The Empire Life Insurance Company

Management's Discussion and Analysis
For the three months ended March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A is dated as of May 3, 2018.

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the unaudited operating results and financial condition of The Empire Life Insurance Company ("Empire Life") for the first quarter of 2018. This MD&A should be read in conjunction with Empire Life's unaudited Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2018, as well as, the MD&A and the audited Consolidated Financial Statements which form part of Empire Life's 2017 Annual Report dated February 27, 2018. Unless otherwise noted, both the unaudited Condensed Interim Consolidated Financial Statements and this MD&A are expressed in Canadian dollars.

MD&A contains forward-looking information and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of the Annual Information Form which is available at www.sedar.com. No assurance can be given that results, performance or achievement expressed in, or implied by, any of the forward-looking information will occur, or, if they do, that any benefits may be derived from them. Actual results may differ materially from those expressed or implied by such forward-looking information. See the Forward-Looking Statements and Information section in this report.

The unaudited Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of Empire Life's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of Empire Life's financial information reported under IFRS. See the Non-IFRS Measures section in this report.

Management's assessment of industry dynamics, risks and risk management, critical accounting estimates, strategy and outlook remains consistent with the disclosure in the 2017 Annual Report dated February 27, 2018.

Financial Analysis

Overview

	First quarter	
(in millions of dollars except per share amounts)	**2018**	2017
Common shareholders' net income	**$ 38.7**	$ 50.2
Earnings per share - basic and diluted	**$ 39.30**	$ 50.91
Return on common shareholders' equity (quarterly annualized)[1]	**10.8%**	15.7%

Empire Life reported first quarter common shareholders' net income of $38.7 million for 2018, compared to $50.2 million for first quarter 2017. The earnings for the first quarter of 2018 included growth from expected profit on in-force business in the Individual Insurance product line and higher experience gains in Individual Insurance and Employee Benefits product lines. The first quarter of 2017 included gains realized from management actions in the Individual Insurance product line. These gains were not realized in the first quarter of 2018. Return on common shareholders' equity ("ROE") for first quarter 2018 was 10.8% compared to 15.7% in 2017.

[1] See Non-IFRS Measures

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

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

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

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

The experience gains for the first quarter of 2018 benefited from favourable mortality and surrender experience on the Individual Insurance product line relative to 2017, and improved health and long-term disability claims in the Employee Benefits product line. In the first quarter of 2017, the Wealth Management product line experienced higher investment gains relative to 2018.

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

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

[1] See Non-IFRS Measures

Results by Major Product Line

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

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

For the three months ended March 31	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
(in millions of dollars)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenue										
Net premiums	**$ 31.8**	$ 27.6	**$ 85.6**	$ 83.6	**$ 93.6**	$ 91.2	**$ –**	$ –	**$ 211.0**	$ 202.4
Investment income	**9.4**	9.7	**0.9**	0.9	**42.1**	41.6	**14.9**	12.3	**67.3**	64.6
Fair value change in FVTPL investments	**(4.9)**	14.7	**(0.4)**	0.7	**(74.5)**	29.2	**(1.9)**	4.2	**(81.7)**	48.8
Realized gain (loss) on FVTPL investments	**(0.1)**	1.5	**–**	0.3	**3.8**	39.9	**–**	(7.0)	**3.7**	34.8
Realized gain (loss) on AFS investments including impairment write downs	**–**	–	**–**	–	**–**	(0.1)	**(2.0)**	(1.8)	**(2.0)**	(2.0)
Fee income	**62.7**	58.5	**2.6**	2.6	**0.1**	0.2	**–**	–	**65.4**	61.3
Total Revenue	**98.9**	112.0	**88.8**	88.1	**65.1**	202.0	**11.1**	7.7	**263.8**	409.8
Expenses										
Benefits and expenses	**73.4**	74.3	**74.9**	81.2	**51.8**	178.0	**6.1**	4.3	**206.2**	337.8
Income and other taxes	**6.5**	9.4	**5.4**	3.3	**4.3**	7.8	**0.7**	0.6	**17.0**	21.1
Total Expenses	**79.9**	83.7	**80.3**	84.5	**56.1**	185.8	**6.9**	4.9	**223.2**	358.9
Net income (loss) after tax	**$ 19.0**	$ 28.3	**$ 8.5**	$ 3.5	**$ 9.0**	$ 16.2	**$ 4.2**	$ 2.8	**$ 40.6**	$ 50.9
Participating policyholders' portion									**(1.5)**	(1.4)
Dividends on preferred shares									**3.4**	2.1
Common shareholders' net income									**$ 38.7**	$ 50.2

[1] See Non-IFRS Measures

Total Revenue

		First quarter		
(in millions of dollars)		**2018**		2017
Net premiums	**$**	**211.0**	$	202.4
Investment income		**67.3**		64.6
Fair value change in FVTPL investments including realized gain (loss)		**(78.0)**		83.5
Realized gain (loss) on AFS investments including impairment write downs		**(2.0)**		(2.0)
Fee income		**65.5**		61.3
Total Revenue	**$**	**263.8**	$	409.8

Net premiums for the first quarter of 2018 increased by 4.2% due to growth across all product lines.

Investment income increased as a result of a combination of factors including a larger investment portfolio from issuance of preferred shares and subordinated debentures during 2017 and a change in asset mix to include higher yielding securities.

Fair value change in fair value through the profit and loss (“FVTPL”) assets experienced a net loss in the first quarter of 2018 compared to a net gain in 2017. The year-over-year decrease was due to an increase in long-term interest rates in the first quarter of 2018 versus a decrease in 2017.

Realized gain (loss) on available for sale (“AFS”) investments including impairment write downs were minimal for the first quarter of 2018 and 2017. The assets sold primarily backed capital and surplus.

Fee income for the first quarter of 2018 increased by 6.8% relative to the first quarter of 2017 primarily due to growth in segregated fund management and guarantee fees from higher assets under management. This is discussed in the Product Line Results – Wealth Management section later in this report.

[1] See Non-IFRS Measures

Total Benefits and Expenses

		First quarter		
(in millions of dollars)		**2018**		2017
Net benefits and claims	**$**	**145.5**	$	151.7
Net change in insurance contract liabilities		**(38.2)**		92.8
Change in investment contracts provision		**0.1**		0.1
Policy dividends		**7.1**		6.7
Operating expenses		**38.3**		37.3
Net commissions		**47.6**		45.3
Interest expense		**5.8**		4.0
Total Benefits and Expenses	**$**	**206.2**	$	337.8

A substantial portion of the Benefits and Expense changes is driven by the impact that market interest rate movements have on the net change in insurance contract liabilities. Excluding market related changes, Total Benefits and Expenses for the first quarter of 2018 have not changed materially compared to 2017. Major benefit and expense items are discussed below.

Net benefits and claims for the first quarter of 2018 were lower than 2017 primarily due to lower health claims on Employee Benefits product lines. Net benefits and claims variability is dependent on the claims incurred. Generally, claims rise year over year due to growth of the insurance blocks. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released may be larger or smaller than the claims incurred depending on whether claims experience has been more or less than what was estimated for the insurance contract liabilities. Claims experience is a combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities. Year-over-year claims experience is discussed in the source of earnings for the impacted product lines (see the Product Line Results sections later in this report).

Net change in insurance contract liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, and changes in the market value of assets matching insurance contract liabilities. For the first quarter of 2018, the main reason for the change in insurance contract liabilities from 2017 was as a result of the fair value change in assets (described above in the Total Revenue section) matching the liabilities. Variability in the net change in insurance contract liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the statement of operations.

Policyholder dividends increased as a result of a natural maturing of the participating policyholder liabilities.

Operating expenses for the quarter increased with higher employee-related expenses as a result of the ongoing modernization of operating systems and expenses related to adapting to regulatory changes.

Net commission for the quarter increased primarily as a result of higher net premiums across all product lines.

Interest expense for the quarter increased primarily as a result of higher levels of subordinated debt during 2018.

[1] See Non-IFRS Measures

Product Line Results – Wealth Management

		First quarter		
(in millions of dollars)		**2018**		2017
Fixed Annuities				
Assets under management[1]	**$**	**952.2**	$	956.3
Gross sales[1]		**31.8**		27.7
Net sales[1]		**(7.0)**		(10.6)
Segregated Funds				
Assets under management[1]		**8,385.8**		8,239.7
Gross sales[1]		**268.2**		300.2
Net sales[1]		**(35.3)**		27.4
Fee income		**61.8**		57.4
Mutual Funds				
Assets under management[1]		**172.1**		190.9
Gross sales[1]		**5.7**		9.0
Net sales[1]		**(7.9)**		(2.3)
Fee income		**0.7**		0.7
Net income after tax	**$**	**19.0**	$	28.3

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

Segregated fund assets under management increased by 1.8% during the last 12 months primarily due to stock market increase for the period. For the first quarter of 2018, gross sales were down 10.6% compared to 2017, primarily due to less demand for the Guaranteed Minimum Withdrawal Benefit (“GMWB”) product. On October 23, 2017, Empire Life launched a new version of its GMWB product which is more capital efficient than the previous product, resulting in overall lower costs for the consumer. Fee income has increased by 7.6% primarily due to higher average assets under management, relative to the same period in 2017.

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

[1] See Non-IFRS Measures

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

Sources of Earnings[1] - Wealth Management	**First quarter**	
(in millions of dollars)	**2018**	2017
Expected profit on in-force business	**$ 28.2**	$ 27.2
Impact of new business	**(2.3)**	(0.8)
Experience gains (losses)	**(0.4)**	11.4
Management actions and changes in assumptions	**-**	-
Earnings on operations before income taxes	**25.5**	37.8
Income taxes	**6.5**	9.4
Shareholders' net income (loss)	**$ 19.0**	$ 28.3

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

[1] See Non-IFRS Measures

Product Line Results – Employee Benefits

	First quarter	
(in millions of dollars)	**2018**	2017
Selected financial information		
Annualized premium sales[1]	**$ 26.4**	$ 8.1
Net premiums	**85.6**	83.6
Net income (loss) after tax	**$ 8.5**	$ 3.5

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

Net premiums increased by 2.3% for the same period. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

The following table provides a breakdown of the sources of earnings for the first quarter for Employee Benefits.

Sources of Earnings[1] - Employee Benefits	First quarter	
(in millions of dollars)	**2018**	2017
Expected profit on in-force business	**$ 5.6**	$ 5.4
Impact of new business	**(2.6)**	(1.8)
Experience gains (losses)	**8.8**	1.1
Management actions and changes in assumptions	**-**	-
Earnings on operations before income taxes	**11.8**	4.7
Income taxes	**3.3**	1.2
Shareholders' net income (loss)	**$ 8.5**	$ 3.5

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

[1] See Non-IFRS Measures

Product Line Results – Individual Insurance

	First quarter	
(in millions of dollars)	**2018**	2017
Selected financial information		
Shareholders' annualized premium sales[1]	**$ 4.7**	$ 5.6
Policyholders' annualized premium sales[1]	**2.9**	1.8
Shareholders' net premiums	**71.4**	71.2
Policyholders' net premiums	**22.2**	19.9
Net income (loss) after tax		
Net income (loss) after tax shareholders' portion	**$ 10.7**	$ 18.9
Net income (loss) after tax policyholders' portion	**(1.8)**	(2.7)
Net income (loss) after tax	**$ 8.9**	$ 16.2

For the first quarter of 2018, shareholders' new premium sales decreased from the comparable period in 2017 primarily due to competitive pricing, while policyholder's new premium sales increased due to product changes in 2017. The total net premiums increased in the first quarter of 2018 compared to the same period in 2017, as a result of higher in-force business. Empire Life has continued to modify its EstateMax® participating policy since it was launched in 2015. In February 2017, EstateMax® 8 Pay and Optimax Wealth™ 8 Pay were introduced which provided new payment options to allow clients to pay for their participating policy in as little as eight years. During the fourth quarter of 2016, Empire Life decided to stop selling universal life insurance products but will continue to administer its in-force block of universal life insurance products.

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

Sources of Earnings[1] - Individual Insurance (excludes policyholders' portion)	First quarter	
(in millions of dollars)	**2018**	2017
Expected profit on in-force business	**$ 15.2**	$ 10.7
Impact of new business	**1.3**	(2.2)
Experience gains (losses)	**(4.0)**	(12.9)
Management actions and changes in assumptions	**-**	29.6
Earnings on operations before income taxes	**12.6**	25.2
Income taxes	**1.8**	6.3
Shareholders' net income (loss)	**$ 10.7**	$ 18.9

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

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

[1] See Non-IFRS Measures

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

	First Quarter	
	2018	2017
Interest rate movement		
30-year Canadian federal government bond yield		
End of period	**2.22%**	2.31%
Beginning of period	**2.26%**	2.31%
Change during period	**(0.04)%**	0.00%
30-year Province of Ontario spread		
End of period	**0.78%**	0.85%
Beginning of period	**0.70%**	0.90%
Change during period	**0.08%**	(0.05)%
30-year A rated corporate spread (including financials)		
End of period	**1.42%**	1.49%
Beginning of period	**1.32%**	1.60%
Change during period	**0.10%**	(0.11)%
30-year A rated financials spread		
End of period	**1.87%**	1.87%
Beginning of period	**1.87%**	2.01%
Change during period	**0.00%**	(0.14)%

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

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

[1] See Non-IFRS Measures

Results – Capital and Surplus

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

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

The following table provides a breakdown of the sources of earnings[1] for the first quarter for Capital and Surplus (excludes policyholders' portion).

Sources of Earnings[1] - Capital and Surplus (excludes policyholders' portion)	First quarter	
(in millions of dollars)	**2018**	2017
Income from investments	**$ 11.3**	$ 9.8
Gains (losses) on hedging instruments	**(0.7)**	(3.8)
Interest and other expenses	**(6.1)**	(4.3)
Earnings before income taxes	**4.5**	1.8
Income taxes	**0.7**	0.2
Shareholders' net income (loss)	**$ 3.9**	$ 1.6

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

[1] See Non-IFRS Measures

Shareholder Dividends

The declaration and payment of common shareholder dividends and the amount thereof are at the discretion of the Board of Directors.

Common shareholder dividends are reviewed on a quarterly basis and will depend upon various factors, including the results of operations, the economic environment and the financial condition of Empire Life, taking into account regulatory restrictions on the payment of shareholder dividends, as well as any other factors deemed relevant by the Board of Directors.

On May 3, 2018, the Board of Directors declared a dividend of $10.151501 per common share of Empire Life for a total of $10 million.

The following table provides details of the amounts and dates for Empire Life's per share common and preferred share dividends.

		Amount of Dividend per share	Payable Date	Record Date
Common shares	$	10.151501	June 8, 2018	May 17, 2018
Non-Cumulative Rate Reset Preferred Shares, Series 1 (TSX: EML.PR.A)	$	0.359375	July 17, 2018	June 18, 2018
Non-Cumulative Rate Reset Preferred Shares, Series 3	$	0.306250	July 17, 2018	June 18, 2018

Empire Life advises that the above referenced dividends are eligible dividends for the purposes of the Income Tax Act, Canada and any similar provincial tax legislation.

Total Cash Flow

	First Quarter			
(in millions of dollars)		**2018**		2017
Cash flow provided from (used for)				
Operating activities	**$**	**66.9**	$	79.5
Investing activities		**(114.4)**		(89.6)
Financing activities		**(6.8)**		(2.1)
Net change in cash and cash equivalents	**$**	**(54.4)**	$	(12.2)

Net change in cash and cash equivalents was an outflow of $54.4 million made up of the following items:

- The decrease in cash provided from operating activities in 2018 relative to 2017 was primarily due to lower cash inflows related to changes in working capital levels.
- The decrease in cash from investing activities in 2018 relative to 2017 was mainly due to the timing of investment of the proceeds of $100 million preferred shares in November 2017.
- The decrease in cash from financing activities in 2018 relative to 2017 was due to interest paid on $200 million of subordinated debt issued in September 2017.

For an analysis of liquidity for Empire Life, see note 10(e) and note 28(b) to the audited consolidated financial statements for the year ended December 31, 2017.

[1] See Non-IFRS Measures

Financial Instruments

Empire Life buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of Empire Life. Empire Life's investment strategy also includes the use of publicly-listed "large cap" common stocks to support the liabilities under its insurance policies. Cash flows arising from these financial instruments are intended to match the liquidity requirements of Empire Life's policies, within the limits prescribed by Empire Life. Empire Life is subject to market risk on these financial instruments.

Empire Life manages market risk exposure mainly through investment limits and oversight of its in-house investment managers and external investment firms by the Chief Investment Officer, Asset Management Committee and Investment Committee of the Board of Directors. The Investment Committee actively monitors the portfolio size and asset mix.

Empire Life has a semi-static hedging program as part of its approach to managing this risk. Empire Life manages credit risk with respect to derivatives by applying limits and credit rating restrictions established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed, with total credit exposure limited to $100 million.

Empire Life is also subject to credit risk on these financial instruments which could result in a financial loss should the other party fail to discharge an obligation. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, cash and cash equivalents, mortgages and from reinsurers under reinsurance agreements. Empire Life manages credit risk by applying its investment guidelines established by the Investment Committee and Risk and Capital Committee of the Board of Directors. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of Empire Life's Board on the credit risk to which the portfolio is exposed.

Additional information regarding financial instruments is included in notes 2(d), 3, 10(c), and 28 to the audited consolidated financial statements for the year ended December 31, 2017.

[1] See Non-IFRS Measures

Capital Securities

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

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

In the first quarter of 2016, Empire Life issued $149.5 million of preferred shares. The holders are entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually for the period ending on April 17, 2021. After that the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 4.99%. In the fourth quarter of 2017, Empire Life issued $100 million preferred shares to E-L Financial Corporation Limited (E-L). E-L is entitled to receive fixed non-cumulative quarterly dividends yielding 4.9% annually for the period ending January 17, 2023. After that the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada rate at that time plus 3.24%.

In the fourth quarter of 2016, Empire Life issued $200 million principal amount of unsecured subordinated debentures with a maturity date at December 16, 2026. The interest rate on the debentures is 3.383% paid semi-annually until December 16, 2021. After that the interest rate will be the 3-month Canadian Deposit Offering Rate plus 1.95% from December 16, 2021 to December 16, 2026. In the third quarter of 2017, Empire Life issued $200 million principal amount of unsecured subordinated debentures with a maturity date of March 15, 2028. The interest rate on the debentures is 3.664% paid semi-annually until March 15, 2023. After that the interest rate will be the 3-month Canadian Deposit Offering Rate plus 1.53% from March 15, 2023 to March 15, 2028. The issuances of the debentures in 2017 have increased the interest paid relative to the first quarter of 2017.

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

Empire Life’s debentures and preferred shares are rated by DBRS Limited (“DBRS”) and A.M. Best Company, Inc. (“A.M. Best”). Empire Life’s DBRS issuer rating is “A” (sixth highest of 20 categories), its subordinated debt rating is “A (low)” (seventh highest of 20 categories), its financial strength rating is “A” (sixth highest of 22 categories) and its Preferred Share rating is Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life’s maintenance of market share, good earnings ability, increased capitalization level, fixed charge coverage, conservative investment portfolio and negligible intangibles on the balance sheet.

A.M. Best ratings of Empire Life is “A Excellent” financial strength rating (third highest of 16 categories), “a” long-term issuer credit rating (sixth highest of 21 categories), “bbb+” Subordinated Debt rating (eighth highest of 21 categories), and “bbb” Preferred Share rating (ninth highest of 21 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's favourable risk-adjusted capital position, consistently positive operating results, high credit quality investment portfolio and a diversified revenue stream in Canada with multiple lines of business.

[1] See Non-IFRS Measures

Capital Resources

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

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

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

[1] See Non-IFRS Measures

Other Comprehensive Income

	First quarter	
(in millions of dollars after tax)	**2018**	2017
OCI, attributable to shareholders	**$ (9.3)**	$ 9.0
OCI, attributable to policyholders	**(1.8)**	(0.3)
Total other comprehensive income	**$ (11.0)**	$ 8.7

Other comprehensive income ("OCI") decreased in the first quarter in 2018 primarily due to unrealized decreases in the value of AFS investments. The decrease is primarily due to a slight increase in long-term interest rates for the first quarter in 2018 compared to a decrease in long-term interest rates in the first quarter of 2017.

Re-measurement of defined benefits ("DB") plans does not immediately impact LICAT as each quarter's re-measurement gain or loss is amortized over twelve quarters for LICAT purposes.

Risk Management

Caution Related to Sensitivities

In the sections that follow, Empire Life provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk factor, assuming that all other risk variables remain constant. Actual results can differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of Empire Life's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for Empire Life's future net income, OCI, and capital sensitivities. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life has a semi-static hedging program. The objective of the hedging program is to partially protect Empire Life from possible future LICAT ratio declines that might result from adverse stock market price changes. The hedging program currently employs put options on key equity indices. The extent of options used is monitored and managed on an ongoing basis, giving consideration to equity risk and the level of available capital.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes related to segregated fund guarantees, but does not have policy liabilities related to these guarantees on its balance sheet. Therefore a by-product of hedging LICAT exposure is income statement volatility, as the gains or losses from hedging instruments are not offset by changes in policy liabilities related to segregated fund guarantees on the income statement. During the first quarter of 2018, Empire Life experienced a hedge cost of $0.5 million after tax on its hedging program primarily due to decrease in Canadian stock prices. This compares to a hedge cost of $2.8 million for the comparable period in 2017 primarily due to rising Canadian stock prices in 2017.

[1] See Non-IFRS Measures

Empire Life’s LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of March 31, 2018, Empire Life had $8.4 billion of segregated fund assets and liabilities. Of this amount, approximately $8.1 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Mar 31 2018	Dec 31 2017
Percentage of Segregated Fund Liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**2.3%**	2.1%
75% maturity guarantee and a 100% death benefit guarantee	**48.1%**	48.1%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	**6.7%**	6.6%
100% maturity and death benefit guarantee (guaranteed minimum withdrawal benefit (GMWB)	**42.9%**	43.2%

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

The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e., negative liability amounts are not permitted so zero is used instead, as described below) and other regulatory constraints, and this often makes the sensitivity impacts non-linear. Generally as stock markets and interest rates rise, the magnitude of the negative liabilities will also rise. In the first table below, Empire Life discloses the sensitivity of net income to changes in segregated fund guarantee insurance contract liabilities. There is a net loss resulting from a 20% and a 30% decrease at March 31, 2018 and at December 31, 2017, but otherwise the amounts shown in the table are nil. These liabilities (present value of future benefits and expenses minus the present value of future fee revenue) are calculated using stochastic modeling techniques based on a range of future economic scenarios. The liabilities are the greater of: (i) the average of the amounts determined in the worst 20% of the scenarios; and (ii) zero. For the nil amounts shown in this table, the liability for Empire Life was negative. Therefore, the alternative level of zero is applied in these tests (zero floor) resulting in a net income impact of nil. Based on stock market levels at March 31, 2018 and December 31, 2017, the sensitivity of Empire Life shareholders’ net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

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

Empire Life’s equity market sensitivity for segregated fund guarantees in a 20% and 30% stock market decline has increased primarily as a result of a decrease in the Canadian stock market during the first quarter of 2018. The impact of stock market changes on the segregated fund guarantee liabilities is not linear.

[1] See Non-IFRS Measures

As noted earlier, Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at March 31, 2018 and December 31, 2017, the sensitivity of Empire Life shareholders' net income (including changes in segregated fund guarantee insurance contract liabilities) resulting from stock market increases and decreases is as follows (excluding the effect of Empire Life's equity risk hedging program):

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

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

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

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

Based on stock market levels on the dates indicated below, the sensitivity of Empire Life's LICAT ratio for March 31, 2018 and MCCSR ratio for December 31, 2017 to stock market increases and decreases for all Empire Life stock market exposures, including segregated fund guarantees, is as follows (excluding the effect of Empire Life's equity risk hedging program):

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

The March 31, 2018 and December 31, 2017 amounts in the following table include the effect of Empire Life's equity risk hedging program (described below):

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

[1] See Non-IFRS Measures

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

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

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at March 31, 2018, the aggregate amount at risk for all three categories of risk is $815.6 million. At December 31, 2017, the aggregate amount at risk for these three categories of risk was $692.4 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes including fund performance, deaths, deposits, withdrawals and maturity dates.

The level of actuarial liabilities and required regulatory capital in the above table is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist on future payments to GMWB policyholders, or upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders. The amounts at risk and the regulatory capital at March 31, 2018 increased from the December 31, 2017 levels primarily due to the decrease in Canadian stock market during the first quarter of 2018.

In addition, Empire Life's LICAT ratio is sensitive to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in assumed initial reinvestment rate ("IRR") for non-participating insurance business and segregated fund guarantees for March 31, 2018 and December 31, 2017, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR").

Sensitivity To Market Interest Rates LICAT/ MCCSR	**Before The Sale of AFS Assets**	**After The Sale of AFS Assets**
	50 bps Decrease	**50 bps Decrease**
March 31, 2018 LICAT Total Ratio	**N/A**	**(4.2)%**
December 31, 2017 MCCSR Ratio	(23.4)%	(16.6)%

[1] See Non-IFRS Measures

Quarterly Results

The following table summarizes various financial results on a quarterly basis for the most recent eight quarters:

(in millions of dollars, except per share amounts)	**Mar 31 2018**	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016
Revenue	**$ 263.8**	$ 626.8	$ 134.5	$ 503.5	$ 409.8	$ (24.9)	$ 452.9	$ 564.6
Common shareholder's net income	**$ 38.7**	$ 48.3	$ 39.1	$ 33.4	$ 50.2	$ 52.5	$ 38.1	$ 24.8
Earnings per share - basic and diluted	**$ 39.30**	$ 49.03	$ 39.67	$ 33.91	$ 50.91	$ 53.34	$ 38.67	$ 25.21

For the first quarter of 2018, Revenue included $78.0 million of fair value unrealized loss through the profit and loss (FVTPL). The unrealized loss or gain on assets arises from interest rate changes. Excluding FVTPL losses, Revenue was up slightly from the first quarter of 2017 as a result of increased premium and fee income. Empire Life reported first quarter common shareholders' net income of $38.7 million for 2018, compared to $50.2 million for first quarter 2017. The earnings for the first quarter of 2018 included growth from expected profit on in-force business in the Individual Insurance product line and higher experience gains in Individual Insurance and Employee Benefits product lines. The first quarter of 2017 included gains realized from management actions in the Individual Insurance product line. These gains were not realized in the first quarter of 2018.

For the fourth quarter of 2017, Revenue included $265.1 million of FVTPL realized and unrealized gains on assets from interest rate changes. Excluding FVTPL gains, Revenue was up slightly from fourth quarter 2016 as a result of fee income and investment income. Net income was lower relative to 2016 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. The Individual insurance business has realized significant gains in other quarters in 2017 and 2016 primarily attributable to improved stock market conditions, a favourable update of policy liability assumptions for the Individual Insurance business and management actions to improve asset/liability matching in 2017 and 2016.

For the third quarter of 2017, Revenue included $213.9 million of FVTPL realized and unrealized loss on assets from interest rate changes. Excluding FVTPL loss, Revenue was slightly higher than the third quarter of 2016 as a result of fee income and investment income. Net income was higher relative to 2016 due to higher profit from lower hedging costs and from improved operating performance in the Employee Benefits product line. The Individual insurance business has realized higher gains in other quarters in 2017 and 2016 primarily attributable to improved stock market conditions, a favourable update of policy liability assumptions for the Individual Insurance business and management actions to improve asset/liability matching in 2017 and 2016.

For the second quarter of 2017, Revenue included $161.8 million of FVTPL realized and unrealized gains on assets from interest rate changes. Excluding FVTPL gains Revenue was substantially the same as 2016. Net income was benefitted from improved health claims in the Employee Benefits product line. Earnings on surplus increased primarily due to improved results from Empire Life's hedging program due to stable Canadian stock prices in 2017 compared to rising Canadian stock prices in 2016. Empire Life realized significant management action gains in the Individual Insurance line as a result of improved matching of assets and liabilities during the first quarter of 2017 and during 2016.

For the first quarter of 2017, Revenue included $83.5 million of FVTPL realized and unrealized gains on assets from interest rate changes. Net income included higher profit from the Wealth Management business primarily from higher fees in the segregated fund product line and investment experience gains from the fixed interest annuity line. Empire Life continues to improve its matching of assets and liabilities in the Individual Insurance product line by increasing its investment in real estate limited partnership units and by making changes to its bond and equity investments. The improved matching position resulted in strong performance in that product line for the quarter.

For the fourth quarter of 2016, Revenue included $371.4 million of FVTPL realized and unrealized losses on assets from interest rate changes. Net income included higher profit from the Individual Insurance product line primarily attributable to improved stock market conditions, a favourable update of policy liability assumptions for the Individual Insurance product line, and management actions to improve asset/liability matching. During the fourth quarter of 2016

[1] See Non-IFRS Measures

Empire Life decided to stop selling universal life insurance products but will continue to administer its in-force block of universal life insurance products.

For the third quarter of 2016, Revenue included $108.6 million of FVTPL realized and unrealized gains on assets from interest rate changes. Net income included favourable results from Individual Insurance line primarily attributed to improved stock market conditions and to management actions to improve asset/liability matching in 2016. Wealth Management net income also improved due to higher fee income (resulting from the increase in average AUM from improved stock market conditions in 2016), lower new business strain (resulting from lower segregated fund sales) and lower expenses.

For the second quarter of 2016, Revenue included $226.3 million of FVTPL realized and unrealized gains on assets from interest rate changes. Net income was impacted by net losses on hedging instruments due to the increase in stock market, lower profit from the Employee Benefits product line primarily due to less favourable long-term disability results, and increased payment of preferred share dividends.

[1] See Non-IFRS Measures

Forward-Looking Statements and Information

Certain statements in this MD&A about Empire Life'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 “Risk Factors” in Empire Life'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 Empire Life; 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 Empire Life'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. Empire Life 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.

[1] See Non-IFRS Measures

Non-IFRS Measures

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

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

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

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

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

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

Reconciliation of Assets Under Management

As at (in millions of dollars)	**March 31, 2018**	December 31, 2017
Assets under Management		
General fund assets	**$ 8,695.0**	$ 8,712.6
Segregated fund assets	**8,405.5**	8,681.9
Total assets per financial statements	**17,100.4**	17,394.5
Mutual fund assets	**172.1**	183.7
Assets under management	**$ 17,272.5**	$ 17,578.2

The above table includes the following amounts held by Empire Life's DB plans.

As at (in millions of dollars)	**March 31, 2018**	December 31, 2017
DB Plan Assets		
Segregated fund assets	**$ 187.4**	$ 198.3
Mutual fund assets	**13.2**	13.1

[1] See Non-IFRS Measures