%
75% maturity guarantee and a 100% death benefit guarantee	<b>49.5%</b>	49.7%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	<b>6.3%</b>	6.1%
100% maturity and death benefit guarantees ("GMWB")	<b>42.8%</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 30% decrease at March 31, 2017 and a net loss resulting from a 20% and a 30% decrease 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 March 31, 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)</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>March 31, 2017 Shareholders' net income</b>	<b>\$ nil</b>	<b>\$ nil</b>	<b>\$ nil</b>	<b>\$ nil</b>	<b>\$(101)</b>
December 31, 2016 Shareholders' net income	\$ nil	\$ nil	\$ nil	\$(10)	\$(117)

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 March 31, 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)</i>	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>Sensitivity excluding equity risk hedge</b>					
<b>March 31, 2017 Shareholders' net income</b>	<b>\$41</b>	<b>\$20</b>	<b>\$(20)</b>	<b>\$(41)</b>	<b>\$(167)</b>
December 31, 2016 Shareholders' net income	\$51	\$25	\$(25)	\$(60)	\$(196)

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

The March 31, 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)</i>	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>Sensitivity including equity risk hedge</b>					
<b>March 31, 2017 Shareholders' net income</b>	<b>\$28</b>	<b>\$14</b>	<b>\$(12)</b>	<b>\$(21)</b>	<b>\$(128)</b>
December 31, 2016 Shareholders' net income	\$36	\$18	\$(16)	\$(36)	\$(148)

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):

<b>Excluding equity risk hedge MCCR</b>	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>Sensitivity to stock markets (percentage points)</b>					
<b>March 31, 2017 MCCR ratio</b>	<b>—</b>	<b>0.2</b>	<b>(12.4)</b>	<b>(38.5)</b>	<b>(43.0)</b>
December 31, 2016 MCCR ratio	0.7	(0.2)	(12.1)	(35.3)	(40.1)

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

<b>Including equity risk hedge MCCR</b>	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>Sensitivity to stock markets (percentage points)</b>					
<b>March 31, 2017 MCCR ratio</b>	<b>(4.2)</b>	<b>(2.0)</b>	<b>(10.4)</b>	<b>(34.5)</b>	<b>(35.1)</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	MCCR
	Fund Value	Amount at Risk	Fund Value	Amount at Risk	Fund Value	Amount at Risk	Liabilities	Required Capital
March 31, 2017	\$ 2,547	\$ 611	\$ 23	\$ 1	\$ 222	\$ 3	\$ nil	\$ 156
December 31, 2016	\$ 2,530	\$ 627	\$ 37	\$ 1	\$ 324	\$ 4	\$ nil	\$ 150

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 March 31, 2017 the aggregate amount at risk for all three categories of risk is \$615 million. At December 31, 2016, the aggregate amount at risk for these three categories of risk was \$632 million. The amount at risk decreased from \$632 million at December 31, 2016 to \$615 at March 31, 2017.

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 March 31, 2017 decreased from the December 2016 levels for GMWB withdrawal benefit exposure primarily due strong equity market performance in 2017 and reduced net sales of GMWB product in the first quarter of 2017. 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 March 31, 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>March 31, 2017 MCCR ratio</b>	<b>-19.1%</b>	<b>-13.4%</b>
December 31, 2016 MCCR ratio	-19.5%	-14.5%

Duncan N.R. Jackman

Chairman, President and Chief Executive Officer

May 10, 2017