

REPORT ON E-L FINANCIAL CORPORATION LIMITED

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for the years ended December 31, 2017 and 2016 for E-L Financial Corporation Limited ("E-L Financial" or the "Company"). This MD&A should be read in conjunction with the December 31, 2017 year end consolidated financial statements and the notes, which form part of the E-L Financial Corporation Limited 2017 Annual Report dated March 6, 2018. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Figures in MD&A may differ due to rounding.

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

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

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 7. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

The MD&A also contains non-consolidated cash flow information of E-L Financial which is a non-GAAP presentation. The information is useful as it separates the Company's cash flows from the cash flows of its subsidiaries. This information is reconciled to the consolidated cash flows on page 10.

Other non-GAAP measures are also used in the Empire Life Insurance Company ("Empire" or "Empire Life") section of the MD&A. These include references to annualized premium sales, assets under management, mutual fund gross and net sales, segregated fund gross and net sales and sources of earnings. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

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

Sources of earnings breaks down Empire Life earnings into several categories which are useful to assess the performance of the business. These categories include expected profit from in-force business, impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. These terms are defined in the Glossary of Terms found at the end of this report. The sources of earnings components are reconciled to net income on page 19.

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)	2017	2016
General fund assets	\$ 8,712.6	\$ 7,780.2
Segregated fund assets	8,681.9	8,082.0
Total Empire Life assets	17,394.5	15,862.2
Mutual fund assets	183.7	188.9
Total assets under management	\$ 17,578.2	\$ 16,051.1

The Company

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

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies and other private companies. E-L Financial holds a 51.9% interest in a closed-end investment corporation, United Corporations Limited ("United") which is listed on the Toronto Stock Exchange. United is an investment vehicle for long-term growth through investments in common equities. The invested assets and operations of United are consolidated and included in the E-L Corporate segment. In addition, E-L Corporate has two significant investments in associates including a 36.7% 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 <i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Contribution to net income				
E-L Corporate ⁽¹⁾	\$ 209.0	\$ 47.9	\$ 498.3	\$ 181.6
Empire Life ⁽²⁾	48.1	52.2	169.8	151.5
Net income	257.1	100.1	668.1	333.1
Other comprehensive income (loss) ⁽²⁾	18.4	(10.6)	(34.7)	(17.1)
Comprehensive income	\$ 275.5	\$ 89.5	\$ 633.4	\$ 316.0

E-L Corporate <i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Revenue				
Net gain on investments ⁽³⁾	\$ 257.4	\$ 65.9	\$ 544.5	\$ 155.8
Investment and other income	26.2	22.9	117.6	107.6
Share of associates income (loss)	13.6	(31.2)	35.8	(12.1)
	297.2	57.6	697.9	251.3
Expenses				
Operating	8.7	7.2	28.5	25.4
Income taxes	37.6	7.3	92.3	31.2
Non-controlling interests	41.9	(4.8)	78.8	13.1
	88.2	9.7	199.6	69.7
Net income	209.0	47.9	498.3	181.6
Other comprehensive income (loss), net of taxes ⁽¹⁾	1.5	5.4	(42.1)	(18.5)
Comprehensive income	\$ 210.5	\$ 53.3	\$ 456.2	\$ 163.1

Empire Life <i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Revenue				
Net premiums	\$ 210.0	\$ 222.5	\$ 834.2	\$ 881.5
Net gain on investments ⁽³⁾	269.5	(374.4)	302.4	43.7
Investment income	77.2	68.7	281.2	254.9
Fee income	70.1	58.2	256.8	228.4
	626.8	(25.0)	1,674.6	1,408.5
Expenses				
Benefits and expenses	552.8	(98.8)	1,428.4	1,182.1
Income and other taxes	20.2	21.9	70.3	69.2
Non-controlling and participating policyholders' interests	5.7	(0.3)	6.1	5.7
	578.7	(77.2)	1,504.8	1,257.0
Net income	48.1	52.2	169.8	151.5
Other comprehensive income, net of taxes ⁽²⁾	16.9	(16.0)	7.4	1.4
Comprehensive income	\$ 65.0	\$ 36.2	\$ 177.2	\$ 152.9

⁽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 \$668.1 million or \$166.17 per common share compared with \$333.1 million or \$80.88 per common share in 2016. The increase in net income is primarily due to E-L Corporate's net gain on investments of \$544.5 million compared to \$155.8 million in 2016. E-L Corporate's global investment portfolio was positively impacted by stronger equity markets returns as 2017 yielded a pre-tax total return of 14% compared to 6% in the prior year.

The Empire Life segment reported net income of \$169.8 million in 2017 compared to \$151.5 million in 2016. The increase in net income was a result of continued growth in the Wealth Management product line, improved performance of the Employee Benefits product line and lower hedge costs partly offset by lower gains in the Individual Insurance product line.

Consolidated comprehensive income for 2017 was \$633.4 million or \$157.33 per common share compared to \$316.0 million or \$76.50 per common share in 2016. 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:

<i>(millions of dollars, except per share amounts)</i>	2017	2016
E-L Financial shareholders' equity	\$ 5,552.9	\$ 4,954.2
Less: First preference shares	(300.0)	(300.0)
	5,252.9	4,654.2
Adjustments for investments in associates not carried at fair value:		
Carrying value	(330.1)	(309.6)
Fair value ⁽¹⁾	381.1	316.1
	51.0	6.5
Non-controlling interest and deferred tax	(11.5)	(0.9)
	39.5	5.6
Net equity value	\$ 5,292.4	\$ 4,659.8
Common Shares ⁽²⁾ outstanding at year end	4,019,667	4,019,667
Net equity value per Common Share ⁽²⁾	\$ 1,316.64	\$ 1,159.26

⁽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
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)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Net gain (loss) on investments ⁽¹⁾	\$ 526.9	\$ (239.9)	\$ 208.7	\$ 351.2	\$ (308.4)	\$ 292.4	\$ 298.7	\$ (83.2)
Net premium income	210.0	217.4	204.4	202.5	222.4	218.7	210.6	229.8
Investment and other income	173.4	157.5	174.6	150.1	150.0	141.2	158.7	141.0
Associates ⁽²⁾	13.6	9.4	12.1	0.7	(31.3)	16.9	8.6	(6.3)
Total	\$ 923.9	\$ 144.4	\$ 599.8	\$ 704.5	\$ 32.7	\$ 669.2	\$ 676.6	\$ 281.3
Net income (loss) ⁽³⁾	\$ 257.1	\$ 49.4	\$ 97.5	\$ 264.1	\$ 100.1	\$ 191.3	\$ 103.2	\$ (61.4)
Earnings (loss) per common share								
- basic	\$ 64.47	\$ 11.60	\$ 23.84	\$ 66.26	\$ 24.49	\$ 47.72	\$ 25.28	\$ (16.62)
- diluted	\$ 58.80	\$ 11.31	\$ 22.30	\$ 60.41	\$ 22.77	\$ 43.52	\$ 23.48	\$ (16.62)

⁽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 fourth quarter of 2017 increased from both the prior quarter of 2017 and the fourth quarter of 2016 mainly due to the impact of higher net fair value investment gains for E-L Corporate and Empire

Life. The increase in net investment gains compared to the third quarter of 2017 and fourth quarter of 2016 is due to both positive equity returns and the the impact of movements in long term interest rates.

Net premium income for the quarter decreased compared to the third quarter of 2017 and fourth quarter of 2016 mainly due to lower fixed interest annuity premiums. Management believes that customers are choosing equity products rather than more conservative fixed interest products due to the recent appreciation in equity markets and low interest rates.

Fourth quarter results

For the three months ended December 31, 2017, E-L Financial had consolidated net income of \$257.1 million or \$64.47 per common share compared with \$100.1 million or \$24.49 per common share in 2016. The \$157.0 million increase is mainly due to E-L Corporate's \$257.4 million net gain on investments in the fourth quarter of 2017 compared to a \$65.9 million in 2016. The increase in the net gain on investments was due to both higher equity market returns and foreign currencies strengthening against the Canadian dollar in the fourth quarter of 2017. Income from associates earned \$13.6 million for the fourth quarter of 2017 compared to a loss of \$31.2 million in 2016. The 2016 results included an impairment write down of \$31.8 million related to the Company's investment in Algoma. Empire Life's net income for the quarter was \$48.1 million compared to \$52.2 million in 2016. The decrease in income is mainly due to lower gains in the Individual Insurance product line partly offset by improved operating performance in the Wealth Management product line.

For the three months ended December 31, 2017, E-L Financial had consolidated comprehensive income of \$275.5 million or \$69.16 per share compared with \$89.5 million or \$21.79 per share for the comparable period in 2016. Other comprehensive income ("OCI") was \$18.4 million compared to a other comprehensive loss ("OCL") of \$10.6 million in the fourth quarter of 2016. The increase in OCI is mainly due to higher unrealized investment gains on AFS investments within the Empire Life segment during the quarter partially offset by a decline in the net remeasurement of defined benefit plan compared to the fourth quarter of 2016.

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:

Year ended December 31 (millions of dollars)	E-L Financial (non- consolidated)	United	Empire Life	Consolidation adjustments	E-L Financial	
					2017	2016
Cash flows from:						
Operating activities	\$ 56.1	\$ 8.5	\$ 297.4	(15.2)	\$ 346.8	\$ 334.2
Financing activities	(38.9)	(27.4)	279.6	14.0	227.3	282.7
Investing activities	(23.9)	19.3	(651.7)	1.2	(655.1)	(503.4)
(Decrease) increase in cash and cash equivalents	(6.7)	0.4	(74.7)	—	(81.0)	113.5
Cash and cash equivalents, at the beginning of the year	31.9	19.1	368.9	—	419.9	306.5
Cash and cash equivalents, at the end of the year	\$ 25.2	\$ 19.5	\$ 294.2	—	\$ 338.9	\$ 420.0

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

The decrease in financing activity cash flows during 2017 relative to 2016 was primarily due to Empire Life's issuance of \$200 million of subordinated debentures in 2017 compared to the issuance of \$200 million of subordinated debentures and \$149.5 million of preferred shares in 2016.

The change in cash from investing activities during 2017 relative to 2016 was primarily driven by the timing of portfolio investment transactions and the investment of proceeds from Empire Life's 2017 and 2016 subordinated debt and preferred share issuances.

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).

<i>(millions of dollars)</i>	2017	2016
Cash flows from:		
Operating activities		
Dividends from subsidiaries	\$ 14.0	\$ 13.4
Dividends and interest	66.9	59.7
Expenses and taxes, net of other income	(24.8)	(26.9)
	56.1	46.2
Financing activities		
Cash dividends	(35.6)	(31.1)
Margin loan	100.0	—
Interest paid on margin loan	(0.2)	—
Purchases of subsidiary shares	(103.1)	(3.8)
	(38.9)	(34.9)
Investing activities		
Purchases of investments	(1,132.4)	(319.4)
Proceeds from sales of investments	1,057.3	295.5
Net sales (purchases) of short-term investments	44.4	(47.3)
Dividends from associates	6.8	4.9
	(23.9)	(66.3)
Decrease in cash and cash equivalents	(6.7)	(55.0)
Cash and cash equivalents, at the beginning of the year	31.9	86.9
Cash and cash equivalents, at the end of the year	\$ 25.2	\$ 31.9

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

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

Selected annual information

(millions of dollars, except per share amounts)	2017	2016	2015
Revenue	2,372.6	1,659.8	1,989.7
Shareholder net income			
E-L Corporate	498.3	181.6	447.2
Empire Life	169.8	151.5	87.4
Total	668.1	333.1	534.6
Earnings per share			
- basic	166.17	80.88	132.18
- diluted	152.83	75.80	121.74
Assets			
E-L Corporate	5,245.1	4,721.3	4,603.6
Empire Life	17,394.5	15,862.2	14,363.6
Total assets	22,639.6	20,583.5	18,967.2
Cash dividends declared per share			
First Preference shares, Series 1	\$ 1.3250	\$ 1.3250	\$ 1.3250
First Preference shares, Series 2	\$ 1.1875	\$ 1.1875	\$ 1.1875
First Preference shares, Series 3	\$ 1.3750	\$ 1.3750	\$ 1.3750
Common shares	\$ 5.00	\$ 5.00	\$ 0.50

Revenues and net income over the period have been significantly impacted by fluctuations in the global stock markets. E-L Corporate reported \$568.9 million in net gains on investments in 2015 reflecting the impact on the global investment portfolio as the foreign currencies strengthened against the Canadian dollar. This compared to net gains on investments of \$155.8 million and \$544.5 million for 2016 and 2017 respectively. In 2016 investment returns in local currencies improved but were partially offset by the strengthening of the Canadian dollar relative to the U.S. dollar and Euro. In 2017 equity market returns in local currency were significantly higher than the prior year but were partially offset by foreign currency movements.

The fluctuation in Empire Life's revenue for the three year period is primarily driven by the impact of market interest rate movements on Empire Life's FVTPL investments.

Over the past three years, assets have continued to increase due to the growth in the investment portfolio combined with positive investment returns.

During 2016 the Company increased its annual dividend to Common shareholders to \$5.00 from \$0.50.

Disclosure controls and procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company under Canadian securities laws is recorded, processed, summarized and reported within the specified time periods, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. Under the supervision of management, an evaluation was carried out on the effectiveness of the Company's disclosure controls and procedures as of December 31, 2017. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2017.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Under the supervision of management, an evaluation of the Company's internal control over financial reporting was carried out as at December 31, 2017. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2017. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Critical accounting estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada which require estimates and assumptions in determining amounts reported in the financial statements. Note 2 to the consolidated financial statements describes the significant accounting policies. The Company considers the following items to be particularly susceptible to changes in estimates and judgments:

Insurance-related liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivity to risks related to policy liabilities are included in note 22 to the consolidated financial statements.

Pension and other employee future benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made affect the pension and other employee future benefits expense included in net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI.

Impairment

The Company maintains a prudent policy in setting the provision for impaired investments. When there is no longer reasonable assurance of full collection of loan principal and loan interest related to a mortgage or policy contract loan, management establishes a specific provision for loan impairment and charges the corresponding reduction in carrying value to income in the period the impairment is identified. In determining the estimated realizable value of the investment, management considers a number of events and conditions. These include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. Changes in these circumstances may cause subsequent changes in the estimated realizable amount of the investment and changes in the specific provision for impairment.

Available for sale securities are subject to a regular review for losses that are significant or prolonged. Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value

of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

Investments in associates recognize an impairment loss if the investment in associates' recoverable amount is determined to be lower than the investment's carrying amount at the reporting date. Recoverable amount is equal to the higher of the investment's fair value less costs of disposal and value in use. Impairment losses are recognized in the consolidated statements of income. Previously recognized impairment losses are reversed if the investment's recoverable amount subsequently increases and there is a significant indication that the circumstances that led to the initial recognition of the impairment loss have improved or recovered completely.

Consolidation

There could be judgment involved in assessing control or significant influence of certain of the Company's interests in other entities. The Company has applied judgment to assess which party has power or influence over the relevant activities of these entities. When assessing decision making power, the Company has considered voting rights, contractual agreements, relative share holdings, and other facts and circumstances. The initial assessment of control or influence is reassessed when there are changes in facts and circumstances.

Fair value estimates

In measuring the fair value of financial instruments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate. Judgment is also required in the classification of fair value measurements within the levels of the fair value hierarchy, in particular those items categorized within Level 3 of the hierarchy.

Accounting changes

New accounting pronouncements adopted in 2017

Amendments to IAS 12 Income Taxes ("IAS 12")

In January 2016, the IASB issued amendments to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Adoption of the amendment on January 1, 2017 did not have a significant impact on the consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. Adoption of the amendment on January 1, 2017 did not have a significant impact on the consolidated financial statements.

New accounting pronouncements issued but not yet effective

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue which is effective on January 1, 2018. This will replace IAS 18 *Revenue* which covers contracts for goods and services and IAS 11 *Construction Contracts* which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Management has completed their analysis of IFRS 15 and has assessed that there are no material impacts to the Company and the consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and measurement* with a new mixed measurement model having only two measurement categories of amortized cost and FVTPL for financial assets.

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

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (Subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two different solutions for insurance companies relating to IFRS 9, both of which are optional:

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

The Company will apply the temporary exemption for periods beginning before January 1, 2021, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. To assess whether activities are 'predominantly connected with insurance' two criteria were satisfied:

- Carrying amount of liabilities arising from contracts within IFRS 17's scope is significant, compared to the total carrying amount of liabilities; and
- Comparison of total carrying amount of liabilities connected with insurance with the total carrying amount of all of its liabilities. Liabilities connected with insurance include segregated fund liabilities measured at FVTPL applying IAS 39, and liabilities that arise because the insurer issues or fulfills obligations arising from those insurance and segregated fund contracts. The second test is passed if the resulting percentage is either: greater than 90%; or if it is less than or equal to 90% but greater than 80%, the insurer is not engaged in a significant activity unconnected with insurance.

We have consider the total insurance liabilities, which include segregated fund liabilities, against our total liabilities and have concluded that the Company meets both criteria noted above. The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB published IFRS 16 which is effective January 1, 2019. The new standard requires the capitalization of all leases by recognizing the present value of the lease payments and showing them as lease assets, and recognizing a financial liability representing an obligation to make future lease payments. The Company is evaluating the impact of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required to be restated. The Company is evaluating the impact of IFRS 17 on its consolidated financial statements.

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:

<i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Revenue				
Net gain on investments	\$ 257.4	\$ 65.9	\$ 544.5	\$ 155.8
Investment and other income	26.2	22.9	117.6	107.6
Share of associates income (loss)	13.6	(31.2)	35.8	(12.1)
	297.2	57.6	697.9	251.3
Expenses				
Operating	8.7	7.2	28.5	25.4
Income taxes	37.6	7.3	92.3	31.2
Non-controlling interests	41.9	(4.8)	78.8	13.1
	88.2	9.7	199.6	69.7
Net income	209.0	47.9	498.3	181.6
Other comprehensive income (loss), net of taxes	1.5	5.4	(42.1)	(18.5)
Comprehensive income	\$ 210.5	\$ 53.3	\$ 456.2	\$ 163.1

Investments - corporate

Investments - corporate includes investments in equities and short-term fixed-income investments. At December 31, 2017, 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, 2016 of \$4.3 billion. The fair value of investments - corporate is summarized in the table below:

<i>(millions of dollars)</i>	2017	2016
Short-term investments	\$ 21.2	\$ 65.6
Preferred shares	1.1	1.1
Derivative asset	0.2	—
Common shares and units		
Canadian and U.S.	2,784.0	2,776.7
Europe	1,054.6	929.0
Other *	992.1	569.2
Total	4,830.7	4,274.9
Total invested assets	\$ 4,853.2	\$ 4,341.6

* Other investments includes equities and investment funds with exposure to Emerging Markets of \$459.9 (December 31, 2016 - \$145.1) and Japan of \$421.8 (December 31, 2016 - \$367.7).

The increase in E-L Corporate's net income for the fourth quarter of 2017 is primarily attributable to net investment gains on the global investment portfolio. For the fourth quarter of 2017, E-L Corporate had a net gain on investments of \$257.4 million compared to \$65.9 million for the same period in 2016, resulting in a positive pre-tax return on investments of approximately 6% in 2017 compared to a 2% return in the prior

year. The \$191.5 million increase in the net gain on investments was due to both higher equity market returns and foreign currencies strengthening against the Canadian dollar in the fourth quarter of 2017.

For the year ended December 31, 2017, E-L Corporate's net gain on investments was \$544.5 million compared with \$155.8 million in 2016, resulting in a positive pre-tax return on investments of approximately 14% in 2017 compared to 6% for 2016. This difference can primarily be attributed to the stronger equity market performance during 2017 relative to 2016.

The following table details the 2017 return on investments by geographic region:

	Investment return
	%
Canada and U.S.	13
Europe	16
Other	20

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

Share of associates income

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

<i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Algoma	\$ 4.9	\$ (3.6)	\$ 20.6	\$ 12.7
Economic	8.7	4.2	15.2	7.0
	13.6	0.6	35.8	19.7
Impairment write down	—	(31.8)	—	(31.8)
	\$ 13.6	\$ (31.2)	\$ 35.8	\$ (12.1)

E-L Financial's share of Algoma's earnings for the fourth quarter of 2017 was \$4.9 million compared to a net loss of \$3.6 million in the prior year. Algoma's net loss in 2016 included an impairment expense relating to the Domestic Dry-Bulk and Product Tanker fleets.

For the year ended December 31, 2017, Algoma's net earnings attributable to E-L Financial increased 63% compared to 2016. The increase is principally attributable to the Domestic Dry-Bulk segment. Net income for 2016 included gains related to the cancellation of shipbuilding contracts, the refund of progress payments made on those contracts, offset by significant impairment expenses. Earnings for fiscal 2017 reflect a foreign currency exchange gain compared to a loss in 2016. Excluding the specific transactions noted above, Algoma's net income increased approximately 16% compared to the prior year.

The Company's share of Economic's net income for the fourth quarter of 2017 increased over the prior year as a result of higher equity market returns and foreign currencies strengthening against the Canadian dollar in the fourth quarter of 2017. Economic's global investment portfolio had a quarterly pre-tax return, gross of fees, of 7.1% in the fourth quarter of 2017 compared to a return of 1.1% for the same period in 2016. On a full year basis, Economic's global investment portfolio had a pre-tax return, gross of fees, of 11.5% during 2017 compared to a 4.5% return in 2016.

<i>(millions of dollars)</i>	2017			2016		
	Ownership	Carrying value	Fair value	Ownership	Carrying value	Fair value
Algoma ⁽¹⁾	36.7%	181.9	226.8	36.3%	173.2	173.2
Economic	24.0%	148.2	154.3	24.0%	136.4	142.9
Total		330.1	381.1		309.6	316.1

⁽¹⁾ On December 21, 2017, Algoma purchased 361,418 common shares for cancellation resulting in an increase in the Company's ownership.

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 December 31, 2017, 44% (2016 - 49%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 11% (2016 - 12%) in Euros and 9% (2016 - 8%) in the Japanese Yen representing the largest foreign currency exposures.

Credit risk

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact the Company is included in the Annual Information Form which is available at www.sedar.com. Disclosures regarding E-L Corporate's financial instruments, including financial risk management, are included in Notes 4, 6 and 22 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 fourth quarter common shareholders’ net income of \$48.3 million for 2017, compared to \$52.5 million for fourth quarter 2016. The decrease in earnings for the fourth quarter of 2017 compared to 2016 is primarily as a result of lower gains in the Individual Insurance product line partly offset by improved operating performance in the Wealth Management product line. Full year common shareholders’ net income was \$170.9 million compared to \$152.7 million in 2016 primarily due to improved operating performance in the Wealth Management and Employee Benefits product lines and lower hedge costs, partially offset by lower gains in the Individual Insurance product line. Despite the higher net income for the full year 2017, ROE was lower than full year 2016 due to higher levels of common shareholders’ equity during 2017 compared to 2016. 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>	Fourth quarter		Year	
	2017	2016	2017	2016
Empire Life common shareholders’ net income	\$ 48.3	\$ 52.5	\$ 170.9	\$ 152.7
Non-controlling interests	0.2	0.3	1.1	1.2
Net income, contribution to E-L Financial	\$ 48.1	\$ 52.2	\$ 169.8	\$ 151.5
Empire Life return on common shareholders’ equity (annualized) (“ROE”)	13.8%	17.1%	12.8%	13.1%

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

Sources of Earnings <i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Expected profit on in-force business	\$ 53.0	\$ 39.9	\$ 182.5	\$ 159.5
Impact of new business	(7.9)	(5.5)	(22.0)	(15.2)
Experience gains	8.2	34.5	15.9	32.6
Management actions and changes in assumptions	4.4	5.5	32.2	40.3
Earnings on operations before income taxes	57.8	74.4	208.6	217.2
Earnings (losses) on surplus	8.5	(1.1)	27.5	(2.7)
Income before income tax	66.3	73.3	236.1	214.5
Income taxes	14.8	18.6	55.6	54.0
Empire Life’s shareholders’ net income	51.5	54.7	180.5	160.6
Dividends on preferred shares ⁽¹⁾	3.2	2.2	9.6	7.9
Empire Life common shareholders’ net income	\$ 48.3	\$ 52.5	\$ 170.9	\$ 152.7

⁽¹⁾ Includes \$1.3 million (2016 - \$nil) preference share dividends to E-L Financial

The expected profit on in-force business for the fourth quarter and year increased by 32.8% and 14.4% respectively. The growth for the fourth quarter and the year was primarily from growth in management and guarantee fees in the Wealth Management product line. The impact of new business was primarily driven by higher new business expenses incurred in the Individual insurance product line relative to 2016. The experience gains for the fourth quarter were favourable in both years primarily in the Individual Insurance product line due to improved stock markets in 2017 and rising interest rates and strongly improved stock markets in 2016. These items also had a favourable impact on experience gains (losses) for the full year in

2017 and 2016. Experience gains also benefited from favourable health claims results in the Employee Benefits product line in 2017. These favourable items were partly offset by unfavourable surrender and lapse experience in the Individual insurance product line in the fourth quarter and year during both 2017 and 2016. Gains from management actions in the Individual Insurance product line primarily resulted from improved matching of assets and liabilities during the fourth quarter and year in both 2017 and 2016. In both 2017 and 2016, the update of policy liability assumptions did not have a significant impact on common shareholders' net income. Earnings on surplus increased primarily due to lower costs from Empire Life's hedging program due to stable Canadian stock prices in 2017 compared to rising Canadian stock prices in 2016 and higher investment income due to higher assets in surplus in 2017.

(millions of dollars)	Date issued	2017	2016
Preferred Shares & Subordinated Debentures			
Preferred Shares	January 2016	\$ 149.5	\$ 149.5
Preferred Shares	November 2017	\$ 100.0	—
Subordinated debentures	May 2013	\$ 300.0	\$ 300.0
Subordinated debentures	December 2016	\$ 200.0	\$ 200.0
Subordinated debentures	September 2017	\$ 200.0	—

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth since May 2013. In the first quarter of 2016 Empire Life issued \$149.5 million of preferred shares. The holders are entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually for the period ending on April 17, 2021. After that the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada Bond yield plus 4.99%. In the fourth quarter of 2017 Empire Life issued \$100 million preferred shares to E-L Financial. E-L Financial is entitled to receive non-cumulative quarterly dividends yielding 4.9% annually for the period ending January 17, 2023. After that the dividend rate will be reset at the 5-year Government of Canada rate at that time plus 3.24%. In the fourth quarter 2016 Empire Life issued \$200 million principal amount of unsecured subordinated debentures with a maturity date at December 16, 2026. The interest rate on the debentures is 3.383% paid semi-annually until December 16, 2021. After that the interest rate will be the 3-month Canada deposit offer rate plus 1.95% from December 16, 2021 to December 16, 2026. In the third quarter of 2017 Empire Life issued \$200 million principal amount of unsecured subordinated debentures with a maturity date of March 15, 2028. The interest rate on the debentures is 3.664% paid semi-annually until March 15, 2023. After that the interest rate will be the 3-month Canada deposit offer rate plus 1.53% from March 15, 2023 to March 15, 2028. The issuances of the debentures in 2016 and 2017 have increased the interest paid relative to the fourth quarter of 2016 and year 2016. Empire Life may call for redemption on or after May 31, 2018, subject to OSFI approval, the subordinated debenture issued in May 2013.

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

Three months ended December 31

<i>(millions of dollars)</i>	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue										
Net premium income	\$ 33.5	\$ 39.0	\$ 81.9	\$ 85.2	\$ 94.6	\$ 98.3	\$ —	\$ —	\$ 210.0	\$ 222.5
Fee income	67.3	55.5	2.5	2.5	—	0.2	0.3	0.1	70.1	58.3
Investment income	10.0	10.4	1.1	0.9	49.2	45.8	16.9	11.6	77.2	68.7
Net gains (losses) on investments ⁽¹⁾	13.9	(12.5)	1.1	(2.8)	253.0	(349.9)	1.7	(9.2)	269.5	(374.4)
	124.7	92.4	86.6	85.8	396.8	(205.6)	18.9	2.5	626.8	(24.9)
Expenses										
Benefits and expenses	96.8	81.7	75.6	71.6	372.9	(255.9)	6.8	2.9	552.0	(99.7)
Income and other taxes	6.9	2.2	4.4	5.5	6.9	15.4	2.9	(0.2)	21.0	22.9
	103.7	83.9	80.0	77.1	379.8	(240.5)	9.7	2.7	573.0	(76.8)
Net income (loss) after tax	\$ 21.0	\$ 8.5	\$ 6.6	\$ 8.7	\$ 17.0	\$ 34.9	\$ 9.2	\$ (0.2)	\$ 53.8	\$ 51.9
Participating policyholders' portion									2.4	(2.8)
Dividends on preferred shares									3.1	2.2
Empire Life's common shareholders' net income									48.3	52.5
Non-controlling interests in net income									0.2	0.3
Net income attributable to owners of E-L Financial									\$ 48.1	\$ 52.2

Twelve months ended December 31

<i>(millions of dollars)</i>	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue										
Net premium income	\$ 135.5	\$ 175.8	\$ 330.6	\$ 338.9	\$ 368.1	\$ 366.8	\$ —	\$ —	\$ 834.2	\$ 881.5
Fee income	246.0	217.5	10.2	9.8	0.3	1.0	0.3	0.1	256.8	228.4
Investment income	39.5	41.1	3.7	3.7	182.6	175.8	55.4	34.3	281.2	254.9
Net gains (losses) on investments ⁽¹⁾	22.0	(4.6)	(0.1)	0.8	282.2	69.6	(1.4)	(22.1)	302.4	43.7
	443.0	429.8	344.4	353.2	833.2	613.2	54.3	12.3	1,674.6	1,408.5
Expenses										
Benefits and expenses	332.1	347.7	308.8	329.5	763.9	490.5	19.9	10.4	1,424.6	1,178.1
Income and other taxes	27.5	20.0	15.6	13.7	23.4	39.6	7.7	(0.1)	74.1	73.2
	359.6	367.7	324.4	343.2	787.3	530.1	27.6	10.3	1,498.7	1,251.3
Net income after tax	\$ 83.4	\$ 62.1	\$ 20.0	\$ 10.0	\$ 45.9	\$ 83.1	\$ 26.7	\$ 2.0	\$ 175.9	\$ 157.2
Participating policyholders' portion									(4.6)	(3.4)
Dividends on preferred shares									9.6	7.9
Empire Life's common shareholders' net income									170.9	152.7
Non-controlling interests in net income									1.1	1.2
Net income attributable to owners of E-L Financial									\$ 169.8	\$ 151.5

⁽¹⁾ Includes fair value change on FVTPL investments and realized gains on AFS investments

Product Line Results - Wealth Management

<i>(millions of dollars)</i>		2017	2016
Assets under management			
General fund annuities	\$	971.9	\$ 970.0
Segregated funds		8,661.1	8,061.1
Mutual funds		183.7	188.9

<i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Selected financial information				
Net fixed interest annuity premiums	\$	33.4	\$ 39.0	\$ 175.8
Segregated fund gross sales		309.5	326.2	1,112.1
Segregated fund net sales		56.0	91.7	139.8
Segregated fund fee income		66.4	54.3	241.9
Mutual fund gross sales		9.0	6.3	26.6
Mutual fund net sales		(3.5)	(0.7)	(21.5)
Mutual fund fee income		0.8	0.7	3.0
Net income after tax	\$	21.0	\$ 8.6	\$ 83.4
			\$	62.1

Assets in Empire Life general fund annuities increased by 0.2%, while segregated fund assets increased by 7.4% and mutual fund assets decreased by 2.8% during the last 12 months. While the demand for fixed interest immediate and deferred annuities increased in 2016, demand in the fourth quarter and year of 2017 has been tempered by the low interest rate environment. 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 and 2017. Mutual fund assets under management decreased as a result of lower than anticipated mutual fund sales combined with the closure of three mutual funds in the third quarter of 2017.

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

For the fourth quarter of 2017 segregated fund gross sales were down 5.1% compared to 2016, primarily due to 75% maturity guarantee product sales which decreased by \$11.2 million from the fourth quarter in 2016. For the full year of 2017 segregated fund gross sales were up 8.2% compared to 2016, primarily due to 75% maturity guarantee product sales which increased by \$57.0 million from the full year in 2016. The products with 100% maturity guarantees and the products with Guaranteed Minimum Withdrawal Benefit ("GMWB") also decreased from the fourth quarter 2016, but increased for the full year from the level achieved in 2016. Empire Life closed its segregated fund products that existed on October 31, 2014 to new policies and on November 3, 2014 launched a new suite of investment products including a new segregated funds family and a new version of its GMWB product. Fees charged to the customer on the new product line are higher than those for the former product line. The new product line's pricing and features are Empire Life's response to the economic, regulatory and competitive landscape in the segregated fund product marketplace. On October 23, 2017, Empire Life launched another new version of its GMWB product which is more capital efficient than the previous product, resulting in overall lower costs for the consumer. The industry segregated fund sales in 2017 were up approximately 9.7% from 2016, while Empire Life's sales have increased 8.2% over the same period.

Mutual fund gross sales for the quarter increased from the fourth quarter in 2016 but were lower than 2016 for the full year. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the fourth quarter and year segregated fund fee income increased by 22.0% and 13.3%, relative to the same period in 2016. The increase was primarily due to growth in segregated fund management fees and guarantee fees. Improved stock markets since the fourth quarter of 2016 have also resulted in higher average assets under management and management fees earned relative to 2016.

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

Sources of Earnings - Wealth Management <i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Expected profit on in-force business	\$ 36.4	\$ 25.4	\$ 118.0	\$ 99.9
Impact of new business	(2.3)	(2.0)	(8.7)	(6.5)
Experience gains	0.7	7.3	8.6	8.5
Management actions and changes in assumptions	(7.0)	(19.9)	(7.0)	(19.9)
Earnings on operations before income taxes	27.9	10.8	110.9	82.1
Income taxes	6.9	2.2	27.5	20.0
Empire Life's shareholders' net income	\$ 21.0	\$ 8.6	\$ 83.4	\$ 62.1

The expected profit on in-force business for the fourth quarter and the year increased primarily from higher fee income as a result of growth in the business and higher stock markets relative to 2016. The impact of new business was primarily driven by higher expenses and higher segregated fund gross sales in the full year of 2017. The experience gains primarily relate to investment experience as a result of the appreciation or depreciation in the value of interest and credit sensitive assets matching the fixed interest immediate and deferred annuities in the Wealth Management product line. This experience has been favourable for the fourth quarter and full year during 2017 and 2016. In 2017 and 2016 there were updates to the assumptions for general fund annuities in the fourth quarter. In 2017, this primarily related to annuitant mortality assumptions for immediate annuity business. In 2016, this primarily related to investment return assumptions and refinements to the modelling of preferred share investment cash flows for deferred and immediate annuity business.

Product Line Results - Employee Benefits

<i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Selected financial information				
Annualized premium sales	\$ 15.8	\$ 9.0	\$ 43.1	\$ 44.1
Net premium revenue	81.9	85.2	330.6	338.9
Net income after tax	\$ 6.6	\$ 8.6	\$ 20.0	\$ 10.0

For the fourth quarter and year, annualized premium sales for Employee Benefits increased by 75.6% and decreased 2.3% respectively in 2017 relative to 2016. In-force premium revenue decreased 3.9% and 2.5% for the same periods respectively. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

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

Sources of Earnings - Employee Benefits <i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Expected profit on in-force business	\$ 5.3	\$ 4.8	\$ 21.8	\$ 20.0
Impact of new business	(3.2)	(3.2)	(9.5)	(7.7)
Experience gains (losses)	3.6	3.1	11.7	(5.2)
Management actions and changes in assumptions	3.2	7.0	3.2	7.0
Earnings on operations before income taxes	8.9	11.7	27.2	14.1
Income taxes	2.3	3.1	7.2	4.1
Empire Life's shareholders' net income	\$ 6.6	\$ 8.6	\$ 20.0	\$ 10.0

Expected profit for the fourth quarter and year increased primarily as a result of improved mix of inforce business to more profitable contracts. The impact of new business relates primarily to the cost of acquiring new business. Fourth quarter and year improvement in experience gains primarily related to improved health claims relative to 2016. As Empire Life balances claims management with customer experience it cannot predict whether claims improvement will continue. In both 2017 and 2016, the update of policy liability assumptions was favourable primarily due to a favourable assumption update for the group long-term disability policy liability in the fourth quarter.

Product Line Results - Individual Insurance

<i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Selected financial information				
Annualized premium sales	\$ 8.1	\$ 13.5	\$ 31.9	\$ 41.5
Net premium revenue	94.6	98.2	368.1	366.8
Net income after tax				
Net income after tax shareholders' portion	\$ 17.3	\$ 38.3	\$ 55.7	\$ 90.2
Net loss after tax policyholders' portion	(0.3)	(3.3)	(9.8)	(7.1)
Net income after tax	\$ 17.0	\$ 35.0	\$ 45.9	\$ 83.1

For the fourth quarter and year new premium sales decreased from the comparable period in 2016 primarily due to the change in product mix offering by Empire Life from Universal Life to term insurance and tax changes effective January 1, 2017. The net premium revenue decreased in the fourth quarter of 2017 compared to the same period in 2016, but increased slightly for the full year as a result of higher in-force business since the fourth quarter of 2016. Empire Life's recently launched EstateMax® participating policy sales are lower in the fourth quarter of 2017 and for the year than in the fourth quarter and year 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.

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

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

<i>(millions of dollars)</i>	Fourth quarter		Year	
	2017	2016	2017	2016
Expected profit on in-force business	\$ 11.3	\$ 9.7	\$ 42.7	\$ 39.6
Impact of new business	(2.4)	(0.3)	(3.8)	(1.0)
Experience gains (losses)	3.9	24.1	(4.4)	29.3
Management actions and changes in assumptions	8.2	18.4	36.0	53.2
Earnings on operations before income taxes	21.0	51.9	70.5	121.1
Income taxes	3.7	13.6	14.8	30.9
Empire Life's shareholders' net income	\$ 17.3	\$ 38.3	\$ 55.7	\$ 90.2

The profitability of the Individual insurance inforce business has improved as a result of previous asset and liability management strategies. The impact of new business was primarily driven by higher new business expenses incurred in the Individual insurance product line relative to 2016. The experience gains for the fourth quarter were favourable in both years primarily due to improved stock markets in 2017 and rising interest rates and improved stock markets in 2016. These items also had a favourable impact on experience gains for the full year in 2017 and 2016. The experience gains from rising interest rates and stock markets were partially offset by unfavourable surrender and lapse experience in the fourth quarter of both 2017 and 2016 and for the full year in 2016. For the full year in 2017 unfavourable surrender and lapse experience more than offset favourable experience from stock markets.

Management actions to improve asset/liability matching occurred in the fourth quarter and year of 2017 and 2016 resulting in a gain in both years. Management continued to make changes to the bond portfolios in the fourth quarter and year to reduce the mismatch between the liability and asset portfolio. Management made similar changes to the bond portfolio in the fourth quarter and year of 2016. Empire Life increased its investment in real estate limited partnership units early in 2017 and 2016 years. This investment is used to match long-term insurance contract liabilities. For the full year gains from management actions were lower in 2017 than 2016 primarily due to higher gains from increased investment in real estate limited partnership units and changes to the bond portfolios during 2016

In 2017, the update of policy liability assumptions in the fourth quarter was slightly unfavourable compared to a net favourable update in 2016. The following table provides a breakdown of the components of this amount:

Components of pretax income (decrease) increase from update of policy liability assumptions

<i>(millions of dollars)</i>	2017	Year
		2016
Lapse/premium assumptions	\$ (18.9)	\$ (25.4)
Net investment assumptions	(32.6)	(14.4)
Mortality	16.1	9.4
Other	34.6	40.9
Total (loss) gain from update of policy liability assumptions (excluding policyholders' portion)	(0.8)	10.5

The refinements to lapse/premium assumptions for 2017 were primarily related to universal life projected premiums and lapse rates. The refinements to lapse/premium assumptions for 2016 were primarily related to emerging lapse rate experience for increasing renewal lapse rates on renewable Term 10 business.

The primary change in the net investment assumptions for 2017 is related to a refinement to the projection of equity assets backing the non-participating liability segment valuation at 2017 year-end, to reflect a reduced reliance on these assets in the future, with a corresponding increased reliance on fixed income instruments. This assumption change results in lower overall future yields and greater policy liabilities. The update in investment return assumptions for 2016 was primarily due to regular updates to reinvestment rates and credit spreads for the Canadian Asset Liability Method ("CALM") valuation model for future investment assumptions.

Mortality assumptions benefited from changes in experience and a revised mortality improvement scale provided by the Canadian Institute of Actuaries that was adopted into the valuation.

Other policy liability assumption updates for 2017 and 2016 were primarily related to refinements to the modelling of reinsurance treaties.

	Fourth quarter		Year	
	2017	2016	2017	2016
Interest rate movement				
30 year Canada federal government bond yield				
End of period	2.26 %	2.31 %	2.26 %	2.31 %
Beginning of period	2.47 %	1.67 %	2.31 %	2.16 %
Change during period	(0.21)%	0.64 %	(0.05)%	0.15 %
30 year Province of Ontario spread				
End of period	0.70 %	0.90 %	0.70 %	0.90 %
Beginning of period	0.80 %	1.00 %	0.90 %	1.05 %
Change during period	(0.10)%	(0.10)%	(0.20)%	(0.15)%
30 year A rated corporate spread (including financials)				
End of period	1.32 %	1.60 %	1.32 %	1.60 %
Beginning of period	1.46 %	1.73 %	1.60 %	1.92 %
Change during period	(0.14)%	(0.13)%	(0.28)%	(0.32)%
30 year A rated financials spread				
End of period	1.87 %	2.01 %	1.87 %	2.01 %
Beginning of period	1.99 %	2.26 %	2.01 %	2.19 %
Change during period	(0.12)%	(0.25)%	(0.14)%	(0.18)%

Interest rate movements impact both bond asset fair values and insurance contract liabilities. In the fourth quarter and year to date of 2017, 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:

	Fourth quarter		Year	
	2017	2016	2017	2016
Stock market movement				
S&P/TSX Composite Index				
End of period	16,209.1	15,287.6	16,209.1	15,287.6
Beginning of period	15,634.9	14,725.9	15,287.6	13,010.0
Percentage change during period	3.7%	3.8%	6.0%	17.5%
S&P 500 Index				
End of period	2,673.6	2,238.8	2,673.6	2,238.8
Beginning of period	2,519.4	2,168.3	2,238.8	2,043.9
Percentage change during period	6.1%	3.3%	19.4%	9.5%

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

Results - Capital and Surplus

	Fourth quarter		Year	
	2017	2016	2017	2016
<i>(millions of dollars)</i>				
Net income after tax				
Net income (loss) after shareholders' portion	\$ 6.6	\$ (0.8)	\$ 21.5	\$ (1.7)
Net income after tax policyholders' portion	2.6	0.5	5.2	3.6
Net income (loss) after tax	\$ 9.2	\$ (0.3)	\$ 26.7	\$ 1.9

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

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

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

	Fourth quarter		Year	
	2017	2016	2017	2016
<i>(millions of dollars)</i>				
Income from investments	\$ 18.9	\$ 8.3	\$ 56.4	\$ 45.5
Losses on hedging instruments	(3.7)	(6.6)	(8.9)	(37.9)
Interest and other expenses	(6.7)	(2.8)	(19.9)	(10.4)
Earnings (loss) before income taxes	8.5	(1.1)	27.6	(2.8)
Income taxes	1.9	(0.3)	6.1	(1.1)
Empire Life's shareholders' net income (loss)	\$ 6.6	\$ (0.8)	\$ 21.5	\$ (1.7)

Income from investments increased in the fourth quarter and year of 2017 compared to fourth quarter and year of 2016 primarily because of higher assets in surplus. During the fourth quarter and year of 2017, Empire Life experienced lower losses on its hedging program primarily due to the moderate rise in Canadian stock prices in 2017 compared to relatively steeper price increases in 2016 (discussed in the Risk Management section later in this report). Increased interest expense was due to Empire Life's issuance of a total of \$400 million of subordinated debt made up of \$200 million issued during the fourth quarter of 2016 and \$200 million issued during the third quarter of 2017.

Capital Resources

	December 31 2017	September 30 2017	June 30 2017	March 31 2017	December 31 2016
MCCSR Ratio	281.9%	274.2%	249.2%	258.0%	248.3%

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

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

Empire Life's risk-based regulatory capital ratio, as measured by MCCSR, of 281.9% as at December 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 increase in the MCCSR ratio for the fourth quarter was primarily due to strong earnings for the quarter and a \$100 million preferred share issue on November 1, 2017. The increase in capital since the fourth quarter 2016 was primarily due to Empire Life's issuance of \$200 million principal amount of unsecured subordinated debentures on September 15, 2017, the issuance of \$100 million preferred shares and strong earnings for the four quarters ending December 31, 2017.

<i>(millions of dollars)</i>	December 31 2017	September 30 2017	June 30 2017	March 31 2017	December 31 2016
Available regulatory capital					
Tier 1	\$ 1,409.3	\$ 1,310.5	\$ 1,248.8	\$ 1,248.2	\$ 1,206.1
Tier 2	931.5	877.1	741.8	713.2	707.2
Total	\$ 2,340.8	\$ 2,187.6	\$ 1,990.6	\$ 1,961.4	\$ 1,913.3
Required regulatory capital	\$ 830.5	\$ 797.9	\$ 798.7	\$ 760.1	\$ 770.7

The increase in Tier 1 available regulatory capital in the fourth quarter of 2017 was primarily due to Empire Life's issuance of \$100 million of preferred shares and to net income partly offset by an increase in the negative reserves which increase Tier 1 and decrease Tier 2 capital.

The increase in Tier 2 available regulatory capital for the fourth quarter of 2017 is primarily due to inclusion of a greater portion of Empire Life's subordinated debt as Tier 2 available regulatory capital and the increase in negative reserves. The amount of the subordinated debt that qualifies as Tier 2 is subject to the maximum allowed by regulatory guidelines and depends on the amount of Tier 1 available regulatory capital.

Regulatory capital requirements increased during the fourth quarter of 2017 from higher market risk and insurance company risk such as lapse risk due to a decrease in long-term interest rates and segregated fund guarantees as a result of normal business growth.

Effective January 1, 2018, MCCSR has been replaced by the Life Insurance Capital Adequacy Test ("LICAT"). The LICAT is intended to improve the quality of available capital and provide a better alignment of the risk measures with the long-term economics of the life insurance business. The LICAT will behave differently under various economic scenarios when compared to MCCSR. As a result LICAT ratios are not comparable to the MCCSR ratio. Empire Life will report LICAT ratios beginning with the first quarter reporting period in 2018. Empire Life has a strong capital position under MCCSR and will continue to have a strong capital

position under the LICAT framework.

Industry Dynamics and Management's Strategy

Empire Life's operations are organized by product line with each line of business having responsibility for product development, marketing, distribution and customer service within their particular markets. This structure recognizes that there are distinct marketplace dynamics in each of the three major product lines. Management believes this structure enables each line of business to develop strategies to achieve the enterprise-wide objectives of business growth and expense management while recognizing the unique business environment in which each operates. The lines of business are supported by corporate units that provide product pricing, administrative and technology services to the lines of business, manage invested assets, and oversee enterprise risk management policies.

Based on general fund and segregated fund assets, Empire Life is among the 10 largest life insurance companies in Canada. Empire Life has approximately 7% market share of Segregated Funds, 1% market share for employee benefits and 1.8% market share for new life insurance premiums. To be priced competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized company, must find a way to continue to be cost competitive with the larger companies that have some natural economy of scale advantages. In order to improve its unit expenses, management's enterprise-wide strategic focus has been on achieving profitable growth in its selected markets and on expense management. Empire Life has focused exclusively on the Canadian marketplace and, within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with independent distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to broadly focused competitors, management believes these solid relationships will enable profitable growth.

The Wealth Management product line at Empire Life is comprised of segregated fund products, guaranteed interest products and mutual funds. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value-oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management will continue to improve competitiveness by focusing on long-term performance, providing low cost products to customers along with broadened distribution reach. Empire Life continued to achieve strong growth in assets under management from its segregated fund business as a result of net new sales and equity market appreciation. Empire Life is continuing to monitor and manage GMWB risk exposure and the competitive landscape for this product. The fourth quarter 2017 Empire Life launched a new version of its GMWB product which is more capital efficient and reduces the amount of risk to Empire Life while still offering a competitive guaranteed income solution to customers at lower fees.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group employer market with fewer than 200 employees representing the majority of Canadian companies. This niche strategy coupled with an ongoing focus on balancing growth and profit has enabled Empire Life to be cost competitive within this market segment and is expected to enable this product line to grow its market share while generating acceptable returns.

Individual Insurance products are very long-term in nature and consequently can be subject to new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial policy liabilities exceeds the profit margin in the product pricing. At current reinsurance price levels in the Canadian market place, a company may reduce new business strain and improve profitability in the short term by opting to increase the amount of insurance risk reinsured to third parties. Mortality trends continue to be favourable for life insurance products. Rather than give up the future earnings that would emerge if the trend in mortality improvement witnessed in recent decades continues, Empire Life continues to utilize lower than average levels of reinsurance with the resultant negative impact on short-term earnings. Low long-term

interest rates continue to have an unfavourable impact on this product line. In the past few years, industry prices for longer term life insurance products have increased. Empire Life has also increased prices for these products and has focused its growth efforts on shorter term products, such as 10 year renewable term life insurance. Because of the reasonable long-term returns of this product line, management continues to focus on steady growth, technology development and process improvement in order to continue to have a cost structure that allows us to compete while generating an acceptable long-term financial contribution. Empire Life is continuously reviewing its Individual Insurance product mix to improve profitability, reduce interest rate risk, reduce required regulatory capital, develop web-based products and processes, and improve the customer and advisor experience.

Risk Management

Empire Life is a financial institution offering Wealth Management, Employee Benefits and Individual Insurance products. Empire Life is exposed to a number of risks as a result of its business activities. The goal of Empire Life's risk management process is to ensure that the operations that expose it to risk are consistent with Empire Life's strategy, business objectives and risk philosophy while maintaining an appropriate risk/reward balance and enhancing stakeholder value. When making decisions about risk taking and risk management, Empire Life considers:

- The need to meet the expectations of its customers, shareholders and creditors and to protect the commitments that have been made to them;
- The need to be adequately compensated for the capital deployed to support business activities and strategic objectives;
- The need to protect its brand; and
- The need to maintain its targeted financial strength rating.

Empire Life's risk appetite defines the aggregate level of risk they are willing to take to achieve its business strategies. The risk appetite supports the pursuit of shareholder value but does not compromise Empire Life's ability to pay claims and fulfill policyholder commitments.

Empire Life's risk management framework is structured based on a number of guiding principles:

- Due to the long term nature of the majority of its commitments, Empire Life accepts capital market risk provided it is managed within specific risk tolerances and limits. Empire Life takes a low risk, value-oriented approach to managing its investments - it accepts credit and alternative asset risk provided it is rewarded through appropriately enhanced returns;
- Empire Life manages liquidity across the business to provide a high level of confidence that all obligations (to customers, creditors and shareholders) will be met when they fall due;
- Empire Life accepts insurance risks provided they are properly priced and managed in order to deliver value to its customers and shareholders;
- Empire Life is forward-looking in its business planning and takes a prudent approach to capital management. It strives to have a high level of confidence that capital is sufficient to support planned activities into the future;
- Management is active in industry committees and, through a network of oversight functions, monitors the landscape so that Empire Life is appropriately positioned to manage regulatory, tax, accounting and actuarial changes;
- Empire Life accepts that operational risks are a part of doing business and knows that risk management is a key part of decision-making. It protects its business and customers by engaging in cost effective risk mitigation; and
- Empire Life expects ethical conduct by all of its employees and acts with integrity at all times.

The Board of Directors oversees and monitors Empire Life's risk management framework, processes and practices and reviews and approves Empire Life's Enterprise Risk Management Framework and overall risk appetite. Senior management shares responsibility and accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency

of contact across the management team. Empire Life has an Asset Management Committee with responsibility for overseeing the management of corporate policies established by both the Investment Committee and Risk and Capital Committee of the Board. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2017 annual report. Risk management policy development is centralized under the leadership of the Chief Risk Officer and applies to all business units. The Chief Risk Officer is a member of the Asset Management Committee and has Board reporting responsibility with respect to risk and capital management. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers and the risk management department. There is senior management representation and oversight on various interdisciplinary risk control committees. Empire Life formally establishes and documents its values and risk tolerances through several company-wide policies including a code of business conduct, corporate disclosure principles, enterprise risk management, capital management and whistleblower policies. Empire Life's strategic risk management policies (including those related to product design and pricing, investment policies and capital management) are also approved by its Board, or a Board committee.

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 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 fourth quarter and year of 2017, Empire Life experienced a hedge cost of \$2.7 million and a \$6.6 million after tax respectively on its hedging program primarily due to stable Canadian stock prices. This compares to hedge cost of \$4.8 million and \$27.8 million respectively for the comparable period in 2016 primarily due to rising Canadian stock prices in 2016.

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 December 31, 2017, Empire Life had \$8.7 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.4 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	2017	2016
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	2.1%	1.2%
75% maturity guarantee and a 100% death benefit guarantee	48.1%	49.7%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	6.6%	6.1%
100% maturity and death benefit guarantees	43.2%	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 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 December 31, 2017 and at December 31, 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 December 31, 2017 and December 31, 2016, the sensitivity of Empire Life shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

<i>(millions of dollars after tax)</i>	Increase		Decrease		
	20%	10%	10%	20%	30%
Sensitivity to segregated fund guarantees:					
December 31, 2017 Shareholders' net income	\$ nil	\$ nil	\$ nil	\$(34.4)	\$(160.2)
December 31, 2016 Shareholders' net income	\$ nil	\$ nil	\$ nil	\$(9.7)	\$(117.2)

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 growth in segregated funds and mix of assets. 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 December 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 after tax)</i>	Increase		Decrease		
	20%	10%	10%	20%	30%
Sensitivity excluding equity risk hedge					
December 31, 2017 Shareholders' net income	\$48.7	\$24.3	\$(24.3)	\$(83.1)	\$(235.8)
December 31, 2016 Shareholders' net income	\$50.6	\$25.3	\$(25.3)	\$(60.3)	\$(196.2)

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

The December 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 after tax)</i>	Increase		Decrease		
	20%	10%	10%	20%	30%
Sensitivity including equity risk hedge					
December 31, 2017 Shareholders' net income	\$48.2	\$23.9	\$(22.4)	\$(74.0)	\$(209.6)
December 31, 2016 Shareholders' net income	\$36.0	\$17.7	\$(15.7)	\$(35.6)	\$(147.7)

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

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

Excluding equity risk hedge MCCR	Increase		Decrease		
	20%	10%	10%	20%	30%
Sensitivity to stock markets (percentage points)					
December 31, 2017 MCCR ratio	(0.9)	(0.3)	(19.4)	(42.6)	(58.8)
December 31, 2016 MCCR ratio	(0.7)	(0.2)	(12.1)	(35.3)	(40.1)

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

Including equity risk hedge MCCR	Increase		Decrease		
	20%	10%	10%	20%	30%
Sensitivity to stock markets (percentage points)					
December 31, 2017 MCCR ratio	(5.1)	(2.4)	(17.7)	(38.7)	(50.1)
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
December 31, 2017	\$ 2,708.3	\$ 688.5	\$ 30.9	\$ 0.7	\$ 409.1	\$ 3.2	\$ nil	\$ 174.3
December 31, 2016	\$ 2,529.8	\$ 627.1	\$ 36.5	\$ 1.2	\$ 323.7	\$ 4.2	\$ nil	\$ 150.5

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at December 31, 2017, the aggregate amount at risk for all three categories of risk is \$692.4 million. At December 31, 2016, the aggregate amount at risk for these three categories of risk was \$632.5 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes including fund performance, deaths, deposits, withdrawals and maturity dates.

The level of actuarial liabilities and required regulatory capital in the above table is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist on future payments to GMWB policyholders, or upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders. The amounts at risk at December 31, 2017 increased from the December 2016 levels for GMWB withdrawal benefit exposure primarily due to GMWB sales volume in 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 December 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.

	Before the sale of AFS assets 50bps decrease	After the sale of AFS assets 50bps decrease
Sensitivity to market interest rates:		
December 31, 2017 MCCR ratio	(23.4%)	(16.6%)
December 31, 2016 MCCR ratio	(19.5%)	(14.5%)

Operational Risk

Operational risk relates to the uncertainty arising from larger than expected losses or damages as a result of inadequate or failed internal processes, people and systems, or from external events. Operational risk is naturally present in all of Empire Life's business activities and encompasses a broad range of risks, including legal disputes, regulatory compliance failures, technology failures, business interruption, information security and privacy breaches, human resources management failures, processing errors, modelling errors, theft and fraud, and damage to physical assets. The following is a further description of key operational risks and their associated risk management strategies.

(1) Legal and Regulatory Risk

Empire Life is governed by the Insurance Companies Act ("ICA") and supervised by OSFI and is also subject to various requirements imposed by legislation and regulation in each of the provinces and territories of Canada applicable to insurance companies and companies providing other financial services. Material changes in the regulatory framework could have an adverse effect on Empire Life. Failure to comply with regulatory requirements or public expectations could adversely impact Empire Life's reputation and ability to conduct business. Empire Life is subject to litigation from time to time, in the normal course of business, and currently has a number of outstanding lawsuits. There can be no assurance that the present or any future litigation will not have a material adverse effect on Empire Life.

Empire Life's corporate compliance department, headed by the Chief Compliance Officer, oversees the regulatory compliance framework. This framework promotes risk-based management of compliance and regulatory risk and includes Company-wide policies, operating guidelines, programs to promote awareness of laws and regulations impacting Empire Life, ongoing monitoring of emerging legal issues and regulatory changes and employee education programs that include anti-money laundering and anti-terrorist financing, privacy and information security risk management as well as reporting breaches and Empire Life's code of business conduct. The framework is supported by a network of business unit compliance officers as well as the corporate legal services department. The Chief Compliance Officer reports regularly to the Conduct Review Committee of the Board on the state of compliance, key compliance risks and emerging regulatory trends. General Counsel reports regularly to the Audit Committee of the Board on litigation activity.

(2) Model Risk

Empire Life uses models to support many business functions including investment analysis, product development and pricing, valuation of policy liabilities, planning, asset/liability management, capital management, project management and risk management. The risk of inappropriate use or interpretation of Empire Life's models or their output, or the use of deficient models, data or assumptions could result in financial losses or inappropriate decision making. Empire Life has developed management and mitigation processes related to model use and oversight of models to limit financial, operational and strategic impacts from an error or misinterpretation of model results. Senior management has overall responsibility and accountability for models in use to support activities within their business area.

(3) Human Resources Risk

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If Empire Life is unable to retain and attract qualified employees and executives, the results of its operations and financial condition, including its competitive position, could be adversely affected. To mitigate this risk, Empire Life has a number of human resources policies, processes and practices in place. Management reports regularly to the Human Resources Committee of the Board on succession planning and employee development programs as well as compensation practices and programs, all of which are designed to attract, motivate and retain high-performing and high-potential employees.

(4) Third-Party Risk

Empire Life obtains many different types of services from a number of third-party services providers and has outsourced certain business functions or processes to third parties. Should these third parties fail to deliver services in compliance with contractual or other service arrangements, Empire Life's business may be adversely impacted. To mitigate this risk, Empire Life has established a Company-wide outsourcing risk management policy that provides guidance when considering, entering into or managing existing outsourcing arrangements commensurate with the risks associated with the service provider and the nature of the arrangement. Annually, management reports to the Conduct Review Committee of the Board on outsourcing activities including details on those arrangements deemed to be most material to Empire Life.

(5) Technology, Information Security and Business Continuity Risk

Empire Life relies on technology in virtually all aspects of its business and operations including the creation and support of new products and services, and the nature of life insurance business necessitates a substantial investment in technology. Operational integrity, data integrity and security of information and systems infrastructure are all relied upon for normal business operations. Disruptions due to system failure, information security breaches, privacy breaches, cyber-attacks, human errors, natural disasters, criminal activity, fraud or the loss of certain software licensing agreements could have a material adverse impact on Empire Life.

Empire Life has an enterprise-wide business continuity and disaster recovery program overseen by the Business Continuity Planning Team and the Chief Technology Officer. The program includes policies, plans and procedures designed so that, to the extent practically possible, key business functions can continue and normal operations can resume effectively and efficiently should a major disruption occur. Each business unit is accountable for preparing and maintaining detailed business continuity plans and processes. Empire Life establishes and regularly tests business continuity and disaster recovery plans and maintains off-site backup facilities and failover capability designed to minimize downtime and accelerate system recovery.

Information security breaches, including various forms of cyber-attack, could occur and may result in inappropriate disclosure or use of personal or confidential information. To mitigate this risk, Empire Life has an information security program overseen by the Chief Technology Officer. This program consists of a number of standards, procedures and guidelines focused on protecting information and computer systems. An incident management process is in place for monitoring and managing security events.

Privacy breaches could occur and may result in unauthorized disclosure or use of private and confidential information. To manage this risk, Empire Life has a privacy program overseen by the Chief Privacy Officer. The program includes policies and standards, ongoing monitoring of emerging privacy legislation and a network of business unit privacy officers. Processes have been established to provide guidance to employees on the handling of personal information and the reporting of privacy incidents and issues to appropriate management for response and resolution.

Business and Strategic Risk

Business and strategic risk relates to the uncertainty in future earnings and capital related to the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, manage distribution or adapt to changes in business environment, such as the competitive landscape, regulatory and tax changes or changes in accounting and actuarial standards. Empire Life regularly reviews and adapts its business strategies and plans in consideration of changes in the external business environment, economic, political and regulatory environment. Empire Life's financial performance is dependent upon its ability to implement and execute business strategies and plans for growth.

Empire Life's business strategies and plans are designed to align with risk appetite, capital position and financial performance objectives. Empire Life periodically reassesses risk appetite taking into consideration the economic, regulatory and competitive environments in which it operates. The current environment requires Empire Life to adapt rapidly to new opportunities and challenges and to refine its strategies

accordingly. If Empire Life fails to revise its strategies on a timely basis or adapt to the changing environment, it may not be able to achieve its growth objectives.

Empire Life's business strategies and plans are dependent on the successful execution of organizational and strategic initiatives designed to support the growth of its business. The ability to effectively manage these changes and prioritize initiatives directly affects Empire Life's ability to execute these strategies. Identifying and implementing the right set of initiatives is critical to achieving Empire Life's business plan targets. Failure to implement these initiatives could also lead to cost structure challenges.

Successful execution of Empire Life's business strategies and plans depends on a number of factors including its ability to (i) generate sufficient earnings to maintain an adequate level of capital; (ii) generate sustained investment performance; (iii) meet regulatory requirements; (iv) manage risk exposures effectively; (v) attract and retain customers and distributors; (vi) have the right set of products; and (vii) reduce operating expenses while maintaining the ability to hire, retain and motivate key personnel. Empire Life's business and strategic plans are reviewed and discussed by its senior management team and are subject to approval by the Board of Directors, which also receives regular updates on implementation progress against key business plan objectives. The Board and its subcommittees receive regular updates on key risks.

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in Empire Life's Annual Information Form available at www.sedar.com. Additional disclosures of Empire Life's sensitivity to risks are included in notes 22 and 23 to the 2017 consolidated financial statements.

Outlook

The Canadian economy performed better than expected in 2017, GDP growth is estimated at 3% for the full year, the Canadian dollar appreciated from 1.34 to 1.277 per U.S. dollar and unemployment fell from 6.7% to 5.7%, the lowest it has been since the 1970's. Consumer spending continued at a strong pace for the year and business investment in machinery and equipment was also up over 2016. Although the uncertainty surrounding the North American Free Trade agreement ("NAFTA") and credit tightening in the housing market had the opposite effect on the Canadian economy, the strong U.S. economy and renewed growth in the European and Asian economies had an overall positive impact on Canada's economy.

The Bank of Canada reversed its interest rate reductions from 2015 and raised rates twice during the year with the overnight rate up from 0.5% to 1% in 2017 and another 0.25% increase in the first month of 2018. The Canadian Federal Bond yield curve flattened with the 5 year increasing from 1.11% to 1.86% in 2017 and the 30 year decreasing slightly from 2.31% to 2.26% in 2017. Corporate and provincial bond spreads also decrease slightly during 2017. Interest rates have overall been lower than typical levels for several years. The Individual insurance product lines generally perform better with rising long term interest rates.

The Global equity markets were very strong in 2017 with the MSCI up over 20%, for the year. The S&P 500 stock index was up 19.4% and the S&P/TSX composite index was up 6% for the year. Stock market conditions impact the in-force profit margins and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line.

Looking forward to 2018, the global economy is expected to continue its growth at a similar pace. The tax reductions in the U.S. will stimulate the U.S. economy with growth estimates at 2.5% up from 2.1% originally forecast. The Canadian economy is expected to continue to grow as well but at a slower pace than in 2017. The forecast is at approximately 2% compared to an estimate of 3% in 2017. The western provinces are expected to continue to grow at a pace of 2% to 3% depending on the price of agriculture and the price of resource products such as oil and gas and forestry. Provinces in central Canada are expected to experience continued growth barring negative consequences from the NAFTA negotiations. The Atlantic provinces are expected to grow at a more moderate pace of 1%. Short-term interest rates are expected to rise in the U.S. as well as in Canada even with the uncertainties surrounding NAFTA. Overall the Canadian economy is well positioned to support continued growth of all Empire Life's product lines.

The individual insurance market grew modestly in 2017 even with the challenge of the persistent low long-term interest rate environment that followed the financial crisis. Empire Life has decreased its emphasis on long-term life insurance products in favor of shorter term products, such as 10 year renewable term life insurance. Long-term interest rates, product mix and product pricing are expected to continue to be challenges for Empire Life's Individual Insurance product line in 2018. The segregated fund product line continued to grow in 2017, fees will likely be impacted by competition going forward. Empire Life will develop low cost efficient products delivered digitally to satisfy consumer needs. Within the employee benefits product line, although highly concentrated Empire Life will continue to penetrate its niche market to grow the business.

As noted under the Capital Resources section, OSFI published its - LICAT Guidelines on November 27, 2017. This new Guideline establishes a new risk based regulatory capital framework for life insurance companies and replaces the current MCCSR Guideline effective January 1, 2018. LICAT is intended to improve the quality of capital available and provide a better alignment of risk measures with the long-term economics of the insurance business. This new Guideline was developed in consultation with the Life Insurance Industry and OSFI. OSFI is also reviewing the overall approach for determining capital requirements for segregated fund guarantee risks. Changes to the capital required for products with guaranteed income may ultimately impact the industry's ability to offer these products at reasonable prices to the consumer. OSFI has indicated that the effective date for the Guideline for segregated fund guarantee is January 1, 2021 to incorporate the potential impact of IFRS 17. OSFI is continuing to review the application of Non-Viable Contingent Capital ("NVCC") for life insurance companies. If NVCC applied, new preferred shares and subordinated debentures issued after the transition date would have to be compliant with the new regime to qualify as capital.

The International Accounting Standards Board ("IASB") issued IFRS 17, Accounting Standards for Insurance Contracts, in May 2017. IFRS 17 will include fundamental changes from the CALM method (equivalent to IFRS 4 Insurance Contracts) that Empire Life currently applies for the valuation of insurance contracts and revenue recognition. The IASB has also granted a temporary exemption from the application of IFRS 9 Financial Instruments to allow insurance companies the ability to implement both IFRS 17 and IFRS 9 effective 2021. IFRS 9 applies to the measurement of financial assets, the expected credit loss model and hedge accounting. For insurance contracts and financial instruments accounting, the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. The adoption of IFRS 17 and IFRS 9 will be a significant initiative for Empire Life and for the industry. Empire Life is currently assessing the impact that IFRS 17 and IFRS 9 will have on Empire Life's consolidated financial statements as well as developing a plan to implement the changes required to be ready to report under the new standards by January 1, 2021.

The Canadian Securities Administrators ("CSA") has increased disclosure requirements for mutual fund companies, including point of sale requirements and customer relationship model initiatives. Mutual fund fees continue to be an area of interest for Canadian securities regulators. The CSA commissioned independent third-party research that will assess the impact of commissions and embedded (trailer) fees on mutual fund flows. This research will support CSA policy decisions concerning Canada's current mutual fund fee structure. Empire Life continues to monitor these developments and assess the possible impact to the insurance industry at some future date.

The industry is also improving the oversight of MGAs and their advisors. Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. In 2013, the Canadian Life and Health Insurance Association ("CLHIA") developed a new Insurer-MGA Relationship guideline (effective January 1, 2015). The Guideline describes desired outcomes and related practices in five general areas, including, perform due diligence prior to entering into a contract with an MGA, clearly set out roles and responsibilities in the contract, commit to a culture of treating customers fairly, monitor the performance of the MGA and retain ultimate responsibility. The industry is also considering establishing a licensing regime for all distribution firms. The licensing of distribution firms

would clarify the accountability for the distribution partners to adhere to the insurer's code of conduct and provide on-going monitoring of the advisors activities.

Government pension reform including the Federal Pooled Registration Pension Plan program and the proposed Ontario Registered Pension Plan are expected to reduce future demand for private sector retirement savings products, having an adverse impact on banks, mutual fund companies, life insurance companies and advisors. In 2016 changes were made to the tax rules that deal with the exemption status of certain life insurance policies effective on January 1, 2017. The exemption test is aimed at distinguishing between (and tax differently) policies that are designed as protection versus those that are designed primarily as investments. The new exempt test represents a significant change to the tax regime that existed over the past 30 years. These changes required all life insurance companies to review the design and the pricing of their life insurance product offerings. Empire Life either modified or withdrew certain product offerings to comply with the new tax rules.