E-L FINANCIAL CORPORATION LIMITED

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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 2018 should be read in conjunction with the MD&A for the year ended December 31, 2017, 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 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.

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

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

Additional information relating to the Company, including its Annual Information Form, may be found at www.sedar.com.

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

Return on common shareholders' equity is a profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

Sources of earnings break down Empire Life earnings into several categories which are useful to assess the performance of the business. These categories include expected profit from in-force business, impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. The sources of earnings components are reconciled to Empire Life's net income on page 13 of this report.

Annualized premium sales are used as a method of measuring sales volume. It is equal to the premium expected to be received in the first twelve months for all new individual insurance and employee benefit

policies sold during the period. Mutual fund gross and net sales and segregated fund gross and net sales are also used as measures of sales volume. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

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

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

(in millions of dollars)		**March 31 2018**		December 31 2017
General fund assets	**$**	**8,695.0**	$	8,712.6
Segregated fund assets		**8,405.4**		8,681.9
Total Empire Life assets		**17,100.4**		17,394.5
Mutual fund assets		**172.1**		183.7
Total assets under management	**$**	**17,272.5**	$	17,578.2

The Company

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

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies and other private companies. E-L Financial holds a 52.0% 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 36.7% 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 (99.3% 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:

E-L Financial consolidated			**First quarter**
(millions of dollars)		**2018**	**2017**
Contribution to net income			
E-L Corporate[1]	**$**	**27.1**	$ 214.3
Empire Life[2]		**38.4**	49.8
Net income		**65.5**	264.1
Other comprehensive loss[2]		**(9.0)**	(29.2)
Comprehensive income	**$**	**56.5**	$ 234.9

E-L Corporate			**First quarter**
(millions of dollars)		**2018**	**2017**
Revenue			
Net gain on investments[3]	**$**	**22.3**	$ 269.7
Investment and other income		**25.2**	24.3
Share of associates (loss) income		**(2.6)**	0.7
		44.9	294.7
Expenses			
Operating		**8.8**	6.6
Income taxes		**4.9**	38.8
Non-controlling interests		**4.1**	35.0
		17.8	80.4
Net income		**27.1**	214.3
Other comprehensive income (loss), net of taxes[1]		**0.1**	(38.1)
Comprehensive income	**$**	**27.2**	$ 176.2

Empire Life			**First quarter**
(millions of dollars)		**2018**	**2017**
Revenue			
Net premiums	**$**	**211.0**	$ 202.4
Net (loss) gain on investments[3]		**(80.0)**	81.6
Investment income		**67.3**	64.6
Fee income		**65.5**	61.3
		263.8	409.9
Expenses			
Benefits and expenses		**207.1**	338.9
Income and other taxes		**16.1**	20.1
Non-controlling and participating policyholders' interests		**2.2**	1.1
		225.4	360.1
Net income		**38.4**	49.8
Other comprehensive (loss) income, net of taxes[2]		**(9.1)**	8.9
Comprehensive income	**$**	**29.3**	$ 58.7

[1] Net of non-controlling interests
[2] Net of non-controlling interests and participating policyholders' income (loss)
[3] 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 $65.5 million or $15.69 per common share compared with $264.1 million or $66.26 per common share in 2017. The decrease in net income is primarily due to a lower net gain on investments in the E-L Corporate segment of $22.3 million in 2018 compared to $269.7 million in 2017. E-L Corporate's global investment portfolio yielded a pre-tax total return of 1% in the first quarter of 2018 compared to 6% in the prior year. The higher investment returns for the first quarter of 2017 were attributed to the strong performance of global equities whereas positive foreign currency movements offset negative investments returns for the first quarter of 2018.

The Empire Life segment reported net income of $38.4 million in 2018 compared to $49.8 million in 2017. The earnings for the first quarter of 2018 included growth from expected profit on in-force business in the Individual Insurance product line and higher experience gains in Individual Insurance and Employee Benefits product lines. The first quarter of 2017 included gains realized from management actions in the Individual Insurance product line. These gains were not realized in the first quarter of 2018.

Consolidated comprehensive income for 2018 was $56.5 million or $13.39 per common share compared to $234.9 million or $58.82 per common share in 2017. The movement in comprehensive income is mainly due to the reasons noted above.

Net equity value per share

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

(millions of dollars, except per share amounts)	**Q1 2018**	Q4 2017	Q1 2017
E-L Financial shareholders' equity	**$ 5,600.5**	$ 5,552.9	$ 5,180.2
Less: First preference shares	**(300.0)**	(300.0)	(300.0)
	5,300.5	5,252.9	4,880.2
Adjustments for investments in associates not carried at fair value:			
Carrying value	**(325.8)**	(330.1)	(305.0)
Fair value [1]	**354.6**	381.1	323.2
	28.8	51.0	18.2
Non-controlling interest and deferred tax	**(6.2)**	(11.5)	(3.9)
	22.6	39.5	14.3
Net equity value	**$ 5,323.1**	$ 5,292.4	$ 4,894.5
Common Shares [2] outstanding at year end	**4,019,667**	4,019,667	4,019,667
Net equity value per Common Share [2]	**$ 1,324.26**	$ 1,316.64	$ 1,217.64

[1] Based on quoted market prices
[2] 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***
	$	%
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
2017	1,316.64	14.0
Year to date		
March 31, 2018	**1,324.26**	**0.7**
Compounded annual growth in net equity value*		
2008 - 2017 - 10 years		7.7
1969 - 2017 - Since inception		12.7

* 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)	**2018**	2017				2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue								
Net (loss) gain on investments [1]	**$ (57.7)**	$ 526.9	$ (239.9)	$ 208.7	$ 351.2	$ (308.4)	$ 292.4	$ 298.7
Net premium income	**211.0**	210.0	217.4	204.4	202.5	222.4	218.7	210.6
Investment and other income	**158.0**	173.4	157.5	174.6	150.1	150.0	141.2	158.7
Associates [2]	**(2.6)**	13.6	9.4	12.1	0.7	(31.3)	16.9	8.6
Total	**$ 308.7**	$ 923.9	$ 144.4	$ 599.8	$ 704.5	$ 32.7	$ 669.2	$ 676.6
Net income [3]	**$ 65.5**	$ 257.1	$ 49.4	$ 97.5	$ 264.1	$ 100.1	$ 191.3	$ 103.2
Earnings per common share								
- basic	**$ 15.69**	$ 64.47	$ 11.60	$ 23.84	$ 66.26	$ 24.49	$ 47.72	$ 25.28
- diluted	**$ 15.15**	$ 58.80	$ 11.31	$ 22.30	$ 60.41	$ 22.77	$ 43.52	$ 23.48

[1] Fair value change on FVTPL investments and realized gain (loss) on AFS investments
[2] Share of income (loss) of associates
[3] 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 2018 decreased from both the prior quarter and the first quarter of 2017 mainly due to the impact of lower net investment gains for E-L Corporate and Empire Life. The decrease in net investment gains in 2018 is due to lower equity returns and the impact of movements in long term interest rates.

Net premium income for the quarter increased compared to the prior and first quarter of 2017 due to growth across all product lines.

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 (millions of dollars)	E-L Financial (non-consolidated)	United	Empire Life	Consolidation adjustments	**E-L Financial**	
					2018	2017
Cash flows from:						
Operating activities	$ (11.0)	$ 8.5	$ 66.9	$ (3.2)	**$ 61.2**	$ 92.4
Financing activities	(9.8)	(3.7)	(6.8)	2.9	**(17.4)**	(16.1)
Investing activities	9.6	(5.3)	(114.4)	0.3	**(109.8)**	(70.6)
(Decrease) increase in cash and cash equivalents	(11.2)	(0.5)	(54.3)	—	**(66.0)**	5.7
Cash and cash equivalents, at the beginning of the period	25.2	19.6	294.2	—	**339.0**	419.9
Cash and cash equivalents, at the end of the period	$ 14.0	$ 19.1	$ 239.9	$ —	**$ 273.0**	$ 425.6

The decrease in cash provided from operating activities in the first quarter of 2018 relative to 2017, reflects the decrease in cash earnings during 2018 compared to the prior year along with changes in working capital levels.

The decrease in financing activity cash flows during 2018 relative to 2017 was partly due to interest paid on $200 million of subordinated debt issued by Empire Life in September 2017.

The decrease in cash from investing activities during 2018 relative to 2017 was primarily due to the timing of investing the proceeds of $100 million preferred shares issued by Empire Life in November 2017.

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 *(millions of dollars)*		**2018**		2017
Cash flows from:				
Operating activities				
Dividends from subsidiaries	**$**	**1.9**	$	1.3
Dividends and interest		**14.4**		11.6
Expenses and taxes, net of other income		**(27.3)**		(7.0)
		(11.0)		5.9
Financing activities				
Cash dividends		**(8.9)**		(8.9)
Interest paid on borrowings		**(0.4)**		—
Purchases of subsidiary shares		**(0.5)**		—
		(9.8)		(8.9)
Investing activities				
Purchases of investments		**(134.9)**		(769.7)
Proceeds from sales of investments		**124.0**		724.8
Net sales of short-term investments		**18.1**		64.1
Dividends from associates		**2.4**		2.9
		9.6		22.1
Decrease in cash and cash equivalents		**(11.2)**		19.1
Cash and cash equivalents, at the beginning of the period		**25.2**		31.9
Cash and cash equivalents, at the end of the period	**$**	**14.0**	$	51.0

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

On November 1, 2017, the Company drew on a margin loan to purchase $100,000 Series 3 Preferred Shares from Empire Life. The Preferred Shares are eliminated on consolidation.

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 in 2017 compared to the current year.

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, a limited partnership and other private companies.

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

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

(millions of dollars)		**First quarter 2018**		**First quarter 2017**
Revenue				
Net gain on investments	**$**	**22.3**	$	269.7
Investment and other income		**25.2**		24.3
Share of associates (loss) income		**(2.6)**		0.7
		44.9		294.7
Expenses				
Operating		**8.8**		6.6
Income taxes		**4.9**		38.8
Non-controlling interests		**4.1**		35.0
		17.8		80.4
Net income		**27.1**		214.3
Other comprehensive income (loss), net of taxes		**0.1**		(38.1)
Comprehensive income	**$**	**27.2**	$	176.2

Investments - corporate

Investments - corporate includes investments in equities and short-term fixed-income investments. At March 31, 2018, investments - corporate had aggregate investments of $4.9 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2017 of $4.9 billion. The fair value of investments - corporate is summarized in the table below:

(millions of dollars)		**March 31 2018**		December 31 2017
Short-term investments	**$**	**3.1**	$	21.2
Preferred shares		**1.1**		1.1
Derivative asset		**0.7**		0.2
Common shares and units				
Canadian and U.S.		**2,777.2**		2,784.0
Europe		**1,052.1**		1,054.6
Other *		**1,039.2**		992.1
Total		**4,868.5**		4,830.7
Total invested assets	**$**	**4,873.4**	$	4,853.2

* Other investments includes equities and investment funds with exposure to Emerging Markets of $476.0 (December 31, 2017 - $459.9) and Japan of $449.4 (December 31, 2017 - $421.8).

The decrease in E-L Corporate's net income for the first quarter of 2017 compared to the prior year is primarily attributable to a reduction in net investment gains on the global investment portfolio. For the first quarter of 2018, E-L Corporate had a net gain on investments of $22.3 million compared to $269.7 million for the same period in 2017, resulting in a positive pre-tax total return on investments of approximately 1% in 2018 compared to 6% return in the prior year. The decrease in the net gain on investments was due to lower equity

market returns partially offset by the foreign currencies strengthening against the Canadian dollar in the first quarter of 2018.

Investment returns in Canada, the U.S. and Europe were flat during the first quarter of 2018. In other geographic region's, which includes investments in Japan and emerging markets, the portfolio earned a 4% return for the period.

Share of associates (loss) income

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

			First quarter
(millions of dollars)		**2018**	2017
Algoma	**$**	**(2.2)**	$ (5.9)
Economic		**(0.4)**	6.6
	$	**(2.6)**	$ 0.7

E-L Financial's share of Algoma's loss for the first quarter of 2018 was $2.2 million compared to $5.9 million in the prior year. Results for the first quarter typically reflect a loss due to the closing of the canal system and the winter weather conditions on the Great Lakes – St. Lawrence Waterway. The reduction in loss for the first quarter of 2018 was primarily due to a foreign currency exchange gain in the period.

The Company's share of Economic's net income for the first quarter of 2017 decreased over the prior year as a result of lower equity market returns partially offset by the positive impact of the foreign currencies strengthening against the Canadian dollar in the first quarter of 2018. Economic's global investment portfolio had a quarterly pre-tax return, gross of fees, of 1.0% in the first quarter of 2017 compared to a return of 5.2% for the same period in 2017.

(millions of dollars)			**March 31, 2018**		December 31, 2017	
	Ownership		**Carrying value**	**Fair value**	Carrying value	Fair value
Algoma	**36.7%**	**$**	**179.5**	**$ 202.2**	$ 181.9	$ 226.8
Economic	**24.0%**		**146.3**	**152.4**	148.2	154.3
Total		**$**	**325.8**	**$ 354.6**	$ 330.1	$ 381.1

Additional information relating to Algoma and Economic may be found on their respective profiles at 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, 2018, 44% (December 31, 2017 - 44%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 11% (December 31, 2017 - 11%) in Euros and 9% (December 31, 2017 - 9%) 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. Disclosures regarding E-L Corporate's financial instruments, including financial risk management, are included in Notes 3, 5 and 9 to the consolidated financial statements.

Outlook

The Company's future earning prospects are dependent on the successful management of its E-L Corporate portfolio and on the continued profitability of its insurance company subsidiary. The performance of the E-L Corporate portfolio is impacted by global securities markets and the selection of equity and fixed income investments. The Company continues to maintain its strategy of accumulating shareholder value through long-term capital appreciation and dividend 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 $38.7 million for 2018, compared to $50.2 million for first quarter 2017. The earnings for the first quarter of 2018 included growth from expected profit on in-force business in the Individual Insurance product line and higher experience gains in Individual Insurance and Employee Benefits product lines. The first quarter of 2017 included gains realized from management actions in the Individual Insurance product line. These gains were not realized in the first quarter of 2018. Return on common shareholders' equity ("ROE") for first quarter 2018 was 10.8% compared to 15.7% in 2017.

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:

			First quarter
(millions of dollars)		**2018**	2017
Empire Life common shareholders' net income	**$**	**38.7**	$ 50.2
Non-controlling interests		**0.3**	0.4
Net income, contribution to E-L Financial	**$**	**38.4**	$ 49.8

Empire Life return on common shareholders' equity (quarterly annualized)	**10.8%**	15.7%

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

Sources of Earnings			First quarter
(millions of dollars)		**2018**	2017
Expected profit on in-force business	**$**	**49.0**	$ 43.3
Impact of new business		**(3.6)**	(4.8)
Experience gains (losses)		**4.4**	(0.4)
Management actions and changes in assumptions		**—**	29.6
Earnings on operations before income taxes		**49.8**	67.7
Earnings on surplus		**4.5**	1.8
Income before income tax		**54.3**	69.5
Income taxes		**12.3**	17.2
Empire Life's shareholders' net income		**42.1**	52.3
Dividends on preferred shares [1]		**3.4**	2.1
Empire Life common shareholders' net income	**$**	**38.7**	$ 50.2

[1] First quarter 2018 includes $2.1 million (March 31, 2017 - $nil) preference share dividends to E-L Financial

The expected profit on in-force business for the first quarter increased by 13.1% primarily due to growth in the Individual Insurance product line and higher fee income in the Wealth Management product line.

The impact of new business was primarily driven by lower new business expenses related to the Individual Insurance product line, partially offset by the sales mix for segregated fund business in the Wealth Management product line relative to 2017.

The experience gains for the first quarter of 2018 benefited from favourable mortality and surrender experience on the Individual Insurance product line relative to 2017, and improved health and long-term

disability claims in the Employee Benefits product line. In the first quarter of 2017, the Wealth Management product line experienced higher investment gains relative to 2018.

Management actions in the first quarter of 2017 were related to Individual Insurance product line primarily resulted from improved matching of assets and liabilities. There was an increase of investment in real estate limited partnership units which resulted in a gain from updating insurance contract liabilities.

Earnings on surplus increased primarily due to lower expenses from Empire Life's hedging program and higher assets in surplus in 2018.

Results by Major Product Line

Empire Life has three major product lines (Wealth Management, Employee Benefits and Individual Insurance) and maintains distinct accounts for Capital and Surplus. A discussion of each product line's 2018 net income compared to 2017 is shown in the Product Line Results sections later in this report.

The following tables provide a summary of Empire Life results by major product line for the three months ended March 31 for 2018 and 2017. A discussion of results is provided in the Product Line section of the MD&A (figures in MD&A may differ due to rounding):

Three months ended March 31	**Wealth Management**		**Employee Benefits**		**Individual Insurance**		**Capital & Surplus**		**Total**	
(millions of dollars)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenue										
Net premium	**$ 31.8**	$ 27.6	**$ 85.6**	$ 83.6	**$ 93.6**	$ 91.2	**$ —**	$ —	**$ 211.0**	$ 202.4
Fee income	**62.7**	58.5	**2.6**	2.6	**0.1**	0.2	**—**	—	**65.4**	61.3
Investment income	**9.4**	9.7	**0.9**	0.9	**42.1**	41.6	**14.9**	12.3	**67.3**	64.6
Net (losses) gains on investments [1]	**(5.0)**	16.2	**(0.4)**	1.0	**(70.7)**	69.0	**(3.9)**	(4.6)	**(80.0)**	81.6
	98.9	112.0	**88.8**	88.1	**65.1**	202.0	**11.1**	7.7	**263.8**	409.8
Expenses										
Benefits and expenses	**73.4**	74.3	**74.9**	81.2	**51.8**	178.0	**6.1**	4.3	**206.2**	337.8
Income and other taxes	**6.5**	9.4	**5.4**	3.3	**4.3**	7.8	**0.7**	0.6	**17.0**	21.1
	79.9	83.7	**80.3**	84.5	**56.1**	185.8	**6.9**	4.9	**223.2**	358.9
Net income after tax	**$ 19.0**	$ 28.3	**$ 8.5**	$ 3.5	**$ 9.0**	$ 16.2	**$ 4.2**	$ 2.8	**$ 40.6**	$ 50.9
Participating policyholders' portion									**(1.5)**	(1.4)
Dividends on preferred shares									**3.4**	2.1
Empire Life's common shareholders' net income									**38.7**	50.2
Non-controlling interests in net income									**0.3**	0.4
Net income attributable to owners of E-L Financial									**$ 38.4**	$ 49.8

[1] Includes fair value change on FVTPL investments and realized gains on AFS investments

Product Line Results - Wealth Management

(millions of dollars)		First quarter 2018		2017
Fixed Annuities				
Assets under management	**$**	**952.2**	$	956.3
Gross sales		**31.8**		27.7
Net sales		**(7.0)**		(10.6)
Segregated Funds				
Assets under management		**8,385.8**		8,239.7
Gross sales		**268.2**		300.2
Net sales		**(35.3)**		27.4
Fee income		**61.8**		57.4
Mutual Funds				
Assets under management		**172.1**		190.9
Gross sales		**5.7**		9.0
Net sales		**(7.9)**		(2.3)
Fee income		**0.7**		0.7
Net income after tax	**$**	**19.0**	$	28.3

Fixed annuities assets under management decreased by 0.4% during the last 12 months due to higher redemptions and net investment loss. The demand for fixed deferred and immediate annuities increased in 2018 with gross sales up 15.2% year over year, despite the aggressive competitive rates in the market.

Segregated fund assets under management increased by 1.8% during the last 12 months primarily due to stock market increase for the period. For the first quarter of 2018, gross sales were down 10.6% compared to 2017, primarily due to less demand for the Guaranteed Minimum Withdrawal Benefit ("GMWB") product. 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. Fee income has increased by 7.6% primarily due to higher average assets under management, relative to the same period in 2017.

Mutual fund assets decreased by 9.9% during the last 12 months due to lower than anticipated mutual fund sales combined with the closure of three mutual funds in the third quarter of 2017. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

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

Sources of Earnings - Wealth Management		First quarter		
(millions of dollars)		**2018**		2017
Expected profit on in-force business	**$**	**28.2**	$	27.2
Impact of new business		**(2.3)**		(0.8)
Experience (losses) gains		**(0.4)**		11.4
Earnings on operations before income taxes		**25.5**		37.8
Income taxes		**6.5**		9.4
Empire Life's shareholders' net income	**$**	**19.0**	$	28.3

The expected profit on in-force business for the first quarter of 2018 increased primarily from higher fee income on higher segregated fund assets under management. The impact of new business was primarily driven by the sales mix for segregated fund business. The experience gains for the first quarter of 2018 were lower than 2017 as prior year gains were primarily related to investment gains on assets matching fixed annuities.

Product Line Results - Employee Benefits

			First quarter	
(millions of dollars)		**2018**		2017
Selected financial information				
Annualized premium sales	**$**	**26.4**	$	8.1
Net premium		**85.6**		83.6
Net income after tax	**$**	**8.5**	$	3.5

Annualized premium sales were higher in the first quarter of 2018 primarily due to a large block transfer from a new strategic distribution partner, in addition to the continued growth of the small to medium-sized business owner market. Over the last two years, Empire Life has entered into a number of strategic partnerships to expand market share.

Net premiums increased by 2.3% for the same period. 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 first quarter for Employee Benefits:

Sources of Earnings - Employee Benefits			**First quarter**	
(millions of dollars)		**2018**		2017
Expected profit on in-force business	**$**	**5.6**	$	5.4
Impact of new business		**(2.6)**		(1.8)
Experience gains		**8.8**		1.1
Earnings on operations before income taxes		**11.8**		4.7
Income taxes		**3.3**		1.2
Empire Life's shareholders' net income	**$**	**8.5**	$	3.5

Expected profit for the first quarter has slightly increased from prior year due to the growth of net premiums. The increase in new business expense was mainly due to higher sales as discussed above. Experience gains improved in the first quarter of 2018 primarily related to improved health and long-term disability claims relative to 2017. As Empire Life balances claims management with customer experience, it cannot predict whether claims improvement will continue.

Product Line Results - Individual Insurance

(millions of dollars)		First quarter 2018		2017
Selected financial information				
Shareholders' annualized premium sales	**$**	**4.7**	$	5.6
Policyholders' annualized premium sales		**2.9**		1.8
Shareholders' net premiums		**71.4**		71.2
Policyholders' net premiums		**22.2**		19.9
Net income after tax				
Net income after tax shareholders' portion	**$**	**10.7**	$	18.9
Net loss after tax policyholders' portion		**(1.8)**		(2.7)
Net income after tax	**$**	**8.9**	$	16.2

For the first quarter of 2018, shareholders' new premium sales decreased from the comparable period in 2017 primarily due to competitive pricing, while policyholder's new premium sales increased due to product changes in 2017. The total net premiums increased in the first quarter of 2018 compared to the same period in 2017, as a result of higher in-force business. Empire Life has continued to modify its EstateMax® participating policy since it was launched in 2015. In February 2017, EstateMax® 8 Pay and Optimax Wealth™ 8 Pay were introduced which provided new payment options to allow clients to pay for their participating policy in as little as eight years. 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 first quarter for Individual Insurance (excludes policyholders' portion):

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

(millions of dollars)		First quarter 2018		2017
Expected profit on in-force business	**$**	**15.2**	$	10.7
Impact of new business		**1.3**		(2.2)
Experience losses		**(4.0)**		(12.9)
Management actions and changes in assumptions		**—**		29.6
Earnings on operations before income taxes		**12.6**		25.2
Income taxes		**1.8**		6.3
Empire Life's shareholders' net income	**$**	**10.7**	$	18.9

The expected profit for the first quarter of 2018 was mainly driven by the growth in the in-force business. The impact of new business in the first quarter of 2018 was primarily driven by lower new business expenses incurred relative to 2017. The experience losses for the first quarter of 2018 improved relative to 2017 related to more favourable mortality and surrender experience, partially offset by a net investment experience loss.

Management actions to improve asset/liability matching occurred in the first quarter of 2017 as Empire Life increased its investment in real estate limited partnership units resulting in a gain. Management will continue to make changes to the bond portfolios to reduce the mismatch between the liability and asset portfolio.

Long-term interest rate movements are demonstrated in the following table. Interest rate movements impact both bond asset fair values and insurance contract liabilities. In the first quarter of 2018, the increase in interest rates (including spreads as shown below) caused lower bond prices and associated decreases in insurance contract liabilities, which resulted in a net investment experience gain.

	First quarter	
	2018	2017
Interest rate movement		
30 year Canada federal government bond yield		
End of period	**2.22 %**	2.31 %
Beginning of period	**2.26 %**	2.31 %
Change during period	**(0.04)%**	— %
30 year Province of Ontario spread		
End of period	**0.78 %**	0.85 %
Beginning of period	**0.70 %**	0.90 %
Change during period	**0.08 %**	(0.05)%
30 year A rated corporate spread (including financials)		
End of period	**1.42 %**	1.49 %
Beginning of period	**1.32 %**	1.60 %
Change during period	**0.10 %**	(0.11)%
30 year A rated financials spread		
End of period	**1.87 %**	1.87 %
Beginning of period	**1.87 %**	2.01 %
Change during period	**— %**	(0.14)%

Stock market movements are demonstrated in the following table. In the first quarter of 2018, the decrease in stock markets caused a decrease in equity values which was partially offset by a decrease in insurance contract liabilities, which resulted in an investment experience loss.

	First quarter	
	2018	2017
Stock market movement		
S&P/TSX Composite Index		
End of period	**15,367.3**	15,547.8
Beginning of period	**16,209.1**	15,287.6
Percentage change during period	**(5.19)%**	1.70%
S&P 500 Index		
End of period	**2,640.9**	2,362.7
Beginning of period	**2,673.6**	2,238.8
Percentage change during period	**(1.22)%**	5.50%

Results - Capital and Surplus

(millions of dollars)		First quarter **2018**		2017
Net income after tax				
Net income after tax shareholders' portion	**$**	**3.9**	$	1.6
Net income after tax policyholders' portion		**0.4**		1.2
Net income after tax	**$**	**4.2**	$	2.8

Empire Life maintains distinct accounts for Shareholders' Capital and Surplus and Policyholders' Surplus.

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

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

(millions of dollars)		First quarter **2018**		2017
Income from investments	**$**	**11.3**	$	9.8
Losses on hedging instruments		**(0.7)**		(3.8)
Interest and other expenses		**(6.1)**		(4.3)
Earnings before income taxes		**4.5**		1.8
Income taxes		**0.7**		0.2
Empire Life's shareholders' net income	**$**	**3.9**	$	1.6

Income from investments increased in the first quarter of 2018 compared to 2017 primarily because of higher assets in surplus. During the first quarter of 2018, Empire Life incurred lower expenses on its hedging program primarily due to the decline in Canadian stock prices in 2018 compared to an increase in 2017 (discussed in the Risk Management section later in this report). Increased interest expense was due to Empire Life's issuance of a total of $200 million subordinated debentures issued during the third quarter of 2017.

Capital Securities

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth. The securities outstanding are summarized as follows:

Preferred Shares & Subordinated Debentures		As at			
(millions of dollars)	Date issued		**March 31, 2018**		December 31, 2017
Preferred shares	January 2016	**$**	**149.5**	$	149.5
Preferred shares	November 2017	**$**	**100.0**	$	100.0
Subordinated debentures	May 2013	**$**	**300.0**	$	300.0
Subordinated debentures	December 2016	**$**	**200.0**	$	200.0
Subordinated debentures	September 2017	**$**	**200.0**	$	200.0

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 of 2017, Empire Life issued $100 million preferred shares to E-L Financial. E-L Financial is entitled to receive fixed non-cumulative quarterly dividends yielding 4.9% annually for the period ending January 17, 2023. After that the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada rate at that time plus 3.24%.

In the fourth quarter of 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 Canadian Deposit Offering 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 Canadian Deposit Offering Rate plus 1.53% from March 15, 2023 to March 15, 2028. The issuances of the debentures in 2017 have increased the interest paid relative to the first quarter of 2017.

On April 26, 2018, Empire Life announced its intention to redeem all of the outstanding $300 million 2.870% unsecured subordinated debentures on May 31, 2018 at a redemption price equal to the principal amount together with accrued and unpaid interest to that date.The pro-forma Life Insurance Capital Adequacy Test ("LICAT") ratio reflecting this redemption would be 162.1% as of March 31, 2018. Refer to the next section "Capital Resources" for a discussion of LICAT.

Empire Life's debentures and preferred shares are rated by DBRS Limited ("DBRS") and A.M. Best Company, Inc. ("A.M. Best"). Empire Life's DBRS issuer rating is "A" (sixth highest of 20 categories), its subordinated debt rating is "A (low)" (seventh highest of 20 categories), its financial strength rating is "A" (sixth highest of 22 categories) and its Preferred Share rating is Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend.

A.M. Best ratings of Empire Life is "A Excellent" financial strength rating (third highest of 16 categories), "a" long-term issuer credit rating (sixth highest of 21 categories), "bbb+" Subordinated Debt rating (eighth highest of 21 categories), and "bbb" Preferred Share rating (ninth highest of 21 categories). All ratings have a stable trend.

Capital Resources

Effective January 1, 2018, Minimum Continuing Capital and Surplus Requirements ("MCCSR") has been replaced by the LICAT. The LICAT is intended to improve the quality of available capital and provides a better alignment of the risk measures with the long-term economics of the life insurance business. For insurance risks, the LICAT base solvency buffers are computed by applying severe stress events over a one year time horizon to the best estimate insurance policy liabilities determined under the Canadian Asset Liability Method ("CALM"). The base solvency buffer is the amount in excess of the best estimate liability under CALM. The MCCSR required capital components were calculated using factor-based methods applied to the insurance policy liabilities under CALM. For market risks, the LICAT base solvency buffer will behave differently under various economic scenarios when compared to MCCSR. The surplus allowance is primarily made up of provisions for adverse deviations ("PfADs") with respect to insurance risk included insurance policy liabilities. As a result, LICAT ratios are not comparable to the MCCSR ratio. Empire Life had a strong capital position under MCCSR and continues to have a strong capital position under the LICAT framework. Empire Life is required to maintain a minimum Core Ratio of 55% and a Total Ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total capital.

LICAT (millions of dollars)		**March 31 2018**
Available capital		
Tier 1	**$**	**1,479.5**
Tier 2		**915.5**
Total	**$**	**2,395.0**
Surplus allowance and eligible deposits	**$**	**995.7**
Base solvency buffer	**$**	**1,910.4**
LICAT Total Ratio		**177.5%**
LICAT Core Ratio		**113.9%**

MCCSR *(millions of dollars)*	**March 31 2018**	December 31 2017	September 30 2017	June 30 2017	March 31 2017
Available regulatory capital					
Tier 1	**N/A**	$ 1,409.3	$ 1,310.5	$ 1,248.8	$ 1,248.2
Tier 2	**N/A**	931.5	877.1	741.8	713.2
Total	**N/A**	$ 2,340.8	$ 2,187.6	$ 1,990.5	$ 1,961.4
Required regulatory capital	**N/A**	$ 830.5	$ 797.9	$ 798.7	$ 760.1
MCCSR Ratio	**N/A**	281.9%	274.2%	249.2%	258.0%

Risk Management

Caution Related to Sensitivities

In the sections that follow, Empire Life provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk factor, assuming that all other risk variables remain constant. Actual results can differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of Empire Life's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/ sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for Empire Life's future net income, OCI, and capital sensitivities. 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 LICAT ratio declines that might result from adverse stock market price changes. The hedging program currently employs put options 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 LICAT 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 LICAT 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 2018, Empire Life experienced a hedge cost of $0.5 million after tax on its hedging program primarily due to decrease in Canadian stock prices. This compares to a hedge cost of $2.8 million for the comparable period in 2017 primarily due to rising Canadian stock prices in 2017.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of March 31, 2018, 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:

	March 31 2018	December 31 2017
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**2.3%**	2.1%
75% maturity guarantee and a 100% death benefit guarantee	**48.1%**	48.1%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	**6.7%**	6.6%
100% maturity and death benefit guarantee (GMWB)	**42.9%**	43.2%

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 liability 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 March 31, 2018 and at December 31, 2017, 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, 2018 and December 31, 2017, 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:

Sensitivity to segregated fund guarantees	**Increase**		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
March 31, 2018 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$(109.3)**	**$(241.7)**
December 31, 2017 Shareholders' net income	$ nil	$ nil	$ nil	$(34.4)	$(160.2)

Empire Life's equity market sensitivity for segregated fund guarantees in a 20% and 30% stock market decline has increased primarily as a result of a decrease in the Canadian stock market during the first quarter of 2018. 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, 2018 and December 31, 2017, 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):

Excluding equity risk hedge	**Increase**		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
March 31, 2018 Shareholders' net income	**$9.3**	**$2.9**	**$(18.4)**	**$(142.2)**	**$(327.2)**
December 31, 2017 Shareholders' net income	$48.7	$24.3	$(24.3)	$(83.1)	$(235.8)

The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. The March 31, 2018 and December 31, 2017 amounts in the following table include the effect of Empire Life's equity risk hedging program (described above):

Including equity risk hedge	**Increase**		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
March 31, 2018 Shareholders' net income	**$8.2**	**$2.0**	**$(14.9)**	**$(128.2)**	**$(292.4)**
December 31, 2017 Shareholders' net income	$48.2	$23.9	$(22.4)	$(74.0)	$(209.6)

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 LICAT ratio for March 31, 2018 and MCCSR ratio for December 31, 2017 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 LICAT/MCCSR	**Increase**		**Decrease**		
Sensitivity to stock markets	**20%**	**10%**	**10%**	**20%**	**30%**
March 31, 2018 LICAT Total ratio	**(4.5)%**	**(3.2)%**	**(8.7)%**	**(9.3)%**	**(17.1)%**
December 31, 2017 MCCSR ratio	(0.9)%	(0.3)%	(19.4)%	(42.6)%	(58.8)%

The March 31, 2018 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 LICAT/MCCSR	**Increase**		**Decrease**		
Sensitivity to stock markets	**20%**	**10%**	**10%**	**20%**	**30%**
March 31, 2018 LICAT Total ratio	**(4.6)%**	**(3.3)%**	**(8.6)%**	**(8.6)%**	**(15.3)%**
December 31, 2017 MCCSR ratio	(5.1)%	(2.4)%	(17.7)%	(38.7)%	(50.1)%

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees and the resulting actuarial liabilities and LICAT Base Solvency Buffer for March 31, 2018 for Empire Life's segregated funds is as follows:

Segregated Funds	**Withdrawal Benefit > Fund Value**		**Maturity Guarantee > Fund Value**		**Death Benefit > Fund Value**		**Actuarial**	**LICAT**
(millions of dollars)	**Fund Value**	**Amount at Risk**	**Fund Value**	**Amount at Risk**	**Fund Value**	**Amount at Risk**	**Liabilities**	**Capital**
March 31, 2018	**$ 2,714.6**	**$ 779.6**	**$ 146.2**	**$ 5.3**	**$ 1,938.8**	**$ 30.7**	**$ nil**	**$ 296.5**
December 31, 2017	$ 2,708.3	$ 688.5	$ 30.9	$ 0.7	$ 409.1	$ 3.2	$ nil	$ 174.3

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, 2018, the aggregate amount at risk for all three categories of risk is $815.6 million. At December 31, 2017, the aggregate amount at risk for these three categories of risk was $692.4 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 and the regulatory capital at March 31, 2018 increased from the December 31, 2017 levels primarily due to the decrease in Canadian stock market during the first quarter of 2018.

In addition, Empire Life's LICAT 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, 2018 and December 31, 2017, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR").

Sensitivity to market interest rates LICAT/MCCSR:	**Before the sale of AFS assets**	**After the sale of AFS assets**
	50bps decrease	**50bps decrease**
March 31, 2018 LICAT Total ratio	**N/A**	**(4.2)%**
December 31, 2017 MCCSR ratio	(23.4)%	(16.6)%