The Empire Life Insurance Company

Consolidated Financial Statements 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements in this annual report have been prepared by management, who is responsible for their integrity, objectivity and reliability. This responsibility includes selecting and applying appropriate accounting policies, making judgements and estimates, and ensuring information contained throughout the annual report is consistent with these statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI).

The Company maintains a system of internal control over financial reporting which is designed to provide reasonable assurance that assets are safeguarded, expenditures are made in accordance with authorizations of management and directors, transactions are properly recorded, and the financial records are reliable for preparing the consolidated financial statements in accordance with (IFRS). Under the supervision of management, an evaluation of the effectiveness 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.

The Board of Directors, acting through the Audit Committee which is comprised of directors who are not officers or employees of the Company, oversees management’s responsibility for financial reporting and for internal control systems. The Audit Committee is responsible for reviewing the consolidated financial statements and annual report and recommending them to the Board of Directors for approval. The Audit Committee meets with management, internal audit and the external auditors to discuss audit plans, internal controls over accounting and financial reporting processes, auditing matters, and financial reporting issues.

The Appointed Actuary is appointed by the Board of Directors and is responsible for ensuring that the assumptions and methods used in the valuation of the policy liabilities are in accordance with accepted actuarial practice and regulatory requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities at the consolidated statement of financial position date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The Appointed Actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company under adverse economic and business conditions for the current year and the next four years.

PricewaterhouseCoopers’ responsibility as external auditors is to report to the policyholders, shareholders and OSFI regarding the fairness of presentation of the Company’s annual consolidated financial statements. The external auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit. The Independent Auditor’s Report outlines the scope of their examination and their opinion.

Mark Sylvia
President and Chief Executive Officer
Kingston, Ontario
February 27, 2018

Ron Friesen
Senior Vice-President and Chief Financial Officer
Kingston, Ontario
February 27, 2018

INDEPENDENT AUDITOR'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

We have audited the accompanying consolidated financial statements of The Empire Life Insurance Company and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Empire Life Insurance Company and its subsidiary as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
February 27, 2018

APPOINTED ACTUARY'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

I have valued the policy liabilities and reinsurance liabilities of The Empire Life Insurance Company for its Consolidated statements of financial position at December 31, 2017 and their change in the Consolidated statements of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance liabilities, makes appropriate provision for all policy obligations and the Consolidated financial statements fairly present the results of the valuation.

Dan Doyle, FSA, FCIA, MAAA
Fellow, Canadian Institute of Actuaries
Kingston, Ontario
February 27, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31		2017		2016
Assets				
Cash and cash equivalents (Note 3)	**$**	**294,238**	$	368,873
Investments				
Short-term investments (Note 3)		**127,742**		102,874
Bonds (Note 3)		**6,473,608**		5,521,172
Preferred shares (Note 3)		**408,261**		285,184
Common shares (Note 3)		**905,934**		929,611
Derivative assets (Note 3)		**1,399**		3,855
Mortgages (Note 3)		**221,973**		264,309
Loans on policies (Note 3)		**51,692**		47,969
Policy contract loans (Note 3)		**74,603**		80,944
Total cash and cash equivalents and investments		**8,559,450**		7,604,791
Accrued investment income		**43,219**		40,551
Insurance receivables (Note 4)		**46,294**		53,097
Other assets (Note 5)		**18,837**		39,680
Property and equipment (Note 6)		**26,545**		27,683
Intangible assets (Note 7)		**18,310**		14,341
Segregated fund assets (Note 8)		**8,681,892**		8,082,033
Total assets	**$**	**17,394,547**	$	15,862,176
Liabilities				
Accounts payable and other liabilities (Note 11)	**$**	**99,374**	$	79,600
Insurance payables (Note 9)		**81,472**		97,135
Current income taxes payable		**1,629**		32,536
Reinsurance liabilities (Note 10)		**650,801**		533,357
Insurance contract liabilities (Note 10)		**5,364,865**		5,003,450
Investment contract liabilities		**16,643**		13,903
Policyholders' funds on deposit		**33,886**		32,957
Provision for profits to policyholders		**31,347**		29,555
Deferred income taxes (Note 18)		**13,766**		8,989
Subordinated debt (Note 13)		**698,291**		498,603
Segregated fund policy liabilities		**8,681,892**		8,082,033
Total liabilities		**15,673,966**		14,412,118
Equity				
Preferred shares (Note 20)		**249,500**		149,500
Common shares (Note 20)		**985**		985
Contributed surplus		**19,387**		19,387
Retained earnings		**1,433,319**		1,267,049
Accumulated other comprehensive income		**17,390**		13,137
Total equity		**1,720,581**		1,450,058
Total liabilities and equity	**$**	**17,394,547**	$	15,862,176

Duncan N. R. Jackman
Chairman of the Board

Mark Sylvia
President and Chief Executive Officer

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Canadian dollars except per share amounts and shares authorized and outstanding)

For the year ended December 31		2017		2016
Revenue				
Gross premiums (Note 14)	$	**964,589**	$	1,002,252
Premiums ceded to reinsurers (Note 14)		**(130,375)**		(120,752)
Net premiums (Note 14)		**834,214**		881,500
Investment income (Note 3)		**281,221**		254,913
Fair value change in fair value through profit or loss assets		**239,407**		11,873
Realized gain (loss) on fair value through profit or loss assets sold		**57,188**		20,114
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)		**5,816**		11,739
Fee income (Note 15)		**256,759**		228,369
Total revenue		**1,674,605**		1,408,508
Benefits and expenses				
Gross benefits and claims paid (Note 16)		**635,371**		665,420
Claims recovery from reinsurers (Note 16)		**(74,622)**		(72,670)
Gross change in insurance contract liabilities (Note 16)		**361,415**		204,767
Change in insurance contract liabilities ceded (Note 16)		**117,444**		2,531
Change in investment contracts provision		**243**		40
Policy dividends		**30,436**		28,564
Operating expenses (Note 17)		**155,399**		145,004
Commissions		**183,322**		197,651
Commission recovery from reinsurers		**(2,572)**		(2,492)
Interest expense		**18,164**		9,297
Total benefits and expenses		**1,424,600**		1,178,112
Premium tax		**19,583**		19,529
Investment and capital tax		**3,842**		3,996
Net income before income taxes		**226,580**		206,871
Income taxes (Note 18)		**50,680**		49,705
Net income	$	**175,900**	$	157,166
Less: net income (loss) attributable to participating policyholders		**(4,666)**		(3,439)
Shareholders' net income (loss)		**180,566**		160,605
Less: preferred share dividends declared (Note 21)		**9,630**		7,884
Common shareholders' net income	$	**170,936**	$	152,721
Earnings per share - basic and diluted (Note 19)	$	**173.53**	$	155.03
(2,000,000 shares authorized; 985,076 shares outstanding)				

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

For the year ended December 31		2017		2016
Net income	**$**	**175,900**	$	157,166
Other comprehensive income (loss), net of income taxes:				
Items that may be reclassified subsequently to net income:				
Unrealized fair value change on available for sale investments (Note 18)		**10,174**		6,287
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 18)		**(3,922)**		(8,553)
Net unrealized fair value increase (decrease)		**6,252**		(2,266)
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 18)		**(1,999)**		5,400
Total other comprehensive income (loss)		**4,253**		3,134
Comprehensive income (loss)	**$**	**180,153**	$	160,300
Comprehensive income (loss) attributable to:				
Participating policyholders	**$**	**(7,906)**	$	(1,710)
Shareholders		**188,059**		162,010
Total	**$**	**180,153**	$	160,300

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

For the year ended December 31	2017			2016		
	Shareholders'	**Policyholders'**	**Total**	Shareholders'	Policyholders'	Total
Preferred shares (Note 20)	**$ 249,500**	**$ —**	**$ 249,500**	$ 149,500	$ —	$ 149,500
Common shares (Note 20)	**985**	**—**	**985**	985	—	985
Contributed surplus	**19,387**	**—**	**19,387**	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	**1,224,066**	**42,983**	**1,267,049**	1,075,120	46,422	1,121,542
Net income (loss)	**180,566**	**(4,666)**	**175,900**	160,605	(3,439)	157,166
Preferred share dividends declared	**(9,630)**	**—**	**(9,630)**	(7,884)	—	(7,884)
Preferred share issue costs net of income tax (Note 20)	**—**	**—**	**—**	(3,775)	—	(3,775)
Retained earnings - end of period	**1,395,002**	**38,317**	**1,433,319**	1,224,066	42,983	1,267,049
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	**4,993**	**8,144**	**13,137**	3,588	6,415	10,003
Other comprehensive income (loss)	**7,493**	**(3,240)**	**4,253**	1,405	1,729	3,134
Accumulated other comprehensive income (loss) - end of period	**12,486**	**4,904**	**17,390**	4,993	8,144	13,137
Total equity	**$ 1,677,360**	**$ 43,221**	**$ 1,720,581**	$ 1,398,931	$ 51,127	$ 1,450,058
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	**$ 20,934**	**$ 5,844**	**$ 26,778**	$ 11,287	$ 9,239	$ 20,526
Remeasurements of post-employment benefit liabilities	**(8,903)**	**(485)**	**(9,388)**	(7,014)	(375)	(7,389)
Shareholder portion of policyholders' accumulated other comprehensive income	**455**	**(455)**	**—**	720	(720)	—
Total accumulated other comprehensive income (loss)	**$ 12,486**	**$ 4,904**	**$ 17,390**	$ 4,993	$ 8,144	$ 13,137

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the year ended December 31		2017		2016
Operating activities				
Net income	**$**	**175,900**	$	157,166
Non-cash items affecting net income:				
Change in contract liabilities		**361,658**		204,807
Change in reinsurance liability		**117,444**		2,531
Fair value change in fair value through profit or loss assets		**(239,407)**		(11,873)
Realized (gain) loss on assets including impairment write downs on available for sale assets		**(63,004)**		(31,853)
Amortization related to discount on debt instruments		**(76,494)**		(77,215)
Amortization related to property and equipment and intangible assets (Notes 6 & 7)		**7,999**		5,065
Deferred income taxes (Note 18)		**5,504**		(639)
Other items		**7,802**		44,273
Cash provided from (used for) operating activities		**297,402**		292,262
Investing activities				
Portfolio investments				
Purchases and advances		**(2,585,569)**		(2,319,608)
Sales and maturities		**1,966,955**		1,946,146
Loans on policies				
Advances		**(9,890)**		(8,177)
Repayments		**12,532**		11,151
(Increase) decrease in short-term investments		**(24,868)**		(69,222)
Purchase of property and equipment and intangible assets (Notes 6 & 7)		**(10,830)**		(13,953)
Cash provided from (used for) investing activities		**(651,670)**		(453,663)
Financing activities				
Dividends paid to preferred shareholders (Note 21)		**(8,596)**		(5,735)
Interest paid on subordinated debt		**(11,071)**		(8,610)
Preferred share issue (Note 20)		**100,000**		149,500
Preferred share issue costs net of income tax (Note 20)		**—**		(3,775)
Debt Issue (Note 13)		**199,300**		199,124
Cash provided from (used for) financing activities		**279,633**		330,504
Net change in cash and cash equivalents		**(74,635)**		169,103
Cash and cash equivalents - beginning of year (Note 3)		**368,873**		199,770
Cash and cash equivalents - end of period (Note 3)	**$**	**294,238**	$	368,873
Supplementary cash flow information related to operating activities:				
Income taxes paid, net of (refunds)	**$**	**77,810**	$	12,370
Interest income received		**162,832**		139,405
Dividend income received		**42,525**		35,150

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Company and Summary of Operations

The Empire Life Insurance Company (the “Company” or “Empire Life”) was founded in 1923 when it was organized under a provincial charter in Toronto. Authorization to continue as a federal corporation was obtained in 1987. The Company underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products for individuals and groups across Canada. The Company is a subsidiary of E-L Financial Corporation Limited (the "Parent” or “E-L”). The head office, principal address and registered office of the Company are located at 259 King Street East, Kingston, Ontario, K7L 3A8. Empire Life is a Federally Regulated Financial Institution, regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). Empire Life became a public company on August 5, 2015 and registered as a public issuer with the Ontario Securities Commission. The Company established a mutual fund subsidiary in 2011, Empire Life Investments Inc. (ELII). ELII became a registered Investment Funds Manager on January 5, 2012. The head office for ELII is located at 165 University Avenue, 9th Floor, Toronto, Ontario, M5H 3B8.

These Consolidated Financial Statements were approved by the Company’s Board of Directors (the Board) on February 27, 2018.

2. Significant Accounting Policies

(a) Basis of preparation

The annual Consolidated Financial Statements of the Company for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These Consolidated Financial Statements have been prepared on a fair value measurement basis, with the exception of certain assets and liabilities. Insurance contract liabilities and Reinsurance assets/liabilities are measured on a discounted basis in accordance with accepted actuarial practice. Investment contract liabilities, Mortgages, Policy contract loans and Loans on policies are carried at amortized cost. Certain other assets and liabilities are measured on a historical cost basis, as explained throughout this note. All amounts included in the Consolidated Financial Statements are presented in thousands of Canadian dollars except for per share amounts and where otherwise stated. These Consolidated Financial Statements also comply with the accounting requirements of OSFI, none of which are an exception to IFRS.

(b) Basis of consolidation

The Company’s Consolidated Financial Statements include the assets, liabilities, results of operations and cash flows of the Company and its wholly-owned and controlled subsidiary, ELII. The Company owns 100% of the voting shares and maintains control of its subsidiary. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. The financial statements of ELII are prepared for the same reporting period as the Company, using consistent accounting policies. All significant inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

(c) Critical accounting estimates and judgements

The preparation of the Consolidated Financial Statements, in accordance with IFRS, requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities as at the date of the Consolidated Financial Statements, and the reported amounts of revenue and expenses during the year. On an ongoing basis, management evaluates its judgements, estimates and critical assumptions in relation to assets, liabilities, revenues and expenses. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

The Company considers the following items to be particularly susceptible to changes in estimates and judgements:

(i) Insurance-related liabilities
Liabilities for insurance contracts are determined using the Canadian Asset Liability Method (CALM), which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and are updated to reflect actual experience and market conditions. Changes in the assumptions and margins for adverse deviation can have a significant impact on the valuation of insurance related liabilities.

Additional information regarding insurance-related liabilities is included in Notes 2(e), 2(k),10 and 28.

(ii) Financial instruments classification
Management judgement is used to classify financial instruments as fair value through profit or loss (FVTPL), available for sale (AFS) or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in Net income or Other comprehensive income (OCI).

Additional information regarding financial instrument classification is included in Notes 2(d), 3(a), 3(b) and 10(c).

(iii) Pension and other post-employment 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.

Additional information regarding pension and other post-employment benefits is included in Notes 2(j) and 12.

(iv) Impairment
AFS securities and loans and receivables are reviewed at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. For AFS securities and loans and receivables, impairment losses are recognized if there is objective evidence of impairment as a result of an event that reduces the estimated future cash flows of the instrument and the impact can be reliably estimated. Objective evidence of impairment includes, but is not limited to, bankruptcy or default, delinquency by a debtor, and specific adverse conditions affecting an industry or a region. In addition, for equity securities, a significant or prolonged decline in the fair value of a security below its cost is objective evidence of impairment. For these purposes management considers a significant decline to be 20% or greater and a prolonged period to be 12 months or greater. The decision to record a write-down, its amount and the period in which it is recorded could change if management's assessment of those factors were different. Impairment write-downs on debt securities are not recorded when impairment is due to changes in market interest rates, if future contractual cash flows associated with the debt security are still expected to be recovered.

Additional information regarding impairment is included in Notes 2(d), 3(b), 10(c) and 28(c).

(d) Financial instruments

(i) Fair value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset or liability quoted in an active market is generally the closing price. For financial instruments such as cash equivalents and short-term investments that have a short duration, the carrying value of these instruments approximates fair value.

Fair value measurements used in these Consolidated Financial Statements have been classified by using a fair value hierarchy based upon the transparency of the inputs used in making the measurements. The three levels of the hierarchy are:

Level 1 - Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial instruments classified as level 1 generally include cash and exchange traded common and preferred shares and derivatives.

Level 2 - Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of financial instruments classified as level 2 generally include cash equivalents, government bonds, certain corporate and private bonds, short-term investments, certain common shares (real estate limited partnership units) and over the counter derivatives.

Level 3 - Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect the Company's expectations about the assumptions market participants would use in pricing the asset or liability.

All of the Company's financial instruments requiring fair value measurement meet the requirements of Level 1 or Level 2 of the fair value hierarchy.

(ii) Cash and cash equivalents and investments

Cash and cash equivalents are short-term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition.

Short-term investments comprise financial assets with maturities of greater than three months and less than one year when acquired.

Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. These assets may be comprised of cash and cash equivalents, short-term investments, bonds and debentures, common and preferred shares, futures, forwards and options. Changes in the fair value of these financial assets are recorded in Fair value change in FVTPL assets in the Consolidated Statements of Operations in the period in which they occur.

Most financial assets supporting capital and surplus and participating accounts are classified as AFS. These assets may be comprised of short-term investments, bonds and debentures or common and preferred shares. AFS assets are carried at fair value in the Consolidated Statements of Financial Position. Except for foreign currency gains/losses on monetary AFS assets and impairment losses, any changes in the fair value are recorded, net of income taxes, in OCI. Gains and losses realized on sale or maturity of AFS assets are reclassified from OCI to Realized gain (loss) on AFS assets in the Consolidated Statements of Operations.

Loans and receivables may include mortgage loans, loans on policies and policy contract loans. These assets are recorded at amortized cost, using the effective interest rate method, net of provisions for impairment losses, if any. Mortgage loans are secured by real estate. Loans on policies and policy contract loans are secured by policy values. Loans and receivables are defined as non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

All transactions are recorded on the trade date. Transaction costs are expensed for FVTPL instruments and capitalized for all others.

(iii) Derivative financial instruments

The Company uses derivative financial instruments to manage exposure to foreign currency, equity and other market risks associated with certain assets and liabilities. Derivative financial assets and liabilities are classified as FVTPL. Therefore, they are initially recorded at fair value on the acquisition date and subsequently revalued at their fair value as at each reporting date. Derivative financial instruments with a positive fair value are disclosed as derivative assets while derivative financial instruments with a negative fair value are disclosed as other liabilities. Changes in fair value are recorded, in Fair value change in FVTPL assets, in the Consolidated Statements of Operations.

(iv) Impairment

All investments other than FVTPL instruments are assessed for impairment at each reporting date. Impairment is recognized in net income (loss), when there is objective evidence that a loss event has occurred which has impaired the estimated future cash flows of an asset.

(1) AFS debt instruments

An AFS debt instrument would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through Net income (loss). Impairment losses previously recorded through Net income (loss) are reversed if the fair value subsequently increases and the increases can be objectively related to an event occurring after the impairment loss was recognized.

(2) AFS equity instruments

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.

The accounting for an impairment that is recognized in Net income (loss) is the same as described for AFS debt instruments above with the exception that impairment losses previously recognized in net income (loss) cannot be subsequently reversed through Net income (loss). Any subsequent increase in value is recorded in OCI.

(3) Loans and receivables

Mortgages and loans are individually evaluated for impairment in establishing the allowance for impairment.

Objective evidence of impairment exists if there is no longer reasonable assurance of full collection of loan principal or loan interest related to a mortgage, policy contract loan or a loan on a policy. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability and credit worthiness of the borrower, repayment history and an assessment of the impact of current economic conditions. If objective evidence of impairment is found, allowances for credit losses are established to adjust the carrying value of these assets to their net recoverable amount and the impairment loss is recorded in Net income (loss). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed by adjusting the allowance account and the reversal is recognized in Net income (loss).

(v) Derecognition

A financial asset is derecognized when the contractual rights to its cash flows expire or the Company has transferred its economic rights to the asset and substantially all risks and rewards. In instances where substantially all risks and rewards have not been transferred or retained, the assets are derecognized if the asset is not controlled through rights to sell or pledge the asset.

(vi) Other

Insurance receivables and trade accounts receivables have been classified as loans or receivables and are carried at amortized cost. Trade accounts receivables are presented as Other assets. Accounts payable and other liabilities (excluding derivative liabilities) and Insurance payables have been classified as other financial liabilities and are carried at amortized cost. For these financial instruments, carrying value approximates fair value due to their short term nature.

(vii)Securities lending

The Company engages in securities lending through its custodian as lending agent. Loaned securities are not derecognized and continue to be reported within Investments in the Consolidated Statements of Financial Position, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities. For further details, refer to Note 3(e).

(e) Reinsurance

The Company enters into reinsurance agreements in order to limit its exposure to significant losses. The Company has a Reinsurance Risk Management policy which requires that such arrangements be placed with well-established, highly rated reinsurers. Reinsurance is measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance treaty. Amounts due to or from reinsurers with respect to premiums received or claims paid are included in Insurance receivables and Insurance liabilities in the Consolidated Statement of Financial Position. Premiums for reinsurance ceded are presented as Premiums ceded to reinsurers in the Consolidated Statements of Operations. Reinsurance recoveries on claims incurred are recorded as Claims recovery from reinsurers in the Consolidated Statements of Operations. The reinsurers’ share of Insurance contract liabilities is recorded as Reinsurance assets or Reinsurance liabilities in the Consolidated Statements of Financial Position at the same time as the underlying insurance contract liability to which it relates.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that not all amounts due under the terms of the contract will be received. If a reinsurance asset is determined to be impaired, it would be written down to its recoverable amount and the impairment loss would be recorded in the Consolidated Statements of Operations.

Gains or losses on buying reinsurance are recognized in the Consolidated Statements of Operations immediately at the date of purchase and are not amortized.

(f) Property and equipment

Property and equipment comprises own use land, buildings, leasehold improvements and furniture and equipment. All classes of assets are carried at cost less accumulated amortization including any impairment losses, except for land, which is not subject to amortization. Cost includes all expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Amortization is calculated to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

Land	No amortization
Building	Five percent (declining balance)
Furniture and equipment	Three to five years (straight-line)
Leasehold improvements	Remaining lease term (straight-line)

Amortization is included in Operating expenses in the Consolidated Statements of Operations.

The estimated useful lives, residual values and amortization methods are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment losses are recognized in the Consolidated Statements of Operations.

(g) Intangible assets

Intangible assets include computer software, related licenses and software development costs, which are carried at cost less accumulated amortization and any impairment losses. Amortization of intangible assets is calculated using the straight-line method to allocate the costs over their estimated useful lives, which are generally between three and seven years. Amortization is included in Operating expenses in the Consolidated Statements of Operations. For intangible assets under development, amortization begins when the asset is available for use. The Company does not have intangible assets with indefinite useful lives.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Impairment losses are recognized in the Consolidated Statements of Operations.

(h) Segregated funds

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. Although the underlying assets are registered in the Company's name and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. Segregated fund assets are not available to pay liabilities of the general fund. The assets of these funds are carried at their period-end fair values. The Company records a segregated fund policy liability equal to the fair value of the assets and any guarantees are recorded as an insurance contract liability. The Company's Consolidated Statements of Operations includes fee income earned for management of the segregated funds, as well as expenses related to the acquisition, investment management, administration and death benefit, maturity benefit and withdrawal guarantees of these funds. See Note 8 for details on segregated fund assets and changes in segregated fund assets.

The Company provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within Insurance contract liabilities. Sensitivity of the Company's liability for segregated fund guarantees to market fluctuations is disclosed in Note 28(a)(1).

(i) Subordinated debt

Subordinated debt is recorded at amortized cost using the effective interest rate method. Interest on subordinated debt is reported as Interest expense in the Consolidated Statements of Operations.

(j) Employee benefits

The Company provides employee pension benefits through either a defined benefit or a defined contribution component of its pension plan. The Company discontinued new enrolments in the defined benefit component effective October 1, 2011 and introduced a defined contribution component effective January 1, 2012 for new enrolments and for any existing employees who chose to transfer from the defined benefit component. The Company also provides other post-employment benefits.

(i) Pension benefits

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit component is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using current interest rates of high-quality corporate bonds.

Defined benefit expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds as of prior-year end. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise, and remain in accumulated other comprehensive income (AOCI). Past-service costs are recognized immediately in net income.

The defined contribution component of the Plan is a component under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

(ii) Other post-employment benefits

The Company also provides other post-employment benefits to their retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise and remain in AOCI. These obligations are valued annually by independent qualified actuaries and are not funded.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(k) Insurance and investment contracts

(i) Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder and the insurance contract has commercial substance. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or service contracts, as appropriate. Products issued by the Company that transfer significant insurance risk have been classified as insurance contracts in accordance with IFRS 4 *Insurance Contracts*. Otherwise, products issued by the Company are classified as either investment contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or service contracts in accordance with IAS 18 *Revenue*. The Company defines significant insurance risk as the possibility of paying at least 2% more than the benefits payable if the insured event did not occur. When referring to multiple contract types, the Company uses the terminology policy liabilities.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts, however, can be reclassified as insurance contracts after inception if insurance risk becomes significant.

The Company classifies its insurance and investment contracts into three main categories: short-term insurance contracts, long-term insurance contracts and investment contracts.

(1) Insurance contracts

The Company’s insurance contract liabilities are determined using accepted actuarial practices according to standards established by the Canadian Institute of Actuaries (CIA) and the requirements of OSFI. The Company uses CALM for valuation of insurance contracts, which satisfies the IFRS 4 *Insurance Contracts* requirements for eligibility for use under IFRS.

(a) Short-term insurance contracts

These contracts include both annuity products and group benefits.

The annuity products classified as short-term insurance contracts are guaranteed investment options that provide for a fixed rate of return over a fixed period. Contracts include certain guarantees that are initiated upon death of the annuitant. The liabilities are determined using CALM.

The group benefits classified as short-term insurance contracts include short-term disability, health and dental benefits. Benefits are typically paid within one year of being incurred. Liabilities for unpaid claims are estimated using statistical analysis and Company experience for claims incurred but not reported.

(b) Long-term insurance contracts

These contracts include insurance products, annuity products and group benefits. In all cases, liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and premium taxes on policies in force.

The insurance products so classified are life insurance and critical illness that provide for benefit payments related to death, survival or the occurrence of a critical illness. Terms extend over a long duration. The annuity products classified as long-term insurance contracts include both annuities that provide for income payments for the life of the annuitant and guarantees associated with the Company's segregated fund products. The group benefits classified as long-term insurance contracts are life benefits which are payable upon death of the insured and disability benefits that provide for income replacement in case of disability.

The determination of long-term insurance contract liabilities requires best estimate assumptions that cover the remaining life of the policies. 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 insurance contract liabilities are adequate to pay future benefits. The resulting provisions for adverse deviation have the effect of increasing insurance contract liabilities and decreasing the income that otherwise would have been recognized at policy inception. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in Gross change in insurance contract liabilities and/or Change in insurance contract liabilities ceded in the Consolidated Statements of Operations in the year of the change.

Annually, the Appointed Actuary determines whether insurance contract liabilities (for both short-term and long-term categories) are sufficient to cover the obligations and deferred acquisition costs that relate to policies in force as at the date of the Consolidated Statements of Financial Position. A number of valuation methods are applied, including CALM, discounted cash flows and stochastic modeling. Aggregation levels and the level of prudence applied in assessing liability adequacy are consistent with requirements of the CIA. Any adjustment is recorded as a Gross change in insurance contract liabilities and/or Change in insurance contract liabilities ceded in the Consolidated Statements of Operations.

(2) Investment contracts

These contracts include annuity products that do not involve the transfer of significant insurance risk, either at inception or during the life of the contract. For the Company, products so classified are limited to term certain annuities that provide for income payments for a specified period of time.

Investment contract liabilities are recognized when contracts are entered into and deposits are received. These liabilities are initially recognized at fair value, and subsequently they are carried at amortized cost based on expected future cash flows using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the Consolidated Statements of Operations. Deposits and withdrawals are recorded in Investment contract liabilities on the Consolidated Statements of Financial Position.

(ii) Premiums

Gross premiums for all types of insurance contracts are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund and investment contract products.

(iii) Benefits and claims paid

Benefits are recorded as an expense when they are incurred. Annuity payments are expensed when due for payment. Health insurance claims are accounted for when there is sufficient evidence of their existence and a reasonable assessment can be made of the monetary amount involved. Benefits and claims paid include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

(iv) Deferred acquisition costs

Distribution costs of segregated funds having a deferred sales charge are deferred and amortized over the term of the related deposits or the applicable period of such sales charge, as appropriate. These deferred costs form part of Insurance contract liabilities on the Consolidated Statements of Financial Position. The costs deferred in the period and amortization of deferred costs form part of the Gross change in insurance contract liabilities on the Consolidated Statements of Operations.

(l) Participating policies

The Company maintains an account in respect of participating policies ("participating account"), separate from those maintained in respect of other policies, in the form and manner determined by OSFI under sections 456-464 of the *Insurance Companies Act*. The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account. Dividends are paid annually, with a few older plans paying dividends every five years as per contractual provisions. Participating policyholder dividends are recognized as Policy dividends expense in the Consolidated Statements of Operations.

At the end of the reporting period all participating insurance contract liabilities, both guaranteed and discretionary, are held within Insurance contract liabilities, Policyholders' funds on deposit and Provision for profits to policyholders. All participating policy reinsurance ceded at the end of the reporting period is held within Reinsurance assets or Reinsurance liabilities. Net income (loss) attributable to participating policyholders is shown on the Consolidated Statements of Operations. Comprehensive income (loss) attributable to participating policyholders is shown on the Consolidated Statements of Comprehensive Income. The participating policyholders' portion of Retained earnings and Accumulated other comprehensive income (AOCI) is reported separately in the Policyholders' equity section of the Consolidated Statements of Changes in Equity. Supplementary participating policyholder information is reported in Note 23.

(i) Investment policy

The investments in the participating account are subject to limits established by the *Insurance Companies Act* and to investment guidelines established by the Investment Committee of the Board. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments. Interest rate risk is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Asset Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable and measurable low levels.

(ii) Investment income allocation

Investment income is recorded directly to each asset segment. When there is a deficiency of funds over assets, a portion of investment income is allocated to the Shareholders' Capital and Surplus segment from the participating account's asset segments in proportion to the deficiency of funds over assets of each segment. When there is an excess of funds over assets, a portion of investment income is allocated from the Shareholders' Capital and Surplus segment to the participating account's asset segments in proportion to the excess of funds over assets of each segment.

(iii) Expense allocation

For purposes of allocation of profits to the participating account, expenses associated directly with the participating account will be attributed to the participating account. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost centres are charged to the participating account in proportion to expenses directly charged. Investment expenses are allocated monthly to the participating account in proportion to the Company's total funds at the beginning of each month. Premium taxes are allocated in proportion to taxable premiums. Other taxes, licenses, and fees are allocated to lines of business using cost centre methods.

(iv) Income tax allocation

For the purpose of allocation of profits to the participating account, income taxes are allocated to the participating account in proportion to total taxable income for the Company.

(m) Fee income

Fee income includes investment management, policy administration and guarantee fees that are recognized on an accrual basis, and surrender charges that are recognized as incurred. Fee income earned for investment management, administration and guarantees of the investment funds is based on the funds' closing net asset values.

(n) Investment income

Interest income is recognized using the effective interest rate method. Fees that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the effective interest rate of the instrument.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Interest income and dividend income are included in Investment income in the Consolidated Statements of Operations for all financial assets.

(o) Income taxes

Income tax expense for the period is comprised of current and deferred tax. Tax is recognized in the Consolidated Statements of Operations except to the extent that it relates to items recognized in OCI or directly in equity. In these cases, the tax is recognized in OCI or directly in equity, respectively.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been reflected in the consolidated financial statements. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between tax and financial statement bases for assets and liabilities and for certain carry-forward items.

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of their substantive enactment.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

(p) Foreign currency translation

The Company uses the Canadian dollar as both its functional and presentational currency.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the Consolidated Statements of Operations.

For monetary financial assets designated as AFS, translation differences are recognized in the Consolidated Statements of Operations. Translation differences on non-monetary items, such as foreign denominated AFS common equities, are recognized in OCI and included in the AFS component within AOCI. On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in AOCI is recognized in the Consolidated Statements of Operations.

(q) Comprehensive income

Comprehensive income consists of Net income and OCI. OCI includes items that may be reclassified subsequently to Net income: Unrealized fair value change on AFS investments, net of amounts reclassified to net income and the Amortization of loss on derivative investments designated as cash flow hedges. OCI also includes items that will not be reclassified to net income: Remeasurements of post-employment benefit liabilities. All OCI amounts are net of taxes.

(r) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed unless the possibility of an outflow of economic benefits is remote. Any change in estimate of a provision is recorded in Net income. Provisions are not recognized for future operating losses. Provisions are measured as the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(s) Leases

The Company leases certain property and equipment. The Company does not have substantially all of the risks and rewards of ownership and these leases are therefore classified as operating leases. Payments made under operating leases are charged to Net income on a straight-line basis over the term of the lease.

(t) Earnings per share (EPS)

Basic EPS is calculated by dividing the Net income (loss) for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The Company does not have any potentially dilutive instruments. As a result, diluted EPS are the same as basic EPS.

(u) Accounting changes

(i) New accounting pronouncements adopted in 2017

(1) *Amendments to IAS 12 Income Taxes*

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.

(2) *Amendments to IAS 7 Statement of Cash Flows*

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.

(ii) New accounting pronouncements issued but not yet effective

(1) *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.

(2) *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 fulfils 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%, and the insurer is not engaged in a significant activity unconnected with insurance.

The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its Consolidated Financial Statements.

(3) *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.

(4) *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.

3. Financial Instruments

(a) Summary of Cash and cash equivalents and investments

The carrying values of cash and cash equivalents and investments are as follows:

As at	December 31, 2017			December 31, 2016		
Asset category	**Fair value through profit or loss**	**Available for sale**	**Total carrying value**	Fair value through profit or loss	Available for sale	Total carrying value
Cash and cash equivalents						
Cash	**$ 21,587**	**$ —**	**$ 21,587**	$ 14,278	$ —	$ 14,278
Cash equivalents	**272,651**	**—**	**272,651**	354,595	—	354,595
Total cash and cash equivalents	**294,238**	**—**	**294,238**	368,873	—	368,873
Short-term investments						
Canadian federal government	**13,960**	**44,937**	**58,897**	4,983	69,883	74,866
Canadian provincial governments	**—**	**33,883**	**33,883**	—	—	—
Canadian municipal governments	**—**	**—**	**—**	3,963	—	3,963
Corporate	**34,962**	**—**	**34,962**	24,045	—	24,045
Total short-term investments	**48,922**	**78,820**	**127,742**	32,991	69,883	102,874
Bonds						
Canadian federal government	**120,161**	**392,076**	**512,237**	81,516	288,200	369,716
Canadian provincial governments	**2,983,416**	**415,016**	**3,398,432**	2,614,635	310,369	2,925,004
Canadian municipal governments	**98,191**	**83,547**	**181,738**	78,743	72,819	151,562
Total Canadian government bonds	**3,201,768**	**890,639**	**4,092,407**	2,774,894	671,388	3,446,282
Canadian corporate bonds by industry sector:						
Energy	**64,591**	**66,800**	**131,391**	50,679	43,649	94,328
Materials	**10,287**	**—**	**10,287**	10,716	—	10,716
Industrials	**57,934**	**60,443**	**118,377**	54,162	33,343	87,505
Consumer discretionary	**21,882**	**28,859**	**50,741**	17,037	27,028	44,065
Consumer staples	**87,811**	**77,108**	**164,919**	78,747	65,110	143,857
Health care	**82,202**	**22,352**	**104,554**	69,543	22,084	91,627
Financial services	**557,368**	**384,757**	**942,125**	504,027	343,255	847,282
Communications	**79,167**	**47,987**	**127,154**	45,101	28,148	73,249
Utilities	**349,863**	**67,884**	**417,747**	317,114	42,408	359,522
Real estate	**916**	**—**	**916**	6,726	—	6,726
Infrastructure	**281,085**	**31,905**	**312,990**	278,675	37,338	316,013
Total Canadian corporate bonds	**1,593,106**	**788,095**	**2,381,201**	1,432,527	642,363	2,074,890
Total bonds	**4,794,874**	**1,678,734**	**6,473,608**	4,207,421	1,313,751	5,521,172
Total preferred shares - Canadian	**396,257**	**12,004**	**408,261**	274,871	10,313	285,184
Common shares						
Canadian common shares	**687,095**	**56,414**	**743,509**	582,582	66,969	649,551
Canadian real estate limited partnership units	**91,894**	**—**	**91,894**	75,594	—	75,594
U.S.	**39,655**	**—**	**39,655**	181,600	—	181,600
Other	**30,346**	**530**	**30,876**	22,866	—	22,866
Total common shares	**848,990**	**56,944**	**905,934**	862,642	66,969	929,611
Total derivative assets	**1,399**	**—**	**1,399**	3,855	—	3,855
Loans and receivables						
Mortgages	**—**	**—**	**221,973**	—	—	264,309
Loans on policies	**—**	**—**	**51,692**	—	—	47,969
Policy contract loans	**—**	**—**	**74,603**	—	—	80,944
Total financial instruments	**$ 6,384,680**	**$ 1,826,502**	**$ 8,559,450**	$ 5,750,653	$ 1,460,916	$ 7,604,791

The following table presents the fair value of cash and cash equivalents and investments classified by the fair value hierarchy:

As at	December 31, 2017			December 31, 2016		
	Level 1	**Level 2**	**Total fair value**	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	**$ 21,587**	**$ 272,651**	**$ 294,238**	$ 14,278	$ 354,595	$ 368,873
Short-term investments	**—**	**48,922**	**48,922**	—	32,991	32,991
Bonds	**—**	**4,794,874**	**4,794,874**	—	4,207,421	4,207,421
Preferred shares	**396,257**	**—**	**396,257**	274,871	—	274,871
Common shares	**757,096**	**91,894**	**848,990**	787,048	75,594	862,642
Derivative assets	**1,398**	**1**	**1,399**	3,265	590	3,855
Available for sale:						
Short-term investments	**—**	**78,820**	**78,820**	—	69,883	69,883
Bonds	**—**	**1,678,734**	**1,678,734**	—	1,313,751	1,313,751
Preferred shares	**12,004**	**—**	**12,004**	10,313	—	10,313
Common shares	**56,944**	**—**	**56,944**	66,969	—	66,969
Loans and Receivables						
Mortgages	**—**	**224,982**	**224,982**	—	269,171	269,171
Loans on policies	**—**	**51,692**	**51,692**	—	47,969	47,969
Policy contract loans	**—**	**74,603**	**74,603**	—	80,944	80,944
Total	**$ 1,245,286**	**$ 7,317,173**	**$ 8,562,459**	$ 1,156,744	$ 6,452,909	$ 7,609,653

The fair value of mortgages has been calculated by discounting cash flows of each mortgage at a discount rate appropriate to its remaining term to maturity. The discount rates are determined based on regular competitive rate surveys. The fair values of Loans on policies and Policy contract loans approximates their carrying values, due to the life insurance contracts that secure them.

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 and there were no Level 3 investments during the year ended December 31, 2017 or during the year ended December 31, 2016.

For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments refer to Note 28 Risk Management.

(b) Impairments

(i) Loans and receivables

Investments in individual assets have been reduced by the following specific allowances for impairment:

As at	December 31, 2017			December 31, 2016		
Impaired Loans	**Recorded investment**	**Allowance for impairment**	**Carrying value**	Recorded investment	Allowance for impairment	Carrying value
Mortgages	**$ 6,935**	**$ 2,984**	**$ 3,951**	$ 6,649	$ 3,152	$ 3,497
Policy contract loans	**813**	**490**	**323**	813	502	311
Total	**$ 7,748**	**$ 3,474**	**$ 4,274**	$ 7,462	$ 3,654	$ 3,808

The Company holds collateral with a fair value of $3,950 (2016 $3,500) in respect of these mortgages and $323 (2016 $311) in respect of these policy contract loans as at December 31, 2017. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

Continuity of allowance for loan impairment:		2017		2016
Allowance - beginning of year	$	**3,654**	$	3,125
Provision for loan impairment		**123**		529
Write-off of loans		**(303)**		—
Allowance - end of year	$	**3,474**	$	3,654

The Company has recorded interest income of $801 (2016 $789) on these assets.

(ii) Available for sale

For the year-ended December 31, 2017, the Company reclassified a pre-tax loss of $825 from OCI to Net income due to write downs of impaired AFS common and preferred shares (2016 $777). Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

For additional information on the fair values of the Company's AFS investments, refer to Note 3 (a). For analysis of the Company's risks arising from financial instruments, refer to Note 28.

(c) Investment income

Investment income is comprised of the following:

For the year ended December 31		2017		2016
Interest income	$	**238,979**	$	218,589
Dividend income		**41,013**		35,970
Other		**1,352**		883
Provision for loan impairment		**(123)**		(529)
Investment income	$	**281,221**	$	254,913

Included in interest income is $69,346 (2016 $53,134) relating to assets not classified as FVTPL.

(d) Derivative financial instruments

The values of derivative instruments are set out in the following table. The use of derivatives is measured in terms of notional principal amounts, which serve as the basis for calculating payments and are generally not actual amounts that are exchanged.

As at	December 31, 2017			December 31, 2016		
	Notional principal	**Fair value assets**	**Fair value liabilities**	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	$ **43,970**	$ **640**	$ **168**	$ 128,708	$ 1,471	$ 213
Equity options	**430,124**	**758**	**—**	325,348	1,794	—
Over-the-counter						
Foreign currency forwards	**32,757**	**1**	**723**	28,247	590	25
Total	$ **506,851**	$ **1,399**	$ **891**	$ 482,303	$ 3,855	$ 238

All contracts mature in less than one year. Fair value asset amounts are reported on the Consolidated Statements of Financial Position as Derivative assets. Fair value liability amounts are reported on the Consolidated Statements of Financial Position as part of Accounts payable and other liabilities. Fair value of exchange traded derivatives is determined based on Level 1 inputs. Foreign currency forward contracts are valued based primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency, interest rates and credit spreads. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit-related inputs are determined not to be significant to fair value, are classified as Level 2.

For analysis of the Company's risks arising from financial instruments, refer to Note 28.

(e) Securities Lending

During March 2017, the Company entered into a securities lending agreement with its custodian. Under this agreement, the custodian may lend securities from the Company's portfolio to other institutions, as approved by the Company, for periods of time. In addition to a fee, the Company receives collateral which exceeds the market value of the loaned securities, which is retained by the Company until the underlying security has been returned to the Company. In the event that any of the loaned securities are not returned to the custodian, at its option the custodian may either restore to the Company securities identical to the loaned securities or it will pay to the Company the value of the collateral up to but not exceeding the market value of the loaned securities on the date on which the loaned securities were to have been returned ("Valuation Date") to the custodian. If the collateral is not sufficient to allow the custodian to pay such market value to the Company, the custodian shall indemnify the Company only for the difference between the market value of the securities and the value of such collateral on the Valuation Date. As a result, there is no significant exposure to credit risk associated with this securities lending agreement.

Income recognized from securities lending activities was as follows:

For the year ended		December 31, 2017		December 31, 2016
General funds	$	442	$	—
Segregated funds		1,088		—
Total	$	1,530	$	—

As at December 31, 2017 and December 31, 2016, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at		December 31, 2017		December 31, 2016
General Funds				
Value of securities loaned	$	648,470	$	—
Value of collateral received	$	661,833	$	—
Segregated Funds				
Value of securities loaned	$	1,170,420	$	—
Value of collateral received	$	1,195,410	$	—
Total				
Value of securities loaned	$	1,818,890	$	—
Value of collateral received	$	1,857,243	$	—

4. Insurance Receivables

As at December 31		2017		2016
Due from policyholders	$	4,690	$	4,050
Due and accrued from reinsurers		20,534		26,461
Fees receivable		17,169		17,844
Other		3,901		4,742
Insurance receivables	$	46,294	$	53,097

All amounts are expected to be recovered within one year of the Consolidated Statements of Financial Position date. These financial instruments are short-term in nature and their fair values approximate carrying values.

5. Other Assets

Other assets consist of the following:

As at December 31		2017		2016
Trade accounts receivable	$	**12,399**	$	33,731
Prepaid expenses		**6,438**		5,949
Other assets	$	**18,837**	$	39,680

All amounts are expected to be recovered within one year of the Consolidated Statements of Financial Position date. These financial instruments are short-term in nature and their fair values approximate carrying value.

6. Property and Equipment

		Land		Buildings		Furniture and equipment		Leasehold improvements		Total
Cost										
As at January 1, 2016	$	2,318	$	13,038	$	30,806	$	6,397	$	52,559
Additions		—		—		6,577		822		7,399
Disposals		—		—		—		—		—
As at December 31, 2016		2,318		13,038		37,383		7,219		59,958
Additions		—		—		3,494		837		4,331
Disposals		—		—		—		—		—
As at December 31, 2017	**$**	**2,318**	**$**	**13,038**	**$**	**40,877**	**$**	**8,056**	**$**	**64,289**
Amortization										
As at January 1, 2016	$	—	$	(3,410)	$	(19,525)	$	(5,713)	$	(28,648)
Charge for the year		—		(476)		(2,712)		(439)		(3,627)
Disposals		—		—		—		—		—
As at December 31, 2016		—		(3,886)		(22,237)		(6,152)		(32,275)
Charge for the year		—		(458)		(4,534)		(477)		(5,469)
Disposals		—		—		—		—		—
As at December 31, 2017	**$**	**—**	**$**	**(4,344)**	**$**	**(26,771)**	**$**	**(6,629)**	**$**	**(37,744)**
Carrying amount										
December 31, 2017	**$**	**2,318**	**$**	**8,694**	**$**	**14,106**	**$**	**1,427**	**$**	**26,545**
December 31, 2016	$	2,318	$	9,152	$	15,146	$	1,067	$	27,683

There were no asset impairments in 2017 or 2016.

7. Intangible Assets

		Intangible assets
Cost		
As at January 1, 2016	$	49,839
Additions		6,554
Disposals		—
As at December 31, 2016		56,393
Additions		6,499
Disposals		—
As at December 31, 2017	**$**	**62,892**
Amortization		
As at January 1, 2016	$	(40,614)
Charge for the year		(1,438)
Disposals		—
As at December 31, 2016		(42,052)
Charge for the year		(2,530)
Disposals		—
As at December 31, 2017	**$**	**(44,582)**
Carrying amount		
December 31, 2017	**$**	**18,310**
December 31, 2016	$	14,341

There were no asset impairments during 2017 or 2016.

8. Segregated Funds

(a) The following table identifies segregated fund assets by category of asset:

As at December 31		2017		2016
Cash	**$**	**14,820**	$	19,777
Short-term investments		**657,405**		385,771
Bonds		**1,535,675**		1,668,044
Common and preferred shares		**6,488,017**		5,990,431
Other assets		**25,758**		54,212
		8,721,675		8,118,235
Less segregated funds held within general fund investments		**(39,783)**		(36,202)
Total	**$**	**8,681,892**	$	8,082,033

(b) The following table presents the investments of the segregated funds measured on a recurring basis at fair value classified by the fair value hierarchy:

As at December 31	2017			2016		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Cash	**$ 14,820**	**$ —**	**$ 14,820**	$ 19,777	$ —	$ 19,777
Short-term investments	**—**	**657,405**	**657,405**	—	385,771	385,771
Bonds	**—**	**1,535,675**	**1,535,675**	—	1,668,044	1,668,044
Common and preferred shares	**6,485,267**	**2,750**	**6,488,017**	5,989,979	452	5,990,431
Total	**$ 6,500,087**	**$ 2,195,830**	**$ 8,695,917**	$ 6,009,756	$ 2,054,267	$ 8,064,023

There were no transfers between Level 1 and Level 2, and there were no Level 3 investments during the year ended December 31, 2017 or during the year ended December 31, 2016.

(c) The following table presents the change in segregated fund assets:

For the year ended December 31	2017	2016
Segregated fund assets - beginning of year	**$ 8,082,033**	$ 7,367,823
Additions to segregated funds:		
Amount received from policyholders	**1,415,827**	1,349,159
Interest	**54,684**	67,562
Dividends	**171,200**	125,173
Other income	**26,209**	29,340
Net realized gains on sale of investments	**445,782**	277,602
Net unrealized increase in fair value of investments	**14,698**	286,056
	2,128,400	2,134,892
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	**1,277,474**	1,194,885
Management fees and other operating costs	**247,486**	224,700
	1,524,960	1,419,585
Net change in segregated funds held within general fund investments	**(3,581)**	(1,097)
Segregated fund assets - end of year	**$ 8,681,892**	$ 8,082,033

(d) Empire Life's exposure to segregated fund guarantee risk
Segregated fund products issued by Empire Life contain death, maturity, and withdrawal benefit guarantees. Market price fluctuations impact the Company's estimated liability for those guarantees.

9. Insurance Payables

As at December 31		2017		2016
Claims due and accrued	**$**	**40,902**	$	54,625
Payable to agents		**7,172**		12,050
Premiums paid in advance		**1,582**		1,902
Due to reinsurance companies		**12,897**		12,151
Other		**18,919**		16,407
Insurance payables	**$**	**81,472**	$	97,135

Of the above total, $2,755 (2016 $2,985) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. Most of these financial instruments are short-term in nature and their fair value approximates carrying values.

10. Insurance Contract Liabilities and Reinsurance Assets/Liabilities

(a) Nature and composition of insurance contract liabilities and related reinsurance
Insurance contract liabilities include life, health and annuity contracts on a participating and non-participating basis.

Changes in actuarial assumptions are made based on emerging and evolving experience with respect to major factors affecting estimates of future cash flows and consideration of economic forecasts of investment returns, industry studies and requirements of the CIA and OSFI.

Insurance contract liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, expenses, and premium taxes on policies in force. Insurance contract liabilities are determined using accepted actuarial practice according to standards established by the CIA and the requirements of OSFI.

The Company reinsures excess risks with Canadian regulated reinsurance companies. The reinsurance assets (liabilities) are determined based on both the premiums expected to be paid by the Company under reinsurance agreements over the duration of the insurance contracts that they support and the insurance claims expected to be received by the Company when an insured event occurs under those insurance contracts. The liability position of some of the reinsurance is due to the excess of future premiums payable over the expected benefit of reinsurance. The change in reinsurance liability is primarily related to the Company's revised mortality assumptions, which reduce the present value of insurance claims expected to be recovered from the reinsurance companies. The Company enters into reinsurance agreements only with reinsurance companies that have an independent credit rating of "A-" or better from A.M. Best.

Reinsurance transactions do not relieve the original insurer of its primary obligation to policyholders.

The Company is active in most life insurance and annuity product lines across Canada and does not operate in foreign markets. The table below shows the concentration of insurance contract liabilities and related reinsurance assets (liabilities) by type of contract:

As at December 31	2017			2016		
	Gross insurance contract liabilities	**Reinsurance (assets) liabilities**	**Net**	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Participating Individual						
Life	**$ 608,434**	**$ 1,779**	**$ 610,213**	$ 554,486	$ (406)	$ 554,080
Annuity	**130**	**—**	**130**	179	—	179
Non-participating Individual						
Life	**3,492,508**	**731,720**	**4,224,228**	3,191,047	625,926	3,816,973
Health	**189,959**	**(5,776)**	**184,183**	168,981	(8,800)	160,181
Annuity	**908,642**	**(9,917)**	**898,725**	915,889	(11,036)	904,853
Non-participating Group						
Life	**24,594**	**(838)**	**23,756**	23,289	(757)	22,532
Health	**184,909**	**(66,167)**	**118,742**	191,582	(71,570)	120,012
Annuity	**50,018**	**—**	**50,018**	52,631	—	52,631
Segregated fund deferred acquisition costs	**(94,329)**	**—**	**(94,329)**	(94,634)	—	(94,634)
Total	**$ 5,364,865**	**$ 650,801**	**$ 6,015,666**	$ 5,003,450	$ 533,357	$ 5,536,807

The Company expects to pay $5,284,855 (2016 $4,933,196) of Insurance contract liabilities and $645,503 (2016 $531,976) of Reinsurance liabilities more than one year after the Consolidated Statements of Financial Position date. The remaining balance is expected to be settled within one year.

The following segregated fund deferred acquisition costs are included in Insurance contract liabilities:

	2017	2016
Segregated funds deferred acquisition costs - beginning of year	**$ 94,633**	$ 95,234
Deferred during year	**34,403**	34,171
Amortized during year	**(34,707)**	(34,772)
Segregated funds deferred acquisition costs - end of year	**$ 94,329**	$ 94,633

Of the above total, $35,560 (2016 $37,775) is expected to be amortized during the next year.

(b) Change in insurance contract liabilities and reinsurance assets/liabilities

For the year ended December 31	2017			2016		
	Gross insurance contract liabilities	**Reinsurance (assets) liabilities**	**Net**	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance - beginning of year	**$ 5,003,450**	**$ 533,357**	**$ 5,536,807**	$ 4,798,683	$ 530,826	$ 5,329,509
Changes in methods and assumptions						
Improvements in mortality/morbidity experience	**(199,360)**	**186,179**	**(13,181)**	(15,843)	12,543	(3,300)
Lapse/premium assumption updates	**12,889**	**5,985**	**18,874**	31,764	(6,356)	25,408
Update of investment return assumptions	**39,148**	**(3,045)**	**36,103**	32,906	(3,523)	29,383
Model enhancements and other changes	**(35,576)**	**(3,724)**	**(39,300)**	(44,247)	44	(44,203)
Normal changes						
New business	**44,643**	**(107)**	**44,536**	79,275	(10,939)	68,336
In-force business	**499,671**	**(67,844)**	**431,827**	120,912	10,762	131,674
Balance - end of year	**$ 5,364,865**	**$ 650,801**	**$ 6,015,666**	$ 5,003,450	$ 533,357	$ 5,536,807

Net changes in methods and assumptions summarized in the above tables are further explained as follows:

Improvements for mortality experience for 2017 are primarily related to the individual life business, along with a smaller benefit from Group Long-Term Disability (Group LTD) business, offset by a small deterioration in mortality for immediate annuities.

Improvements for mortality experience for 2016 are primarily related to the individual life business, which was offset by a small deterioration in mortality for immediate annuities.

The 2017 lapse/premium assumption change is primarily related to the updated premium projections and related policyholder lapse rates for universal life policies.

The lapse rate assumption update for 2016 was primarily related to an increase of lapse experience on renewable term 10 business. The remainder was related to regular experience updates for term to 100 and 20-pay life policies.

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.

The investment return assumption for 2016 was primarily due to regular updates to reinvestment rates and credit spreads for the CALM valuation as well as enhancements to the modeling of preferred shares cash flows for deferred and immediate annuity business.

Model enhancements and other changes for 2017 are primarily related to enhancements to the modeling of reinsurance treaties and terms for individual life insurance.

Model enhancements and other changes for 2016 related to enhancements to the modeling of reinsurance treaties and terms for individual life insurance and updates to Group LTD termination rate experience study. In addition, maintenance expense unit costs for individual life business increased slightly as a result of changes in expense allocations related to sales and inforce business.

(c) Mix of assets allocated to insurance, annuity, investment contract liabilities and equity

	As at December 31, 2017				
	Insurance liabilities	**Annuity liabilities**	**Investment contract liabilities**	**Equity and other liabilities**	**Total**
Cash and cash equivalents & Short-term investments	**$ 239,613**	**$ 17,127**	**$ 256**	**$ 164,984**	**$ 421,980**
Bonds	**4,019,295**	**522,808**	**7,806**	**1,923,699**	**6,473,608**
Mortgages	**37,046**	**182,206**	**2,721**	**—**	**221,973**
Preferred shares	**34,362**	**201,342**	**3,006**	**169,551**	**408,261**
Common shares	**848,991**	**—**	**—**	**56,943**	**905,934**
Derivative assets	**641**	**—**	**—**	**758**	**1,399**
Loans on policies	**51,692**	**—**	**—**	**—**	**51,692**
Policy contract loans	**346**	**27,416**	**409**	**46,432**	**74,603**
Other	**23,272**	**6,698**	**100**	**123,135**	**153,205**
Total	**$ 5,255,258**	**$ 957,597**	**$ 14,298**	**$ 2,485,502**	**$ 8,712,655**

	As at December 31, 2016				
	Insurance liabilities	Annuity liabilities	Investment contract liabilities	Equity and other liabilities	Total
Cash and cash equivalents & Short-term investments	$ 114,547	$ 15,006	$ 218	$ 341,976	$ 471,747
Bonds	3,628,303	488,382	7,102	1,397,385	5,521,172
Mortgages	45,574	215,600	3,135	—	264,309
Preferred shares	28,043	199,822	2,906	54,413	285,184
Common shares	862,642	—	—	66,969	929,611
Derivative assets	2,061	—	—	1,794	3,855
Loans on policies	47,969	—	—	—	47,969
Policy contract loans	335	30,848	449	49,312	80,944
Other	36,126	6,430	93	132,703	175,352
Total	$ 4,765,600	$ 956,088	$ 13,903	$ 2,044,552	$ 7,780,143

Provisions made for anticipated future losses of principal and interest on investments and included as a component of policy liabilities are $162,600 (2016 $155,700).

(d) Fair value of insurance and investment contract liabilities and reinsurance assets/liabilities
In the absence of an active market for the sale of insurance and investment contract liabilities and reinsurance assets/liabilities, the actuarially determined values provide a reasonable approximation of their fair value. Investment contract liabilities are term certain annuities with a relatively short duration.

(e) Liquidity
The Company defines liquid assets as high quality marketable investments that may be easily sold, meaning there exists an active market and observable prices for the investments. Liquid asset values are based on fair value as at December 31.

The Company defines cash demands or demand liabilities as those policyholder obligations that may be called on immediately at the discretion of the policyholder. More specifically, demand liabilities include cash surrender values under whole life insurance products as well as current accumulated values of annuity products. Amounts would be gross of any surrender charge or market value adjustment allowed under the terms of the contract. Demand liabilities are determined as though all such policyholders made their call at the same time and as such cannot be readily compared to insurance contract liabilities that are determined based on actuarial assumptions associated with lapse as well as other decrements.

The Company maintains a high level of liquid assets so that cash demands can be readily met. The Company's liquidity position is as follows:

As at December 31		2017		2016
Assets:				
Cash and cash equivalents & Short-term investments	**$**	**421,980**	$	471,747
Canadian federal and provincial bonds		**3,910,669**		3,294,720
Other readily-marketable bonds and stocks		**3,178,008**		2,807,447
Total liquid assets	**$**	**7,510,657**	$	6,573,914
Liabilities:				
Demand liabilities with fixed values	**$**	**663,105**	$	624,818
Demand liabilities with market value adjustments		**1,170,871**		1,141,199
Total liquidity needs	**$**	**1,833,976**	$	1,766,017

11. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

As at December 31		2017		2016
Accounts payable	**$**	**51,841**	$	42,806
Post-employment benefit liability (Note 12)		**26,590**		20,505
Accrued interest on subordinated debt		**3,297**		1,087
Derivative liabilities (Note 3d)		**891**		238
Other		**16,755**		14,964
Accounts payable and other liabilities	**$**	**99,374**	$	79,600

Of the above total, $26,590 (2016 $20,505) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. In the absence of an active market for post-employment benefit liabilities, the actuarially determined value provides a reasonable approximation of fair value. Derivative liabilities are carried at fair value, as disclosed in Note 3(d). All other amounts are short-term in nature and their fair value approximates carrying value.

12. Employee Benefit Plans

Empire Life sponsors pension and other post-employment benefit plans for eligible employees. The Empire Life Insurance Company Staff Pension Plan (the Plan) consists of a defined benefit component and a defined contribution component. The Company discontinued enrolments in the defined benefit component effective October 1, 2011. The Company has supplemental arrangements that provide defined pension benefits in excess of statutory limits. In addition to pension benefits, the Company also provides for post-employment health and dental care coverage and other future benefits to qualifying employees and retirees.

The defined benefit component of the Plan is a final average salary pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' age, length of service and their salary in the final years leading up to retirement. Pensions generally do not receive inflationary increases once in payment. In the past, however, the Company has provided ad-hoc pension increases on its defined benefit staff pension plan. Increases take place at the discretion of the Board. The pension benefit payments are from trustee-administered funds.

The Company's staff pension plan is governed by the *Pension Benefits Act of the Province of Ontario*, as amended, which requires that the plan sponsor fund the defined benefits determined under the plan. The Company's supplemental employee retirement benefit plan is governed by provisions of the plan, which requires that the plan sponsor fund the defined benefits determined under the plan. The amount of funds contributed to these defined benefit pension plans by Empire Life is determined by an actuarial valuation of the Plans.

Under the defined contribution component, contributions are made in accordance with the provisions of the Plan documents.

A pension committee, composed of selected senior members of Empire Life's management and that of its parent, E-L Financial Corporation, oversees the Pension Plan of the Company. The Pension Committee reports to the Human Resources Committee of the Board three times each year. The Audit Committee of the Board approves the audited annual financial statements of the Pension Plan.

The other post-employment benefit plan provides for health, dental care, and other future defined benefits to qualifying employees and retirees. It is unfunded and the Company meets the benefit payment obligation as it falls due.

In the absence of an active market for post-employment benefit obligations, the actuarially determined values provide a reasonable approximation of their fair value. Plan assets are carried at fair value.

The following tables present financial information for the Company's defined benefit plans:

	Pension benefits		Other post-employment benefits	
As at December 31	**2017**	2016	**2017**	2016
Present value of obligations	**$ 227,019**	$ 218,059	**$ 9,697**	$ 9,727
Fair value of plan assets	**210,126**	207,281	**—**	—
Post-employment benefit asset (liability)	**$ (16,893)**	$ (10,778)	**$ (9,697)**	$ (9,727)

The post-employment benefit asset (liability), net of the cumulative impact of the asset ceiling, is included in the Consolidated Statements of Financial Position in Accounts payables and other liabilities (Note 11).

The movement in the present value of the defined benefit obligations over the year is as follows:

	Pension benefits		Other post-employment benefits	
As at December 31	**2017**	2016	**2017**	2016
Present value of defined benefit obligation - beginning of year	**$ 218,059**	$ 209,311	**$ 9,727**	$ 9,684
Current service cost	**5,903**	6,233	**—**	13
Interest expense	**8,544**	8,635	**359**	367
Decrease (increase) in net income before tax	**14,447**	14,868	**359**	380
Remeasurements				
(Gain) loss from changes in demographic assumptions	**2,542**	—	**—**	—
(Gain) loss from changes in financial assumptions	**7,549**	888	**306**	154
Actuarial (gain) loss from member experience	**(2,431)**	177	**(257)**	(98)
Decrease (increase) in OCI before tax	**7,660**	1,065	**49**	56
Employee contributions	**1,577**	1,707	**—**	—
Benefits paid	**(14,724)**	(8,892)	**(438)**	(393)
Present value of defined benefit obligation - end of year	**$ 227,019**	$ 218,059	**$ 9,697**	$ 9,727

The movement in the fair value of the Plan's defined benefit assets over the year is as follows:

	Pension benefits	
As at December 31	**2017**	2016
Fair value of defined benefit assets - at beginning of year	**$ 207,281**	$ 195,310
Interest income	**8,189**	8,138
Administrative expense	**(827)**	(780)
Increase (decrease) in net income before tax	**7,362**	7,358
Remeasurements		
Return on plan assets, excluding amounts included in interest income	**4,983**	8,487
Increase (decrease) in OCI before tax	**4,983**	8,487
Employer contributions	**3,647**	3,311
Employee contributions	**1,577**	1,707
Benefits paid	**(14,724)**	(8,892)
Fair value of defined benefit assets - end of year	**$ 210,126**	$ 207,281

The actual return on defined benefit assets net of administrative expense, for the year ended December 31, 2017 was a gain of $12,345 (2016 gain of $15,845).

The following table summarizes income, expense and remeasurement activity for the Company's defined benefit plans:

	Pension benefits		Other post-employment benefits	
For the year ended December 31	**2017**	2016	**2017**	2016
Operating expense				
Current service cost	**$ 5,903**	$ 6,233	**$ —**	$ 13
Interest expense	**8,544**	8,635	**359**	367
Interest income on plan assets	**(8,189)**	(8,138)	**—**	—
Administrative expense	**827**	780	**—**	—
Decrease (increase) in net income before tax	**$ 7,085**	$ 7,510	**$ 359**	$ 380
Remeasurements				
Return on plan assets, excluding amounts included in interest income	**$ (4,983)**	$ (8,487)	**$ —**	$ —
(Gain) loss from changes in demographic assumptions	**2,542**	—	**—**	—
(Gain) loss from changes in financial assumptions	**7,549**	888	**306**	154
Actuarial (gain) loss from member experience	**(2,431)**	177	**(257)**	(98)
Decrease (increase) in OCI before tax (Note 18(d))	**$ 2,677**	$ (7,422)	**$ 49**	$ 56

Defined benefit plan expense is recognized in Operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include $1,251 (2016 $927) of employer contributions related to the defined contribution component of the Plan.

Expected contributions (including both employer and employee amounts) to the Company's defined benefit pension plans for the year ending December 31, 2018 are approximately $4,830.

The Plan invests primarily in Empire Life segregated and mutual funds. The fair value of the underlying assets of the funds and other investments are included in the following table:

As at December 31	2017		2016	
Equity				
Canadian				
Consumer discretionary	**$ 5,115**	**2%**	$ 3,525	2%
Consumer staples	**9,580**	**5%**	7,763	4%
Energy	**16,742**	**8%**	17,421	9%
Financials	**28,825**	**14%**	28,284	15%
Industrials	**10,811**	**5%**	9,937	5%
Information technology	**3,052**	**1%**	7,219	3%
Materials	**6,895**	**3%**	2,875	1%
Real estate	**1,101**	**1%**	—	0%
Telecom services	**2,297**	**1%**	6,730	3%
Utilities	**1,709**	**1%**	2,554	1%
Total Canadian	**86,127**	**41%**	86,308	43%
Foreign	**36,896**	**18%**	36,805	18%
Total equity	**123,023**	**59%**	123,113	61%
Debt				
Government of Canada	**18,519**	**9%**	11,038	5%
Provincial governments	**14,369**	**7%**	14,662	7%
Municipal governments	**433**	**0%**	490	0%
Canadian corporations	**31,670**	**15%**	33,819	16%
Total debt	**64,991**	**31%**	60,009	28%
Cash, cash equivalent, accruals	**5,399**	**3%**	6,783	3%
Mutual funds	**8,775**	**4%**	8,863	4%
Other	**7,938**	**3%**	8,513	4%
Total fair value of assets	**$ 210,126**	**100%**	$ 207,281	100%

Fair value is determined based on Level 1 inputs for equities and Level 2 inputs for debt.

The following weighted average assumptions were used in actuarial calculations:

	Pension benefits		Other post-employment benefits	
As at December 31	2017	2016	2017	2016
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	**3.6%**	4.0%	**3.5%**	3.8%
Discount rate - net interest	**4.0%**	4.2%	**3.8%**	4.0%
Inflation assumption	**2.0%**	2.0%	**n/a**	n/a
Rate of compensation increase	**3.0%**	3.5%	**n/a**	n/a
Average increase to industrial wage	**3.0%**	3.0%	**n/a**	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	**n/a**	n/a	**7.0%**	7.3%
Cost trend rate declines to	**n/a**	n/a	**4.5%**	4.5%
Year ultimate health care cost trend rate is reached	**n/a**	n/a	**2026**	2026

Assumptions (in number of years) relating to future mortality, to determine the defined benefit obligation and the net benefit cost for the defined benefit pension plans are as follows:

As at December 31	2017	2016
Males aged 65 at measurement date	**21.72**	21.64
Females aged 65 at measurement date	**24.45**	24.08
Males aged 40 at measurement date	**23.61**	22.98
Females aged 40 at measurement date	**26.15**	25.27

The following table provides the sensitivity of the defined benefit pension and other post-employment benefit obligations to changes in significant actuarial assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the Post-employment benefit liability recognized within the Consolidated Statements of Financial Position.

		Impact on pension benefits		**Impact on other post employment benefits**	
As at December 31, 2017	**Change in assumption**	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate	**1%**	**(28,891)**	**40,939**	**(972)**	**1,170**
Rate of compensation increase	**1%**	**11,819**	**(10,088)**	**n/a**	**n/a**
Health care cost increase	**1%**	**n/a**	**n/a**	**1,176**	**(986)**
Claim rate	**10%**	**n/a**	**n/a**	**915**	**(916)**
Life expectancy	**1 year**	**5,890**	**(5,820)**	**489**	**(477)**

		Impact on pension benefits		Impact on other post employment benefits	
As at December 31, 2016	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	1%	(26,091)	35,166	(964)	1,163
Rate of compensation increase	1%	12,094	(10,577)	n/a	n/a
Health care cost increase	1%	n/a	n/a	1,138	(956)
Claim rate	10%	n/a	n/a	905	(905)
Life expectancy	1 year	5,321	(5,437)	449	(438)

The weighted average duration, in number of years, of the defined benefit obligations are:

As at December 31	2017	2016
Staff pension plan	**15**	14
Supplemental employee retirement plan	**11**	10
Other post-employment benefits	**11**	11

Risks

Through its defined benefit pension plan and the other post-employment benefit plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The Plan obligations are calculated using a discount rate set with reference to corporate bond yields; if Plan assets underperform this yield, this will create a deficit. The pension plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while producing volatility and risk in the short-term.

The following table summarizes the potential impact on OCI of a change in global equity markets regarding assets in Empire Life's pension plan. The Company uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. The Company has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity.

	As at December 31, 2017			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' other comprehensive income	**$ 9,220**	**$ (9,220)**	**$ 18,439**	**$ (18,439)**
Policyholders' other comprehensive income	**$ 442**	**$ (442)**	**$ 885**	**$ (885)**

	As at December 31, 2016			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' other comprehensive income	$ 9,499	$ (9,499)	$ 18,998	$ (18,998)
Policyholders' other comprehensive income	$ 456	$ (456)	$ 912	$ (912)

The following tables summarize the potential impact on OCI as a result of a change in interest rates on assets in Empire Life's pension plan.

	As at December 31, 2017			
	50 bps Increase	**50 bps Decrease**	**100 bps Increase**	**100 bps Decrease**
Shareholders' other comprehensive income	**$ (1,532)**	**$ 1,777**	**$ (2,823)**	**$ 3,805**
Policyholders' other comprehensive income	**$ (74)**	**$ 86**	**$ (136)**	**$ 183**

	As at December 31, 2016			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' other comprehensive income	$ (1,491)	$ 1,716	$ (2,757)	$ 3,657
Policyholders' other comprehensive income	$ (72)	$ 83	$ (133)	$ 176

Changes in bond yields

A decrease in corporate bond yields will increase Plan obligations, although this will be partially offset by an increase in the value of the Plans' bond holdings.

Life expectancy

The majority of the Plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plans' liabilities.

In case of the funded plans, the Pension Committee ensures that the investment positions are managed in accordance with the investment philosophy outlined in the investment policy approved by the Human Resources Committee of the Board. The fundamental philosophy is to achieve acceptably high investment return over the long term without jeopardizing the level of security of the members' benefits and without introducing too much volatility into the Company's future expense. The Company's objective is to match assets to the pension obligations by investing in equities as well as fixed interest securities. The Company monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Plan has not changed the processes used to manage its risks from previous periods. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The Plan invests primarily in Canadian Bonds and Equities through its' ownership of units in Empire Life segregated and mutual funds. The Company believes that equities offer the best returns over the long term with an acceptable level of risk.

The last triennial valuation on the Staff Pension Plan was completed in August 2017, as at December 31, 2016. The next triennial valuation will be completed in 2020, as at December 31, 2019.

13. Subordinated Debt

On September 15, 2017, the Company issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of March 15, 2028. The interest rate from September 15, 2017 until March 15, 2023 is 3.664%, and the rate from March 15, 2023 until March 15, 2028 is equal to the 3-month Canadian Deposit Offering Rate plus 1.53%. Interest is payable semi-annually at September 15 and March 15 until March 15, 2023, quarterly thereafter with the first such payment on June 15, 2023. The Company may call for redemption of the debentures on or after March 15, 2023 subject to the approval of OSFI. The holders have no right of redemption. The fair value of these debentures is $201,482 as of December 31, 2017 (as of December 31, 2016 $ nil), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

On December 16, 2016, the Company issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of December 16, 2026. The interest rate from December 16, 2016 until December 16, 2021 is 3.383%, and the rate from December 16, 2021 until December 16, 2026 is equal to the 3-month Canadian Deposit Offering Rate plus 1.95%. Interest is payable semi-annually at December 16 and June 16 until December 16, 2021, quarterly thereafter with the first such payment on March 16, 2022. The Company may call for redemption of the debentures on or after December 16, 2021 subject to the approval of OSFI. The holders have no right of redemption. The fair value of these debentures is $201,126 as of December 31, 2017 (as of December 31, 2016 $199,870), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

On May 31, 2013, the Company issued $300,000 principal amount of unsecured subordinated debentures with a maturity date of May 31, 2023. The interest rate from May 31, 2013 until May 31, 2018 is 2.870%, and the rate from May 31, 2018 until May 31, 2023 is equal to the 3-month Canadian Deposit Offering Rate plus 1.05%. Interest is payable semi-annually at May 31 and November 30 until May 31, 2018, quarterly thereafter with the first such payment on August 31, 2018. The Company may call for redemption of the debentures on or after May 31, 2018 subject to the approval of OSFI. The holders have no right of redemption. The fair value of these debentures is $301,050 as of December 31, 2017 (as of December 31, 2016 $301,062), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

The debentures are subordinated in right of payment to all policy contract liabilities of the Company and all other senior indebtedness of the Company.

14. Insurance Premiums

For the year ended December 31	2017			2016		
	Gross	**Reinsurance ceded**	**Net**	Gross	Reinsurance ceded	Net
Life premiums	**$ 476,813**	**$ (101,011)**	**$ 375,802**	$ 470,115	$ (93,167)	$ 376,948
Health premiums	**352,031**	**(29,161)**	**322,870**	356,057	(27,337)	328,720
Total life and health premiums	**828,844**	**(130,172)**	**698,672**	826,172	(120,504)	705,668
Annuity premiums	**135,745**	**(203)**	**135,542**	176,080	(248)	175,832
Total insurance premiums	**$ 964,589**	**$ (130,375)**	**$ 834,214**	$ 1,002,252	$ (120,752)	$ 881,500

15. Fee Income

For the year ended December 31	2017	2016
Investment management, policyholder administration and guarantee fees	**$ 247,135**	$ 219,152
Surrender charges and other miscellaneous fees	**9,624**	9,217
Fee income	**$ 256,759**	$ 228,369

16. Benefits and Expenses

(a) Insurance contract benefits and claims paid

For the year ended December 31	2017			2016		
	Gross	**Reinsurance ceded**	**Net**	Gross	Reinsurance ceded	Net
Life claims	**$ 191,284**	**$ (55,750)**	**$ 135,534**	$ 185,379	$ (53,948)	$ 131,431
Health claims	**245,111**	**(16,888)**	**228,223**	267,921	(16,261)	251,660
Total life and health claims	**436,395**	**(72,638)**	**363,757**	453,300	(70,209)	383,091
Annuity benefits	**198,976**	**(1,984)**	**196,992**	212,120	(2,461)	209,659
Benefits and claims paid	**$ 635,371**	**$ (74,622)**	**$ 560,749**	$ 665,420	$ (72,670)	$ 592,750

(b) Change in insurance contract liabilities and reinsurance ceded

For the year ended December 31	2017			2016		
	Gross	**Reinsurance ceded**	**Net**	Gross	Reinsurance ceded	Net
Life	**$ 356,714**	**$ 107,898**	**$ 464,612**	$ 188,221	$ 4,342	$ 192,563
Health	**14,305**	**8,427**	**22,732**	11,911	(3,215)	8,696
Total life and health	**371,019**	**116,325**	**487,344**	200,132	1,127	201,259
Annuity	**(9,604)**	**1,119**	**(8,485)**	4,635	1,404	6,039
Change in insurance contract liabilities	**$ 361,415**	**$ 117,444**	**$ 478,859**	$ 204,767	$ 2,531	$ 207,298

17. Operating Expenses

Operating expenses include the following:

For the year ended December 31	2017	2016
Salary and benefits expense	**$ 90,184**	$ 83,428
Professional services	**16,277**	16,077
Rent, leasing and maintenance	**12,588**	12,450
Amortization of property and equipment and intangibles	**7,999**	5,065
Other	**28,351**	27,984
Total	**$ 155,399**	$ 145,004

Significant components of other expenses include travel, advertising, and office supplies and services.

18. Income Taxes

(a) Income tax expense

The Company's income tax expense includes provisions for current and deferred taxes as follows:

For the year ended December 31	2017	2016
Current income tax expense	**$ 45,176**	$ 50,344
Deferred income tax expense (benefit)		
Relating to the origination and reversal of temporary differences	**5,504**	(639)
Income tax expense	**$ 50,680**	$ 49,705

During 2017 the Company paid income tax installments totaling $77,810 (2016 $12,370).

(b) Variance from statutory provision

Income taxes provided varies from the expected statutory provision as follows:

For the year ended December 31	2017	2016
Net income before income taxes	**$ 226,580**	$ 206,871
Income tax provision at statutory rates	**60,429**	55,214
Increase (decrease) resulting from:		
Tax paid on dividends	**(9,047)**	(7,343)
Miscellaneous	**(702)**	1,834
Income tax expense	**$ 50,680**	$ 49,705

The current enacted corporate tax rates as they impact the Company in 2017 stand at 26.67% (2016 26.69%). Expected future tax rates are as follows:

2018	26.75%
2019	26.72%
2020	26.69%
2021	26.69%
2022	26.69%

The impact of future enacted corporate tax rates has been taken into consideration in the deferred tax calculation.

(c) Deferred income taxes

In certain instances the tax basis of assets and liabilities differs from the carrying amount. These differences will give rise to deferred income taxes, which are reflected on the Consolidated Statements of Financial Position. These differences arise in the following items:

As at December 31		2017		2016
Insurance contracts	$	**(10,296)**	$	(7,041)
Portfolio investments		**(5,557)**		(5,584)
Taxes recoverable in future years		**—**		3,698
Post-employment benefit plans		**7,092**		5,475
Other, net		**(5,005)**		(5,537)
Deferred income tax asset (liability)	$	**(13,766)**	$	(8,989)

Of the above total, $10,600 is expected to be paid (2016 $4,827 paid) more than one year after the Consolidated Statements of Financial Position date.

The net movement on the deferred income tax account is as follows:

For the year ended December 31		2017		2016
Deferred income tax asset (liability) - beginning of year	$	**(8,989)**	$	(7,910)
Deferred tax asset from preferred share issue (Note 20)		**—**		248
Deferred income tax benefit (expense)				
Statement of operations		**(5,504)**		639
Other comprehensive income		**727**		(1,966)
Deferred income tax asset (liability) - end of year	$	**(13,766)**	$	(8,989)

(d) Income taxes included in other comprehensive income
Other comprehensive income (loss) is presented net of income taxes.

The following income tax amounts are included in each component of **total OCI**.

For the year ended December 31	2017			2016		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	**$ 13,873**	**$ 3,699**	**$ 10,174**	$ 8,576	$ 2,289	$ 6,287
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(5,818)**	**(1,896)**	**(3,922)**	(11,740)	(3,187)	(8,553)
Remeasurements of post-employment benefit liabilities (Note 12)	**(2,726)**	**(727)**	**(1,999)**	7,366	1,966	5,400
Total other comprehensive income (loss)	**$ 5,329**	**$ 1,076**	**$ 4,253**	$ 4,202	$ 1,068	$ 3,134

The following income tax amounts are included in each component of **shareholders' OCI:**

For the year ended December 31	2017			2016		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	**$ 13,568**	**$ 3,618**	**$ 9,950**	$ 3,465	$ 925	$ 2,540
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(792)**	**(489)**	**(303)**	(8,759)	(2,358)	(6,401)
Remeasurements of post-employment benefit liabilities (Note 12)	**(2,576)**	**(687)**	**(1,889)**	7,024	1,875	5,149
Shareholder portion of policyholder other comprehensive income (loss)	**(368)**	**(103)**	**(265)**	156	39	117
Total other comprehensive income (loss)	**$ 9,832**	**$ 2,339**	**$ 7,493**	$ 1,886	$ 481	$ 1,405

The following income tax amounts are included in each component of **policyholders' OCI:**

For the year ended December 31	2017			2016		
	Before tax	**Tax provision (recovery)**	**After tax**	**Before tax**	**Tax provision (recovery)**	**After tax**
Unrealized fair value change on available for sale investments	**$ 305**	**$ 81**	**$ 224**	$ 5,111	$ 1,364	$ 3,747
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(5,026)**	**(1,407)**	**(3,619)**	(2,981)	(829)	(2,152)
Remeasurements of post-employment benefit liabilities (Note 12)	**(150)**	**(40)**	**(110)**	342	91	251
Shareholder portion of policyholder other comprehensive income (loss) (Note 23)	**368**	**103**	**265**	(156)	(39)	(117)
Total other comprehensive income (loss)	**$ (4,503)**	**$ (1,263)**	**$ (3,240)**	$ 2,316	$ 587	$ 1,729

19. Earnings Per Share

Earnings per share (EPS) is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred shares issued in 2017 and 2016 (refer to Note 20) do not dilute EPS as the preferred shares are not convertible into common shares.

Details of the calculation of the net income and the weighted average number of shares used in the EPS computations are as follows:

For the year ended December 31	2017	2016
Basic and diluted EPS		
Common shareholders' net income	**$ 170,936**	$ 152,721
Weighted average number of common shares outstanding	**985,076**	985,076
Basic and diluted EPS	**$ 173.53**	$ 155.03

20. Capital Stock

As at	December 31, 2017			December 31, 2016		
	Shares authorized	**Shares issued and outstanding**	**Amount**	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 1	**unlimited**	**5,980,000**	**$ 149,500**	unlimited	5,980,000	$ 149,500
Series 3	**unlimited**	**4,000,000**	**$ 100,000**	—	—	$ —
Common shares	**2,000,000**	**985,076**	**$ 985**	2,000,000	985,076	$ 985

In the fourth quarter of 2017, Empire Life issued to E-L Financial Corporation Limited 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 (Series 3 Preferred Shares) at $25 per share. Holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 4.90% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including January 17, 2023. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.24%. Holders of Series 3 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 4 (Series 4 Preferred Shares), subject to certain conditions, on January 17, 2023 and on January 17 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 3.24%.

In the first quarter of 2016, Empire Life issued to the public 5,980,000 Non-Cumulative Rate Reset Preferred Shares, Series 1 (Series 1 Preferred Shares) at $25 per share. Holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including April 17, 2021. Thereafter, 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%. Holders of Series 1 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 2 (Series 2 Preferred Shares), subject to certain conditions, on April 17, 2021 and on April 17 every five years thereafter. Holders of the Series 2 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.99%.

The cost of issuance of the Series 1 Preferred Shares, $5,150 less $1,375 of income tax, was charged to retained earnings.

21. Dividends

	Dividend declaration date	Shares issued and outstanding	Dividend rate per share	Total dividend ($ 000's)	Dividend payment date
Common shareholder dividends					
For the year ended December 31, 2016, no common shareholder dividends were declared or paid.					
For the year ended December 31, 2017, no common shareholder dividends were declared or paid.					
Preferred shareholder dividends					
Series 1	February 25, 2016	5,980,000	$ 0.240200	$ 1,436	April 17, 2016
	April 28, 2016	5,980,000	$ 0.359375	$ 2,149	July 17, 2016
	July 28, 2016	5,980,000	$ 0.359375	$ 2,149	October 17, 2016
	October 27, 2016	5,980,000	$ 0.359375	$ 2,149	January 17, 2017
	February 24, 2017	5,980,000	$ 0.359375	$ 2,149	April 17, 2017
	April 26, 2017	5,980,000	$ 0.359375	$ 2,149	July 17, 2017
	July 27, 2017	5,980,000	$ 0.359375	$ 2,149	October 17, 2017
	October 26, 2017	5,980,000	$ 0.359375	$ 2,149	January 17, 2018
Series 3	December 6, 2017	4,000,000	$ 0.258425	$ 1,034	January 17, 2018

On February 27, 2018, subsequent to the date of these Consolidated Financial Statements, the Board approved the following cash dividends:

- $10,000 ($10.151501 per share) on the issued and outstanding Common Shares, payable on April 3, 2018
- $2,149 ($0.359375 per share) on the issued and outstanding Series 1 Preferred Shares, payable on April 17, 2018
- $1,225 ($0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on April 17, 2018

22. Shareholders' Equity Entitlement

Shareholders’ entitlement to $3,736 (2016 $4,357) of shareholders’ equity is contingent upon future payment of dividends to participating policyholders.

23. Supplementary Participating Policyholder Information

As at December 31	2017	2016
Assets backing participating account equity	**$ 43,221**	$ 51,127
Assets backing participating account liabilities	**$ 676,033**	$ 618,314

Transfers to shareholders’ account
In 2017, the Company transferred $2,061 (2016 $1,860), equal to 7.8% (2016 7.8%) of the distributable participating profits, from the participating account to the shareholders' account.

24. Segmented Information

The Company operates in the Canadian life insurance industry and follows a product line management approach for internal reporting and decision making. A description of the product lines is as follows:

The Wealth Management product line includes segregated funds, mutual funds, guaranteed interest rate annuities and annuities providing income for life.

The Employee Benefits product line offers group benefit plans to employers for medical, dental, disability, and life insurance coverage of their employees.

The Individual Insurance product line includes both non-participating and participating individual life and health insurance products.

Capital and Surplus is made up of assets held in the shareholders' and participating policyholders' equity accounts and other corporate items not allocated to other segments.

Operating results are segmented into three product lines along with the Company's capital and surplus as follows:

	For the year ended December 31, 2017				
	Wealth Management	**Employee Benefits**	**Individual Insurance**	**Capital & Surplus**	**Total**
Net premiums from external customers	$ **135,542**	$ **330,563**	$ **368,109**	$ **—**	$ **834,214**
Interest income	**30,103**	**6,359**	**154,843**	**47,674**	**238,979**
Total investment income	**39,496**	**3,703**	**182,585**	**55,437**	**281,221**
Fair value change in fair value through profit or loss assets	**19,455**	**(465)**	**213,054**	**7,363**	**239,407**
Realized gain (loss) on fair value through profit or loss assets	**2,373**	**315**	**69,367**	**(14,867)**	**57,188**
Realized gain (loss) on available for sale assets including impairment write downs	**48**	**52**	**(247)**	**5,963**	**5,816**
Fee income from external customers	**245,997**	**10,189**	**250**	**323**	**256,759**
Net benefits and claims	**196,992**	**233,436**	**130,321**	**—**	**560,749**
Net change in insurance contract liabilities	**(8,485)**	**(47)**	**487,391**	**—**	**478,859**
Change in investment contract provision	**243**	**—**	**—**	**—**	**243**
Policy dividends	**—**	**—**	**30,436**	**—**	**30,436**
Amortization of property and equipment and intangibles	**2,950**	**1,959**	**3,090**	**—**	**7,999**
Total operating expenses	**57,086**	**42,300**	**54,291**	**1,722**	**155,399**
Net commission expense	**86,231**	**33,087**	**61,432**	**—**	**180,750**
Interest expense	**—**	**—**	**—**	**18,164**	**18,164**
Premium tax	**—**	**8,458**	**11,125**	**—**	**19,583**
Investment and capital tax	**—**	**—**	**3,842**	**—**	**3,842**
Income tax expense (recovery)	**27,453**	**7,175**	**8,388**	**7,664**	**50,680**
Net income (loss) after tax	**83,391**	**19,948**	**45,892**	**26,669**	**175,900**

	For the year ended December 31, 2016				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 175,832	$ 338,908	$ 366,760	$ —	$ 881,500
Interest income	31,983	6,074	150,642	29,890	218,589
Total investment income	41,125	3,723	175,785	34,280	254,913
Fair value change in fair value through profit or loss assets	(4,290)	322	21,692	(5,851)	11,873
Realized gain (loss) on fair value through profit or loss assets	(173)	647	47,979	(28,339)	20,114
Realized gain (loss) on available for sale assets including impairment write downs	(162)	(158)	6	12,053	11,739
Fee income from external customers	217,430	9,767	1,035	137	228,369
Net benefits and claims	209,659	258,986	124,105	—	592,750
Net change in insurance contract liabilities	6,039	(4,392)	205,651	—	207,298
Change in investment contract provision	40	—	—	—	40
Policy dividends	—	—	28,564	—	28,564
Amortization of property and equipment and intangibles	1,562	1,218	2,285	—	5,065
Total operating expenses	47,053	41,333	55,489	1,129	145,004
Net commission expense	84,883	33,558	76,718	—	195,159
Interest expense	—	—	—	9,297	9,297
Premium tax	—	9,604	9,925	—	19,529
Investment and capital tax	—	—	3,996	—	3,996
Income tax expense (recovery)	20,008	4,124	25,689	(116)	49,705
Net income (loss) after tax	62,080	9,996	83,120	1,970	157,166

Assets are segmented into three product lines along with the Company's capital and surplus as follows:

	For the year ended December 31, 2017				
	Wealth Management	**Employee Benefits**	**Individual Insurance**	**Capital & Surplus**	**Total**
Assets excluding segregated funds	**$ 971,895**	**$ 153,012**	**$ 5,102,246**	**$ 2,485,502**	**$ 8,712,655**
Segregated funds	**8,661,094**	**—**	**20,798**	**—**	**8,681,892**
Total assets	**$ 9,632,989**	**$ 153,012**	**$ 5,123,044**	**$ 2,485,502**	**$ 17,394,547**

	For the year ended December 31, 2016				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	$ 969,991	$ 152,586	$ 4,613,014	$ 2,044,552	$ 7,780,143
Segregated funds	8,061,128	—	20,905	—	8,082,033
Total assets	$ 9,031,119	$ 152,586	$ 4,633,919	$ 2,044,552	$ 15,862,176

While specific general fund assets are nominally matched against specific types of general fund liabilities or held in the shareholders' and policyholders' equity accounts, all general fund assets are available to pay all general fund liabilities, if required. Segregated fund assets are not available to pay liabilities of the general fund.

25. Commitments and Contingencies

Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements.

In January 2016 the Company made a $20,000 commitment to purchase additional units in a real estate limited partnership. Draws on this commitment are payable on demand up to and including July 31, 2018.

In January 2016, there was a capital call of $2,000 in this real estate limited partnership.

In June 2016, there was a capital call of $6,667 in this real estate limited partnership.

In July 2016, there was a capital call of $1,666 in this real estate limited partnership.

In February 2017, there was a capital call of $1,094 in this real estate limited partnership.

In March 2017, there was a capital call of $6,288 in this real estate limited partnership.

At December 31, 2017 there remained $2,285 (December 31, 2016, $9,667) of outstanding cash calls to purchase units in the real estate limited partnership.

Lease commitments

The Company has entered into various operating leases as lessee for office space and certain computer and other equipment. Operating lease payments in 2017 were $3,185 (2016 $2,884). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

As at December 31	2017	2016
2017	**—**	2,934
2018	**2,779**	2,880
2019	**2,691**	2,816
2020	**1,724**	1,694
2021	**971**	5,647
2022 (and thereafter)	**4,841**	—
	$ 13,006	$ 15,971

Other contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

The Company by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against contractual indemnities and liabilities arising from their service to the Company. The broad general nature of these indemnification by-laws does not permit a reasonable estimate of the maximum potential amount of any liability.

In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

26. Related Party Transactions

The Company is a 98.3% owned subsidiary of E-L Financial Services Limited (ELFS) which in turn is a 100.0% owned subsidiary of E-L Financial Corporation Limited (E-L). E-L owns, directly and indirectly through ELFS, 99.3% of the common shares of Empire Life. The Company's ultimate controlling party is The Honourable Henry N. R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman. In the normal course of business, the Company enters into transactions with E-L and other companies under common control or common influence involving the leasing of office property, investment management services and miscellaneous office services. The amounts earned and expensed were not significant. Some directors and officers have insurance and investment policies underwritten by the Company.

In the fourth quarter of 2017, the Company issued 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 to E-L Financial Corporation Limited at $25 per share. Refer to Note 20 for further details.

Compensation of key management personnel

Key management personnel are comprised of directors and executive officers of the Company. The remuneration of key management personnel is as follows:

For the year ended December 31		**2017**		2016
Salaries and other short-term and long-term employee benefits	**$**	**6,715**	$	6,554
Post-employment benefits		**433**		524
Total	**$**	**7,148**	$	7,078

Post-employment benefits are comprised of employer current service costs for pension and other post-employment benefits.

27. Capital Management

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act* (Canada) as established and monitored by OSFI. Under the guidelines established by OSFI, the Company's regulatory capital consists of two tiers. The Company's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, negative reserves on insurance contract liabilities and subordinated debt. OSFI's target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at December 31, 2017 and December 31, 2016 the Company was in compliance with these ratios.

As at December 31		**2017**		2016
Tier 1 Regulatory Capital	**$**	**1,409,253**	$	1,206,134
Tier 2 Regulatory Capital		**931,530**		707,205
Total Regulatory Capital	**$**	**2,340,783**	$	1,913,339

28. Risk Management

The Company is exposed to risks arising from its investing activities and its insurance operations and to general reputation risk associated with these activities and its ability to manage specific risks. The following sections describe the principal risks and associated risk management strategies for the risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company: market, liquidity, credit and insurance.

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

(a) Market risk
Market risk is the risk of loss arising from adverse changes in market rates and prices such as interest rates, trading prices of equities, real estate and other securities, credit spreads and foreign exchange rates.

Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. Under the Canadian insurance accounting and regulatory regime the Company's results for any period reflect equity market values and interest rates at the end of the period through mark-to-market accounting. Consequently, a decline in public equity market values or changes in interest rates or spreads could result in material changes to net income attributed to shareholders, increases to regulatory capital requirements and reduction in the Company's capital ratios.
The Company buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of the Company. The Company'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 investments are intended to match the liquidity requirements of the Company's policies, within the limits prescribed by the Company. However, if the Company does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected.

Furthermore, a decrease in the fair value of the Company's common stock portfolio results in reduced shareholders' equity, reduced policyholders' surplus and a reduced Minimum Continuing Capital and Surplus Requirements (MCCSR) position. Regulatory pressure to increase capital escalates as the MCCSR position approaches OSFI's supervisory minimum. Net income would also be reduced if the declines in value are realized through dispositions or recognized in provisions for impairment.

The Company manages this risk exposure mainly through investment limits and oversight of its investment managers by the Chief Investment Officer, the Asset Management Committee, and the Investment Committee of the Board. The Investment Committee actively monitors the portfolio size and asset mix.

The Company's general fund investments are subject to limits established by the *Insurance Companies Act* and to investment guidelines established by the Investment Committee of the Board. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments by segment. The Investment Committee receives monthly reporting on general fund asset mix and performance by segment, derivatives matching, segregated fund asset mix and performance, and investment transactions for all funds. In addition, on at least a quarterly basis, management and the Company's investment managers report to the Investment Committee, and through the Investment Committee to the Board, on portfolio content, asset mix, the Company's matched position, the performance of general and segregated funds and compliance with the investment guidelines.

The Company has an Asset Management Committee, which meets regularly and reports at least quarterly to the Investment Committee of the Board. The mandate of the Asset Management Committee includes monitoring of the matched position of Empire's investments in relation to its liabilities within the various segments of the Company's operations. The matching process is designed to require that assets supporting policy liabilities closely match the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Asset segmentation guidelines, which are reviewed regularly with the Investment Committee, have been established to govern these activities. The Asset Management Committee reports regularly to the Investment Committee on the Company's matched positions, asset mixes, and investment allocation decisions relative to the Company's asset segments.

The Company has established a Capital Management Policy, capital management levels that exceed regulatory minimums and Dynamic Capital Adequacy Testing (DCAT) that takes into account the potential effect of adverse investment-risk scenarios (including adverse market conditions and adverse interest rates) on the Company's capital position and liquidity. Management monitors its MCCSR position on a regular basis and reports at least quarterly to the Board on the Company's MCCSR.

For the Company, the most significant market risks are equity risk, interest rate risk and foreign exchange rate risk.

(1) Equity risk

The Company's investment portfolio consists primarily of bonds and equity securities and the fair value of its investments varies according to changes in general economic and securities market conditions, including volatility and declines in equity markets. Equity market volatility could occur as a result of general market volatility or as a result of specific social, political or economic events. A decline in securities markets could have an adverse impact on the return on assets backing capital, capital adequacy, and the management fees collected on segregated fund contracts, mutual funds and on index funds within universal life contracts and insurance policy liabilities and capital requirements, particularly in respect of segregated fund guarantees.

The risk of fluctuation of the market value of the Company's segregated funds and mutual funds is generally assumed by the policyholders and unit holders, respectively. Market value variations of such assets will result in variations in the income of the Company to the extent fees are determined in relation to the value of such funds. A significant and steady decline of the securities markets may result in net losses on such products which could adversely affect the Company. Additionally, certain of the Company's segregated fund products contain guarantees upon death, maturity or withdrawal, where the guarantee may be triggered by the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on the Company's financial position, MCCSR position and results of operations. The Company has reinsured a portion of its segregated fund death benefit guarantee. During the fourth quarter of 2014, the Company initiated a semi-static, economic hedging program. The objective of the economic hedging program is to partially protect the Company from possible future MCCSR ratio declines that might result from adverse stock market price changes. The program presently employs put options and futures on

key equity indices. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits 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 to all counterparties limited to $100 million.

The Company has an Equity Risk Hedging Policy to support general fund economic hedging programs. The policy outlines objectives, risk limits and authorities associated with its economic hedging activities. Management monitors its economic hedging activities on a regular basis and reports, at least quarterly, to the Risk and Capital Committee of the Board on the status of the economic hedging program.

The Company uses stochastic models to monitor and manage risk associated with segregated fund guarantees and establishes policyholder liability provisions in accordance with standards set forth by the CIA. Product development and pricing policies also require consideration of portfolio risk and capital requirements in the design, development and pricing of the products. The Asset Management Committee reports quarterly to the Risk and Capital Committee of the Board on the nature and value of the Company's segregated fund guarantee liabilities, including potential top-up exposure and capital requirements.

The following table summarizes the estimated potential impact on the Company of a change in global equity markets. The Company uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. The Company has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. The amounts in the following table include the effect of Empire Life's general fund equity risk economic hedging program (described above). For segregated fund guarantees the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. The amounts shown below for segregated fund guarantees represent the impact on shareholders' net income.

	As at December 31, 2017			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' net income (including segregated fund guarantees)*	**$ 23,878**	**$ (22,351)**	**$ 48,202**	**$ (74,015)**
Policyholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
Shareholders' other comprehensive income	**$ 2,278**	**$ (2,278)**	**$ 4,556**	**$ (4,556)**
Policyholders' other comprehensive income	**$ 1,892**	**$ (1,892)**	**$ 3,784**	**$ (3,784)**

	As at December 31, 2016			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	$ 17,682	$ (15,674)	$ 36,045	$ (35,579)
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ 2,340	$ (2,340)	$ 4,680	$ (4,680)
Policyholders' other comprehensive income	$ 2,563	$ (2,563)	$ 5,126	$ (5,126)

*Includes the estimated impact on fee income net of trailer commissions after tax for a three month period

For the life insurance business, the Company's policy is to use equity investments to cover a portion of the estimated insurance liability cash flows of non-participating life and universal life products beyond 20 years following the balance sheet date. The value of the liabilities supported by these equities depends on assumptions about the future level of equity markets. The best-estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 9.1% (2016 9.1%). The Company uses an assumption of 7.6% (2016 7.6%) to include provisions for moderate changes in equity rates of return determined in accordance with Canadian actuarial standards of practice. The returns are then reduced by margins to determine the net returns used in the valuation. Changes in the current market would result in changes to these assumptions.

The impact of an immediate change in equity markets is described above. If the change in equity markets persisted for one year, then a change to the actuarial future equity market return assumption would be made. For non-participating insurance business, a 1.0% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing Net income by approximately $117,500 (2016 $111,600).

The following table identifies the concentration of the Company's common equity holdings in Empire Life's investment portfolios:

As at December 31		2017		2016
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	**$**	**382,479**	$	330,213
Percentage of total cash and investments		**4.5%**		4.5%
Exposure to the largest single issuer of common equities	**$**	**91,894**	$	75,594
Percentage of total cash and investments		**1.1%**		1.0%

(2) Interest rate risk

Interest rate risk arises when economic losses are incurred due to the need to reinvest or divest during periods of changing interest rates. Changes in interest rates, as a result of the general market volatility or as a result of specific social, political or economic events, could have an adverse effect on the Company's business and profitability in several ways. Certain of the Company's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, the Company may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited to customers, thereby adversely affecting the Company's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased surrenders. Fluctuations in interest rates may cause losses to the Company due to the need to reinvest or divest during periods of changing interest rates, which may force the Company to sell investment assets at a loss. In addition, an interest rate sensitivity mismatch between assets and the liabilities that they are designated to support could have an adverse effect on the Company's financial position and operating results.

The following tables summarize the estimated immediate financial impact on Net income and OCI as a result of an immediate change in interest rates.

	As at December 31, 2017			
	50 bps Increase	**50 bps Decrease**	**100 bps Increase**	**100 bps Decrease**
Shareholders' net income	**$ 12,803**	**$ (14,265)**	**$ 24,312**	**$ (30,187)**
Policyholders' net income	**$ 174**	**$ (189)**	**$ 333**	**$ (396)**
Shareholders' other comprehensive income	**$ (41,379)**	**$ 48,891**	**$ (75,245)**	**$ 105,294**
Policyholders' other comprehensive income	**$ (1,744)**	**$ 1,928**	**$ (3,306)**	**$ 4,038**

	As at December 31, 2016			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	$ 8,451	$ (9,438)	$ 16,030	$ (19,995)
Policyholders' net income	$ 169	$ (184)	$ 323	$ (386)
Shareholders' other comprehensive income	$ (33,479)	$ 39,351	$ (61,087)	$ 84,574
Policyholders' other comprehensive income	$ (1,586)	$ 1,745	$ (3,014)	$ 3,649

The computation of policy liabilities takes into account projected investment income net of investment expenses from the assets supporting policy liabilities, and investment income expected to be earned on reinvestments. The assets supporting the policy liabilities are segmented from the assets backing shareholders' and policyholders' equity. For life and health insurance, the projected cash flows from the assets supporting policy liabilities are combined with estimated future reinvestment rates based on both the current economic outlook and the Company's expected future asset mix. In order to provide a margin that recognizes the mismatch of assets and liabilities, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the policy liabilities are then adjusted to provide for credible adverse future scenarios.

In order to match the savings component of policy liabilities that vary with a variety of indices and currencies, the Company maintains certain equity, bond and currency financial instruments as part of its general fund assets. Asset-liability mismatch risk for these liabilities is monitored on a daily basis.

For the life insurance business, where the insurance contract liabilities have a longer term than most available bonds and mortgages, the Company needs to reinvest net cash flows arising in the future to extend the duration of its assets. Under Canadian actuarial standards of practice, the yields assumed for these future reinvestments are related to current interest rates, the current economic outlook and the Company's expected future asset mix. The reinvestment assumption grades from the initial reinvestment rate (IRR) assumption to the ultimate reinvestment rate (URR) assumption over the rolling 40-year period following the balance sheet date.

The estimated impact of an immediate change in interest rates is described above. If interest rates increase or decrease during the next year, then a change to the IRR assumption would be required to take into account the then-current economic outlook. For non-participating insurance business, a 1.0% decrease in interest rates would cause a decrease in reinvestment assumption for the next 40-years, resulting in an increase to policy liabilities thereby reducing net income by approximately $55,700 (2016 $47,400). This assumes no change in the URR assumption.

For investment income expected to be earned on reinvestments beyond the rolling 40-year period, the Company uses an URR assumption. Under Canadian actuarial standards of practice, the URR assumption is prescribed as a long-term ultimate risk-free reinvestment rate of 3.2% plus a maximum amount for credit spreads minus asset default rates of 0.8%. The prescribed level of the URR assumption may be periodically changed by the actuarial standards setting body. As interest rates are currently lower than they were when the current URR assumptions were set, there may be a downward bias if the rates were to be updated.

In order to provide a margin that recognizes the longer-term mismatch, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the insurance contract liabilities are then adjusted to provide for credible adverse future scenarios. The Company uses an URR of 4.0% (2016 4.0%) to adjust for credible adverse scenarios.

For annuity business, where the timing and amount of the benefit obligations can be more readily determined, the matching of the asset and liability cash flows is tightly controlled. A sudden increase or decrease in interest rates would have a negligible effect on future profits from annuity business currently in force. For annuity business, the impact a 1.0% decrease in assumed IRR has on policy liabilities and subsequently on Net income is negligible as a result of the matching process described above.

Interest rate risk in Empire Life's investment portfolio is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Company's investment guidelines establish investment objectives and eligible interest rate sensitive investments, as well as establish diversification criteria, exposure, concentration and asset quality limits for these investments. The Asset Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable levels and within risk tolerances. Product development and pricing policies and practices also require consideration of interest rate risk in the design, development and pricing of the products.

(3) Foreign exchange rate risk

Foreign exchange rate risk arises when the fair value of cash flows of a financial instrument fluctuate due to changes in exchange rates. This can create an adverse effect on earnings and equity when measured in the Company's functional currency.

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. A 10% fluctuation in the US dollar would have an impact of approximately $ nil (2016 $ 11,095) on shareholders' Net income, $ nil (2016 $ nil) on shareholders' OCI and $ nil (2016 $ nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

The Company uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage foreign exchange risks. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits established by the Risk and Capital 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 to all counterparties limited to $100 million.

The Company has a Foreign Exchange Risk Management Policy which outlines objectives, risk limits and authority associated with any foreign exchange rate exposure. Oversight and management of this policy falls under the responsibility of the Asset Management Committee, which reports exposures and any breaches to the Investment Committee of the Board.

(b) Liquidity risk

Liquidity risk is the risk that an entity will not be able to fund all cash outflow commitments or obligations as they fall due or that, in order to fund commitments, an entity may have to sell assets at depressed prices resulting in losses at time of sale. Cash outflows could be in the form of benefit payments to policyholders, expenses, asset purchases and interest on debt. The majority of the Company's obligations relate to its policy liabilities, the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, and morbidity). The remaining obligations of the Company relate to the subordinated debt (refer to Note 13 - Subordinated Debt) and to ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

The Company's liquidity risk management program is monitored by management and by the Board of the Company through regular reporting to the Investment Committee. The Company monitors its cash flow obligations and meets its liquidity needs by holding high quality marketable investments that may be easily sold, if necessary, and by maintaining a portion of investments in cash and short-term investments.

The Company maintains a liquidity policy requiring an assessment of the Company's liquidity risk and specific procedures so that liquidity needs are met. Compliance with the policy is monitored by the Asset Management Committee and exposures and breaches are reported to the Investment Committee of the Board. The Company's current liquidity position as at December 31 is provided in a table in Note 10(e). Based on the Company's historical cash flows and current financial performance, management believes that the cash flows from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

The following table shows details of the expected maturity profile of the Company's undiscounted obligations with respect to its financial liabilities and estimated cash flows of policy liabilities. Policy liability cash flows include estimates related to the timing and payment of death and disability claims, policy maturities, annuity payments, policyholder dividends, amounts on deposit, commission and premium taxes offset by contractual future premiums and fees on in-force business. Recoveries from reinsurance agreements are also reflected. Segregated fund liabilities are excluded from this analysis. These estimated cash flows are based on the best estimate assumptions, with margins for adverse deviations, used in the determination of policy liabilities. The actuarial and other policy liability amounts included in the Company's 2017 Consolidated Financial Statements are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

	As at December 31, 2017				
	1 year or less	**1 - 5 years**	**5 - 10 years**	**Over 10 years**	**Total**
Insurance contract liabilities	$ **86,298**	$ **250,921**	$ **528,013**	$ **18,998,295**	$ **19,863,527**
Investment contract liabilities	**2,018**	**8,553**	**5,980**	**5,397**	**21,948**
Subordinated debt	**21,374**	**80,950**	**553,155**	**205,180**	**860,659**
Preferred shares	**13,496**	**175,389**	**91,857**	**—**	**280,742**
Accounts payable and Other liabilities	**222,242**	**11,013**	**26,590**	**—**	**259,845**
Total liabilities	**345,428**	**526,826**	**1,205,595**	**19,208,872**	**21,286,721**
Operating lease commitments	**2,779**	**6,248**	**3,979**	**—**	**13,006**
Total	$ **348,207**	$ **533,074**	$ **1,209,574**	$ **19,208,872**	$ **21,299,727**

	As at December 31, 2016				
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 72,467	$ 218,061	$ 531,530	$ 18,003,489	$ 18,825,547
Investment contract liabilities	1,784	7,864	4,794	3,986	18,428
Subordinated debt	15,376	46,884	530,518	—	592,778
Preferred shares	8,596	160,087	—	—	168,683
Accounts payable and Other liabilities	220,540	7,191	20,505	—	248,236
Total liabilities	318,763	440,087	1,087,347	18,007,475	19,853,672
Operating lease commitments	2,934	8,220	4,297	520	15,971
Total	$ 321,697	$ 448,307	$ 1,091,644	$ 18,007,995	$ 19,869,643

The Asset Management Committee, which meets regularly, monitors the matched position of the Company's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match, to the extent possible, the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. The Company maintains a portion of its investments in cash, cash equivalents and short-term investments to meet its short-term funding requirements. As at December 31, 2017, 4.9% (2016 6.2%) of cash and investments were held in these shorter duration investments.

(c) Credit risk

Credit risk is the possibility of loss from amounts either owed by financial counterparties, such as debtors, reinsurers and other financial institutions, or in connection with issuers of securities held in an asset portfolio. The Company is subject to credit risk which arises from debtors or counterparties who are unable to meet their obligations under debt or derivative instruments. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, cash and cash equivalents, mortgages and from reinsurers under reinsurance agreements.

The Company manages this risk by applying its investment guidelines and product design and pricing risk management policy established by the Investment Committee and Risk and Capital Committee of the Board respectively. 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 the Company's Board on the credit risk to which the portfolio is exposed. The Reinsurance Risk Management Policy (along with supporting material in the Product Design and Pricing Risk Management Policy) establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. The Company enters into long-term reinsurance agreements only with reinsurance companies that have a credit rating of "A-" or better.

Credit risk analysis includes the consideration of credit spreads. From an investment perspective, when buying credit the Company is guided by two principles; first that there is a high likelihood of return of principal and second that there is an acceptable return on investment. The Company looks to obtain a risk/reward balance that aligns with its objectives and risk philosophy. When determining insurance contract liabilities, credit spreads and changes in credit spreads are reflected in the interest rate assumption.

The Company has the following assets that are exposed to credit risk:

As at December 31	2017	2016
Cash and cash equivalents	**$ 294,238**	$ 368,873
Short-term investments	**127,742**	102,874
Bonds	**6,473,608**	5,521,172
Preferred shares	**408,261**	285,184
Derivative assets	**1,399**	3,855
Mortgages	**221,973**	264,309
Reinsurance	**85,638**	95,473
Loans on policies	**51,692**	47,969
Policy contract loans	**74,603**	80,944
Accrued investment income	**43,219**	40,551
Insurance receivables	**46,294**	53,097
Trade accounts receivable	**12,399**	33,731
Total	**$ 7,841,066**	$ 6,898,032

Mortgages, Loans on policies and Policy contract loans are fully or partially secured.

The Company has made provision in its Consolidated Statements of Financial Position for credit losses. Provisions have been made partly through reduction in the value of the assets (see Note 3(b)) and partly through a provision in policy liabilities (see Note 10(c)).

Concentration of credit risk

(1) Bonds and debentures

The concentration of the Company's bond portfolio by investment grade is as follows:

As at December 31	2017		2016	
	Fair value	**% of Fair value**	Fair value	% of Fair value
AAA	**$ 529,856**	**8%**	$ 380,423	7%
AA	**659,816**	**10%**	591,132	11%
A	**4,301,025**	**67%**	3,689,809	66%
BBB (and lower ratings)	**982,911**	**15%**	859,808	16%
Total	**$ 6,473,608**	**100%**	$ 5,521,172	100%

Credit ratings are normally obtained from Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). In the event of a split rating, the lower rating is used. Issues not rated by a recognized rating agency (i.e. S&P, DBRS, or Moody's) are rated internally by the Investment Department. The internal rating assessment is documented referencing suitable comparable investments rated by recognized rating agencies and/or methodologies used by recognized rating agencies.

Provincial bonds represent the largest concentration in the bond portfolio, as follows:

As at December 31	2017	2016
Provincial bond holdings	**$ 3,398,432**	$ 2,925,004
Percentage of total bond holdings	**52.5%**	53.0%

The following table profiles the bond portfolio by contractual maturity, using the earliest contractual maturity date:

As at December 31	2017		2016	
	Fair value	**% of Fair value**	Fair value	% of Fair value
1 year or less	**$ 340,940**	**5%**	$ 59,872	1%
1 - 5 years	**596,228**	**9%**	586,444	11%
5 - 10 years	**731,086**	**11%**	637,529	12%
Over 10 years	**4,805,354**	**75%**	4,237,327	76%
Total	**$ 6,473,608**	**100%**	$ 5,521,172	100%

The following table discloses the Company's holdings of fixed income securities in the 10 issuers (excluding the federal government) to which the Company had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds.

As at December 31	2017	2016
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	**$ 4,192,708**	$ 3,534,308
Percentage of total cash and investments	**49.0%**	46.5%
Exposure to the largest single issuer of corporate bonds	**$ 173,269**	$ 154,112
Percentage of total cash and investments	**2.0%**	2.0%

*Fixed income securities includes bonds, debentures, preferred shares and short term investments.

(2) Preferred shares

The Company's preferred share investments are all issued by Canadian companies, with 1% (2016 1%) of these investments rated as P1 and the remaining 99% (2016 99%) rated as P2.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with $221,973 or 100% (2016 $264,309 or 100%) of the total mortgage portfolio.

(d) Insurance risk

The Company provides a broad range of life insurance, health insurance and wealth management products, employee benefit plans, and financial services that are concentrated by product line as follows:

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
For the year ended December 31	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Net premium income	**$ 135.5**	$ 175.8	**$ 330.6**	$ 338.9	**$ 368.1**	$ 366.8	**$ —**	$ —	**$ 834.2**	$ 881.5
Fee and other income	**246.0**	217.5	**10.2**	9.8	**0.3**	1.0	**0.3**	0.1	**256.8**	228.4
Total	**$ 381.5**	$ 393.3	**$ 340.8**	$ 348.7	**$ 368.4**	$ 367.8	**$ 0.3**	$ 0.1	**$ 1,091.0**	$ 1,109.9

Insurance risk is the risk that actual experience related to claims, benefit payments, expenses, cost of embedded product options and cost of guarantees associated with insurance risks, does not emerge as expected. The Company is exposed to various insurance risks as a result of the business it writes, including: mortality, policyholder behaviour (termination or lapse), expenses, morbidity, longevity, product design and pricing risk, underwriting and claims risk and reinsurance risk.

The Company regularly evaluates its exposure to foreseeable risks through stress testing techniques including DCAT analysis.

The principal risk the Company faces under insurance contracts is the risk that experience on claims, policy lapses and operating expenses will not emerge as expected. To the extent that emerging experience is more favourable than assumed in the valuation, income will emerge. If emerging experience is less favourable, losses will result. Therefore, the objective of the Company is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

The computation of insurance liabilities and related reinsurance recoverable requires "best estimate" assumptions covering the remaining life of the policies. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market trends and other published information. These assumptions are made for mortality, morbidity, longevity, lapse, expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviations from best estimates is calculated separately for each variable and included in policy liabilities. These margins are intended to allow for possible deterioration in experience and to provide greater confidence that policy liabilities are adequate to pay future benefits. The effect of these margins is to increase policy liabilities over the best estimate assumptions.

The margins for adverse deviation used by the Company are within the target range established by the CIA. A correspondingly larger margin is included in the insurance contract liabilities if an assumption is susceptible to change or if there is more uncertainty about the best estimate assumption. Each margin is reviewed annually for continued appropriateness.

Policy liability assumptions are reviewed and updated at least annually by the Company's Appointed Actuary. The impact of changes in those assumptions is reflected in earnings in the year of the change. Details related to the changes in assumptions are also discussed with the Audit Committee of the Board. The methods for arriving at the most important of these assumptions are outlined below. Also included are measures of the Company's estimated net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities, based on a starting point and business mix as of December 31, 2017. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

(1) Mortality
The Company carries out annual internal studies of its own mortality experience. The valuation mortality assumptions are based on a combination of this experience and recent CIA industry experience. An increase in the rate of mortality will lead to a larger number of claims (and claims could occur sooner than anticipated), which for life insurance, will increase expenditures and reduce profits for the shareholders.

For non-participating insurance business, a 2.0% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately $13,300 (2016 $9,700).

For annuity business, lower mortality (or longevity) is financially adverse so a 2.0% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately $3,600 (2016 $4,000).

(2) Policyholder behaviour (termination or lapse)
Policy termination (lapse) and surrender assumptions are based on a combination of the Company's own internal termination studies (conducted annually) and recent CIA industry experience. Separate policy termination assumptions are used for permanent cash-value business, for renewable term insurance, term insurance to age 100 and for universal life insurance. In setting policy termination rates for renewable term insurance, it is assumed that extra lapses will occur at each renewal point and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

Acquisition costs may not be recovered fully if lapses in the early policy years exceed those in the actuarial assumptions. An increase in policy termination rates early in the life of the policy would tend to reduce profits for shareholders. An increase in policy termination rates later in the life of the policy would tend to increase profits for shareholders if the product is lapse supported (such as term insurance to age 100), but decrease shareholder profits for other types of policies.

For non-participating insurance and annuity business a 10.0% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing Net income by approximately $134,200 (2016 $118,400). For products where fewer terminations would be financially adverse to the Company, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to the Company, the change is applied as an increase to the lapse assumption.

(3) Expenses
Policy liabilities provide for the future expense of administering policies in force, renewal commissions, general expenses and taxes. Expenses associated with policy acquisition and issue are specifically excluded. The future expense assumption is derived from internal cost studies and includes an assumption for inflation.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.
For non-participating insurance business and annuity business combined, a 5% increase in the maintenance expense assumption would result in an increase to policy liabilities thereby reducing net income by approximately $4,600 (2016 $5,900).

(4) Morbidity
The Company carries out annual internal studies of its own morbidity experience where morbidity refers to both the rates of accident or sickness and the rates of recovery from the accident or sickness. The valuation assumptions are based on a combination of internal experience and recent CIA industry experience.

For individual critical illness business, the incidence rates (or rates of accident or sickness) are the key assumption related to morbidity. An increase in incidence rates would result in an increase in the number of claims which increases expenditures and reduces shareholders' profits. For group long-term disability business the termination rates (or rates of recovery) are the key assumption related to morbidity. A decrease in termination rates would result in disability claims persisting longer which increases expenditures.

For non-participating insurance business where morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing Net income by approximately $6,500 (2016 $6,500).

(5) Product design and pricing risk
The Company is subject to the risk of financial loss resulting from transacting insurance business where the costs and liabilities assumed in respect of a product exceed the expectations reflected in the pricing of the product. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through dividends and experience rating refunds or through the fact that the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk and thus must carry out a full valuation of the commitments in this regard.

The Company manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described as follows. The Company has established policy liabilities in accordance with standards set forth by the CIA. Experience studies (both Company-specific and industry level) are factored into ongoing valuation, renewal and new business processes so that policy liabilities, as well as product design and pricing, take into account emerging experience. The Company has established an active capital management process that includes a Capital Management Policy and capital management levels that exceed regulatory minimums. As prescribed by regulatory authorities, the Appointed Actuary conducts DCAT and reports annually to the Audit Committee on the Company's financial condition, outlining the impact on capital levels should future experience be adverse. The Company has also developed a Product Design and Pricing Risk Management Policy for each of its major product lines. This policy, which is established by management and approved by the Risk and Capital Committee of the Board, defines the Company's product design and pricing risk management philosophy. The policy sets out product design and pricing approval authorities, product concentration limits, and required product development monitoring processes and controls.

(6) Underwriting and claims risk

The Company is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Many of the Company's individual insurance and group disability products provide benefits over the policyholder's lifetime. Actual claims experience may differ from the mortality and morbidity assumptions used to calculate the related premiums. Catastrophic events such as earthquakes, acts of terrorism or an influenza pandemic in Canada could result in adverse claims experience.

In addition to the risk management controls described above under Product Design and Pricing Risk, the Company also manages underwriting and claims risk through its Underwriting and Liability Risk Management Policy for each of its major product lines. This policy is established by management and approved by the Risk and Capital Committee of the Board. Together, these policies define the Company's underwriting and claims management philosophy. These policies also set out product line insurance risk tolerances, underwriting criteria, underwriting and liability concentration limits, claims approval requirements, underwriting and claims processes and controls, approval authorities and limits, and ongoing risk monitoring requirements. The Company uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines and the Board approves changes to these retention limits.

(7) Reinsurance risk

The Company is subject to the risk of financial loss due to inadequate reinsurance coverage or a default of a reinsurer. Amounts reinsured per life vary according to the type of protection and the product. The Company also maintains a catastrophe reinsurance program, which provides protection in the event that multiple insured lives perish in a common accident or catastrophic event. Although the Company relies on reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience, reinsurance does not release it from its primary commitments to its policyholders and it is exposed to the credit risk associated with the amounts ceded to reinsurers. The availability and cost of reinsurance are subject to prevailing reinsurance market conditions, both in terms of price and availability, which can also affect earnings.

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. Management reports annually to the Risk and Capital Committee of the Board on reinsurance activities. Most of the Company's individual life reinsurance (with the exception of its renewable term products) is on an excess basis (with a $500 retention limit), meaning the Company retains 100% of the risk up to $500 in face amount. With the Company's renewable term products, however, all amounts over $100 are reinsured at an 80% level, meaning that the

Company retains only 20% of the risk on coverage over $100, to a maximum retention of $500. In addition the Company also retains a maximum of $100 on individual accidental death policies. Retention amounts are lower for group business but are in addition to those noted for individual business. A portion of Empire Life's segregated fund death benefit exposure is reinsured. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement.

As a result of this reinsurance strategy, the Company utilizes lower than average levels of reinsurance, compared to Canadian competitors, and absorbs the resultant negative impact on short-term earnings due to additional sales strain. The Company does not have any assumed reinsurance business.

GLOSSARY OF TERMS (unaudited)

Accumulated Other Comprehensive Income (AOCI)
A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, unrealized foreign currency translation gains and losses and remeasurement of post-employment benefit liabilities. These items have been recognized in comprehensive income, but excluded from net income.

Active Market
An active market is a market in which the items traded are homogeneous, willing buyers and sellers can normally be found at anytime and prices are available to the public.

Available For Sale (AFS) Finance Assets
Non-derivative financial assets that are designated as AFS or that are not classified as loans and receivables, held to maturity investments, or held for trading. Most financial assets supporting capital and surplus are classified as AFS.

Canadian Asset Liability Method (CALM)
The prescribed method for valuation of policy liabilities in Canada. CALM is a prospective basis of valuation which uses the full gross premium for the policy, the estimated expenses and obligations under the policy, current expected experience assumptions plus a margin for adverse deviations, and scenario testing to assess interest rate risk and market risks.

Canadian Institute of Actuaries (CIA)
As the national organization of the Canadian actuarial profession, the CIA means to serve the public through the provision by the profession of actuarial services and advice of the highest quality. The CIA ensures that the actuarial services provided by its members meet accepted professional standards; and assists actuaries in Canada in the discharge of their professional responsibilities.

Canadian Life and Health Insurance Association (CLHIA)
The Canadian Life and Health Insurance Association (CLHIA) is an organization representing life insurance and health insurance providers in Canada. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

Chartered Professional Accountants of Canada (CPA Canada)
Canada's not-for-profit association for Chartered Professional Accountants (CPA) provides information and guidance to its members, students and capital markets. Working in collaboration with its provincial member organizations, CPA Canada supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and develops and delivers education programs.

Earnings on Surplus
This source of earnings represents the pre-tax earnings on the shareholders' capital and surplus funds.

Effective Interest Method
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Expected Profit from In-Force Business
This source of earnings represents the profit Empire Life expects to generate on in-force business if experience is in line with the Empire Life's best estimate assumptions for mortality, morbidity, persistency, investment returns, expenses and taxes.

GLOSSARY OF TERMS (unaudited)

Experience Gains and Losses
This source of earnings represents gains or losses due to the difference between actual experience and the best estimate assumptions.

Fair Value Through Profit or Loss (FVTPL)
Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option. Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as FVTPL.

Impact on New Business
Writing new business typically adds economic value to a life insurance company. At the point of sale, new business may have a positive or negative impact on earnings. A negative impact (new business strain) will result when the provision for adverse deviation included in the actuarial liabilities at the point of sale exceeds the expected profit margin in the product pricing. The impact of new business also includes any excess acquisition expenses not covered by product pricing at the point of issue.

International Financial Reporting Standards (IFRS)
Refers to the international accounting standards that were adopted in Canada, effective January 1, 2011; these are now Canadian Generally Accepted Accounting Principles (CGAAP) for publicly accountable enterprises.

Life Insurance Capital Adequacy Test (LICAT)
The LICAT measures the capital adequacy of an insurer and is one of several indicators used by OSFI to assess an insurer's financial condition. The LICAT Ratio is the ratio of eligible capital to the base solvency buffer, each as calculated under OSFI's published guidelines.

Management Actions and Changes in Assumptions
This source of earnings component includes earnings generated by management actions during the year (e.g. acquisition or sale of a block of business, changes to product price, fees or asset mix, etc.) or the impact of changes in assumptions or methodology used for the calculation of actuarial liabilities for in-force business.

Minimum Continuing Capital and Surplus Requirements (MCCSR)
The ratio of the available regulatory capital of a life insurance company to its required regulatory capital, each as calculated under the Office of the Superintendent of Financial Institutions' (OSFI) published guidelines.

Other Comprehensive Income (OCI)
Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as Other Comprehensive Income ("OCI") or Other Comprehensive Loss ("OCL"). When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. Remeasurements of post-employment benefit liabilities are also recorded as OCI or OCL. These remeasurements will not be reclassified to net income and will remain in AOCI.

Office of the Superintendent of Financial Institutions Canada (OSFI)
The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Participating Policies
The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account.

Return on Common Shareholders' Equity (ROE)
A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

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CONSOLIDATED FINANCIAL STATEMENTS 2017

The Empire Life Insurance Company (Empire Life) is a proud Canadian company that has been in business since 1923. We offer individual and group life and health insurance, investment and retirement products, including mutual funds through our wholly-owned subsidiary Empire Life Investments Inc.

Empire Life is among the top 10 life insurance companies in Canada[1] and is rated A (Excellent) by A.M. Best Company[2]. Our mission is to make it simple, fast and easy for Canadians to get the investment, insurance and group benefits coverage they need to build wealth, generate income, and achieve financial security.

Follow Empire Life on Twitter @EmpireLife or visit our website, www.empire.ca for more information.

[1] Based on general fund and segregated fund assets in Canada as at December 31, 2016 as reported in regulatory filings
[2] As at June 1, 2017. For the latest rating, access www.ambest.com

Transfer Agent and Registrar
AST Trust Company (Canada) (formerly known as CST Trust Company)
1 Toronto Street, Suite 1200
Toronto, Ontario, M5C 2V6
Phone 416-682-3860
Toll Free 800-387-0825
www.astfinancial.com/ca-en

Stock Exchange Listing
Preferred Shares, Series 1 EML.PR.A

Reporting Procedure for Accounting and Auditing Matters
If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

Mr. John Brierley
The Empire Life Insurance Company
259 King Street East
Kingston, ON, K7L 3A8
Email: jfbrierley@sympatico.ca
Phone: 905-338-7290

You may submit your complaint or concern anonymously. Your submission will be kept confidential and will be treated in accordance with the Company's policy for reporting accounting and auditing matters.

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