The Empire Life Insurance Company

Management's Discussion and Analysis

For the year ended December 31, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A is dated as of February 25, 2016.

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of The Empire Life Insurance Company ("Empire Life" or the "Company") for the years ended December 31, 2015 and 2014. This MD&A should be read in conjunction with the Company's December 31, 2015 consolidated financial statements, which form part of The Empire Life Insurance Company 2015 Annual Report dated February 25, 2016. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Chartered Professional Accountants of Canada. Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars.

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

The financial statements of the Company are prepared in compliance with IFRS, which is generally accepted accounting principles ("GAAP") as set out in the Handbook of the Chartered Professional Accountants of Canada. This MD&A makes reference to certain non-GAAP measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. See Non-GAAP Measures section in this report.

Financial Analysis

Overview

	Fourth quarter		Year	
(in millions of dollars except per share amounts)	**2015**	2014	**2015**	2014
Shareholders' net income	**$ 16.2**	$ 18.2	**$ 108.6**	$ 98.7
Earnings per share - basic and diluted	**$ 16.43**	$ 18.44	**$ 110.22**	$ 100.20
Return on shareholders' equity (quarters annualized) ("ROE")	**5.9%**	7.4%	**10.2%**	10.5%

Empire Life reported fourth quarter shareholders' net income of $16.2 million for 2015, compared to $18.2 million for 2014. Full year shareholders' net income was $108.6 million compared to $98.7 million in 2014.

The following table provides a breakdown of the sources of earnings[1] for the fourth quarter and full year.

Sources of Earnings	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Expected profit on in-force business	**$ 40.3**	$ 33.3	**$ 156.4**	$ 132.1
Impact of new business	**(8.9)**	(12.7)	**(30.5)**	(41.0)
Experience gains (losses)	**8.0**	6.3	**(9.6)**	10.0
Management actions and changes in assumptions	**(24.9)**	(1.7)	**(24.9)**	6.3
Other	**—**	(7.3)	**—**	(7.3)
Earnings on operations before income taxes	**14.5**	17.9	**91.4**	100.1
Earnings on surplus	**7.1**	7.9	**50.2**	30.8
Income before income tax	**$ 21.6**	$ 25.8	**$ 141.6**	$ 130.9
Income taxes	**5.4**	7.6	**33.0**	32.2
Shareholders' net income	**$ 16.2**	$ 18.2	**$ 108.6**	$ 98.7

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Fourth quarter shareholders' net income and ROE were lower relative to 2014 primarily due to lower profit from the Employee Benefits product line. The decreased profit from this product line primarily resulted from the 2014 favourable update of group life policy liability assumptions, which did not recur in 2015.

Full year shareholders' net income was higher relative to 2014 primarily due to growing profit on in-force Wealth Management business and increased earnings on surplus. Despite the higher net income, full year ROE was slightly lower in 2015 than 2014 due to a higher level of shareholders' equity in 2015.

The Wealth Management product line's improved result was due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related to guaranteed minimum withdrawal benefit ("GMWB") products. Despite the recent drop in stock markets in 2015, many of Empire Life's segregated funds have performed well. The improvement in fee income relative to full year 2014 was due to positive segregated fund net sales (gross sales net of withdrawals) in the last 12 months, product price increases and the positive impact of the above mentioned segregated fund performance. Earnings on surplus improved primarily due to increased gains on the sale of bonds.

The impact of new business improved, relative to 2014 primarily due to lower fourth quarter and full year segregated fund sales and lower Wealth Management expenses. Experience losses occurred in the full year 2015 primarily related to unfavourable surrender, lapse and mortality experience, which adversely affected the Individual Insurance product line. In 2014 full year experience gains were primarily due to the Wealth Management product line's favourable investment experience which resulted from market interest rate movements and the availability of assets at attractive yields for matching fixed interest annuity contract liabilities.

The loss from management actions in 2015 primarily resulted from an unfavourable update of policy liability assumptions for the Individual Insurance product line. This unfavourable update primarily related to lapse assumptions based on updated industry and company experience data. The full year gain from management actions in 2014 resulted from a favourable settlement on a lawsuit.

In addition, 2014 included a decrease in earnings resulting from other items due to increased premium tax rates in the province of Quebec on both in-force policies and new policies sold. Some in-force policies allow for an adjustment to prices or charges to cover the cost of the additional tax. However, some in-force policies are fully guaranteed and cannot be adjusted, which resulted in a strengthening of insurance contract liabilities of $7.3 million in 2014.

Empire Life has three major product lines (Wealth Management, Employee Benefits and Individual Insurance) and maintains distinct accounts for Capital and Surplus. A discussion of each product line's 2015 net income compared to 2014 is shown in the Product Line Results sections later in this report.

On August 5, 2015 Empire Life filed a final long form non-offering prospectus with the securities regulatory authority in the province of Ontario. The purpose of filing the non-offering prospectus was to qualify Empire Life to raise regulatory capital in the form of preferred shares and subordinated debt, as well as other debt securities.

On January 28, 2016 the Company announced a $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares. Empire Life intends to use the net proceeds from the offering for regulatory capital and general corporate purposes. The offering closed on February 16, 2016 and commenced trading on the Toronto Stock Exchange under the ticker symbol EML.PR.A. Empire Life has granted the underwriters an option to purchase up to $19.5 million of additional preferred shares exercisable at any time up to a period of 30 days from the date of closing. Holders of the preferred shares will be 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%. On a pro forma basis, after giving effect to the preferred share issue (but assuming no exercise of the over-allotment option), the Company estimates that, as at December 31, 2015, its Minimum Continuing Capital and Surplus Requirements ("MCCSR") would have increased by 17 points from 201% to 218%.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Selected Financial Information

Income Statement Financial Information	**For the years ended December 31**		
(in millions of dollars)	**2015**	2014	2013
Revenue			
Net premium income	**$ 835**	$ 867	$ 822
Fee and other income	**217**	188	151
Investment income	**259**	246	240
Realized gain on FVTPL investments	**42**	74	45
Realized gain on available for sale investments including impairment write downs	**19**	13	(2)
Fair value change in FVTPL investments	**(85)**	538	(349)
Total Revenue	**1,287**	1,926	907
Expenses			
Benefits and expenses	**$ 1,139**	$ 1,770	$ 749
Income and other taxes	**46**	49	48
Total Expenses	**1,185**	1,819	797
Net income after tax	**102**	107	110
Participating policyholders' portion	**(6)**	9	(3)
Shareholders' net income	**$ 108**	$ 98	$ 113
Return on shareholders' equity	**10.2%**	10.5%	13.1%

Revenue volatility was primarily driven by the impact of market interest rate movements on fair value change in fair value through profit or loss (“FVTPL”) investments. The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities (included in Benefits and expenses in the above table).

Balance Sheet Financial Information	**As at December 31**		
(in millions of dollars)	**2015**	2014	2013
Assets			
Total Cash and Investments	**$ 6,859**	$ 6,669	$ 6,020
Other assets	**137**	112	105
Segregated fund assets	**7,368**	6,948	5,955
Total Assets	**$ 14,364**	$ 13,729	$ 12,080
Liabilities			
Insurance contract liabilities	**$ 4,799**	$ 4,713	$ 4,175
Reinsurance liabilities	**531**	491	285
Subordinated debt	**299**	299	498
Other liabilities	**215**	216	211
Segregated fund policy liabilities	**7,368**	6,948	5,955
Total Liabilities	**13,212**	12,667	11,124
Total Equity	**1,152**	1,062	956
Total Liabilities & Equity	**$ 14,364**	$ 13,729	$ 12,080

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Other Financial Informtion	**As at December 31**		
(in millions of dollars)	**2015**	**2014**	2013
Assets under management[2]			
General fund assets	**$ 6,996**	$ 6,780	$ 6,126
Segregated fund assets	**7,368**	6,948	5,954
Mutual fund assets	**171**	109	38
Subordinated debt	**299**	299	498
Available regulatory capital			
Tier 1	**$ 918**	$ 872	$ 831
Tier 2	**504**	452	533
Total	**1,422**	1,324	1,364
Required regulatory capital	**$ 708**	$ 671	$ 511
MCCSR Ratio	**201%**	197%	267%

Empire Life’s subordinated debt and MCCSR ratio were higher from May 31, 2013 until May 20, 2014 due to the timing of Empire Life’s issuance of $300 million 2.87% subordinated debentures on May 31, 2013 and the redemption of $200 million 6.73% subordinated debentures at par on May 20, 2014. This pre-funding of maturing debt resulted in Empire Life temporarily having $200 million of additional debt in its capital structure. The redemption of $200 million 6.73% subordinated debentures at par on May 20, 2014 resulted in a 19 point decrease in Empire Life’s MCCSR ratio. In addition, regulatory capital requirements increased significantly in 2014 resulting in a lower MCCSR ratio in 2014. $102 million of the 2014 increase was due to a comprehensive review and update of the methods and assumptions used in Empire Life’s stochastic model for determining required regulatory capital and policy liabilities for Empire Life’s segregated fund product guarantees. Empire Life updated the methods and assumptions used in its stochastic model to be more consistent with the industry. The 2014 $102 million increase in required regulatory capital resulted in a 36 point decrease in Empire Life’s 2014 MCCSR ratio. This decrease in the MCCSR ratio was entirely related to older segregated fund products that are closed to new policies.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

The following table provides a summary of Empire Life results by major product line (figures in MD&A may differ due to rounding):

For the twelve months ended December 31	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
(in millions of dollars)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Revenue										
Net premium income	**$ 144**	$ 186	**$ 325**	$ 319	**$ 366**	$ 362	**$ —**	$ —	**$ 835**	$ 867
Fee and other income	**207**	178	**9**	9	**1**	1	**—**	—	**217**	188
Investment income	**43**	49	**4**	4	**171**	151	**41**	42	**259**	246
Realized gain on FVTPL investments	**1**	9	**1**	—	**38**	65	**2**	—	**42**	74
Realized gain on available for sale investments including impairment write downs	**—**	—	**—**	—	**—**	—	**19**	13	**19**	13
Fair value change in FVTPL investments	**(28)**	20	**(2)**	4	**(56)**	514	**1**	—	**(85)**	538
Total Revenue	**367**	442	**337**	336	**520**	1,093	**63**	55	**1,287**	1,926
Expenses										
Benefits and expenses	**289**	388	**322**	317	**518**	1,049	**10**	16	**1,139**	1,770
Income and other taxes	**19**	12	**9**	10	**4**	17	**14**	10	**46**	49
Total Expenses	**308**	400	**331**	327	**522**	1,066	**24**	26	**1,185**	1,819
Net income (loss) after tax	**$ 59**	$ 42	**$ 6**	$ 9	**$ (2)**	$ 27	**$ 39**	$ 29	**$ 102**	$ 107
Participating policyholders' portion									**(6)**	9
Shareholders' net income									**$ 108**	$ 98
Assets under management[3]										
General fund assets	**$ 959**	$ 1,063							**$ 6,996**	$ 6,779
Segregated fund assets	**$ 7,347**	$ 6,926			**$ 20**	$ 22			**$ 7,367**	$ 6,948
Mutual fund assets	**$ 171**	$ 109							**$ 171**	$ 109
Annualized premium sales[3]			**$ 44**	$ 42	**$ 51**	$ 59				

Total Revenue

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Revenue				
Net premium revenue	**$ 206**	$ 215	**$ 835**	$ 867
Investment income	**67**	63	**259**	246
Fair value change in FVTPL investments including realized amounts	**62**	212	**(43)**	612
Realized gain (loss) on AFS investments including impairment write downs	**—**	1	**19**	13
Fee and other income	**56**	50	**217**	188
Total Revenue	**$ 391**	$ 541	**$ 1,287**	$ 1,926

For the quarter, total revenue at Empire Life decreased by 28% to $391 million compared to $541 million in 2014. On a full year basis, total revenue decreased by 33% to $1.287 billion compared to $1.926 billion in 2014. Revenue volatility was primarily driven by the impact of market interest rate and stock market movements on Fair value change in fair value through profit and loss ("FVTPL") investments. Major revenue items are discussed below.

Net premium revenue for the quarter and year decreased by 4.5% and 3.7% respectively, relative to 2014. The decrease related primarily to the fixed interest deferred annuities portion of the Wealth Management product line, which experienced weak demand due to the low interest rate environment.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Fair value change in FVTPL investments including realized amounts often causes large revenue volatility. These assets experienced a lower gain for the fourth quarter and a net loss for the year in 2015 compared to large net gains for the same periods in 2014. In 2015 the loss was from a decrease in stock prices and bond prices (due to an increase in market interest rates). In 2014 the gain was primarily from an increase in bond prices (due to a decrease in market interest rates). For the fourth quarter and year, the impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities (discussed in the Total Benefits and Expenses section below).

Realized gain (loss) on available for sale investments ("AFS") including impairment write downs was a gain for the year in both 2015 and 2014. The 2015 gain was primarily due to the sale of AFS bonds, while the gain for the year in 2014 was due to the sale of both AFS equities and bonds. These gains and losses impact net income and are considered in the net income investment experience comments for each of the impacted product lines (see Product Line Results sections later in this report). The assets sold primarily backed capital and surplus.

Fee and other income for the quarter and year increased by 12.3% and 15.6% respectively in 2015 relative to 2014 primarily due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products (see the Product Line Results - Wealth Management section later in this report).

Total Benefits and Expenses

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Benefits and expenses				
Net benefits and claims	**$ 162**	$ 168	**$ 642**	$ 645
Net change in insurance contract liabilities	**109**	232	**126**	745
Change in investment contracts provision	**(1)**	1	**—**	2
Policy dividends	**7**	7	**26**	24
Operating expenses	**39**	40	**147**	147
Net commissions	**49**	51	**189**	193
Interest expense	**2**	2	**9**	14
Total benefits and expenses	**$ 367**	$ 501	**$ 1,139**	$ 1,770

Total benefits and expenses at Empire Life for the quarter decreased by 27% to $367 million compared to $501 million in 2014. On a full year basis, total benefits and expenses decreased by 36% to $1.139 billion compared to $1.770 billion in 2014. Expense volatility was primarily driven by the impact of market interest rate and stock market movements on net change in insurance contract liabilities. Major benefit and expense items are discussed below.

Net benefits and claims variability is dependent on the claims incurred. Generally, claims rise year over year due to growth of the insurance blocks, which was the case for the quarter and full year for all lines of business except Wealth Management, which declined due to lower fixed interest deferred annuity withdrawals. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released can be larger or smaller than the claims incurred depending on whether claims experience has been favourable or unfavourable. Claims experience is the combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities. Year over year claims experience is discussed in each of the impacted product lines (see Product Line Results sections later in this report).

Net change in insurance contract liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, assumptions about the future, and changes in the market value of assets matching insurance contract liabilities. For the quarter and full year, the main reason for the large change from 2014 for this item was the change in insurance contract liabilities resulting from the fair value change in matching assets (described above in the Total Revenue section). Variability in the net change in insurance contract liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the statement of operations.

For the quarter and full year net commissions decreased year over year primarily due to the decrease in Wealth Management product sales.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Interest expense decreased for the full year in 2015 relative to 2014 due to the redemption of $200 million 6.73% subordinated debentures on May 20, 2014.

Product Line Results - Wealth Management

(in millions of dollars)	As at December 31 2015	2014
Assets under management[4]		
General fund annuities	**$ 959**	$ 1,063
Segregated funds	**7,347**	6,926
Mutual funds	**171**	109

(in millions of dollars)	Fourth quarter 2015	Fourth quarter 2014	Year 2015	Year 2014
Selected financial information				
Net fixed interest annuity premiums	**$ 32**	$ 45	**$ 144**	$ 186
Segregated fund gross sales[4]	**279**	404	**1,120**	1,312
Segregated fund net sales[4]	**65**	184	**272**	479
Segregated fund fee income	**52**	46	**202**	175
Mutual fund gross sales[4]	**13**	23	**79**	68
Mutual fund net sales[4]	**7**	19	**62**	62
Mutual fund fee income	**1**	—	**2**	1
Net income after tax	**$ 10**	$ 12	**$ 59**	$ 42

Assets in Empire Life general fund annuities decreased by 10%, while segregated fund assets increased by 6% during the last 12 months. The decrease in the last 12 months for general fund annuities is related primarily to weak demand for fixed interest deferred annuities due to the low interest rate environment. The increase over the last 12 months for segregated funds was attributable primarily to strong net sales described below.

Premium revenue for the Wealth Management product line is comprised solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund and mutual fund products. For the fourth quarter and year, fixed interest annuity premiums were down 28% and 23% respectively compared to 2014 resulting from the low interest rate environment..

For the fourth quarter and year, segregated fund gross sales were down 31% and 15% respectively compared to 2014. For the fourth quarter and year, this decrease was primarily due to lower GMWB sales and lower 75% maturity guarantee product sales which decreased by $83 million and $43 million for the quarter and by $195 million and $38 million for the year, respectively. These decreases were partly offset by increased sales of 100% maturity guarantee products, which increased by $2 million and $44 million in the fourth quarter and year respectively compared to 2014. In the fourth quarter of 2014, Empire Life made significant changes to its segregated funds product line. Empire Life closed its existing segregated funds products to new policies effective October 31, 2014. In addition, on November 3, 2014 Empire Life launched a new suite of investment products including a new segregated funds family called Empire Life Guaranteed Investment Funds (“GIF”), as well as a stand-alone Guaranteed Interest Contract (“GIC”) and a new version of its GMWB product. Fees charged to the customer on the new product line are higher than the former product line. The new product line’s pricing and features are Empire Life’s response to the economic, regulatory and competitive landscape in the segregated fund product marketplace. On April 20, 2015, Empire Life added to this new family of products by launching a new series of Empire Life GIFs and a new segregated fund, Empire Life Monthly Income GIF. While 2015 sales were down from last year (as described above), the launch of these new segregated fund products has gone well, achieving gross sales of $227 million for the fourth quarter and $844 million for the full year which represented 81% and 75% of segregated fund gross sales respectively.

Segregated fund net sales for the quarter and full year were down 65% and 43% respectively compared to 2014 primarily due to the above mentioned gross sales result.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Mutual fund gross sales improved on a full year basis, but are still a small component of our Wealth Management assets under management. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the quarter and full year, segregated fund fee income increased by 13% and 15% respectively in 2015 relative to 2014. The increase was due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. Despite the recent drop in stock markets in 2015, many of Empire Life's segregated funds have performed well. The improvement in fee income relative to 2014 was due to positive segregated fund net sales in the last 12 months, product price increases and the positive impact of the above mentioned segregated fund performance. The strong net sales and performance had a positive impact on average assets under management and management fees earned.

During the fourth quarter earnings from this product line decreased, while full year earnings increased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Fourth quarter	Year
Components of increase (decrease)		
2014 loss from update of policy liability assumptions	**$ 2**	**$ 2**
2015 loss from update of policy liability assumptions	**(4)**	**(4)**
Increase in inforce profit margins	**5**	**21**
Lower new business strain	**2**	**3**
Worsened annuitant mortality experience	**(3)**	**(2)**
Worsened investment experience	**(4)**	**(3)**
Total	**$ (2)**	**$ 17**

In both 2014 and 2015, the update of policy liability assumptions was unfavourable. In both years there were unfavourable updates for general fund annuities. In 2014 this primarily related to annuitant mortality assumptions. In 2015 this primarily related to investment return assumptions.

Higher net income on in-force business in 2015 was primarily due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related GMWB products (as described above).

Higher net income from lower new business strain was primarily due to the decrease in segregated fund gross sales.

Annuitant mortality experience was close to levels expected in actuarial assumptions but worsened from 2014 levels related to the fixed interest immediate annuity business.

Investment experience was favourable in both years, but worsened from 2014 levels due to market interest rate movements and the availability of assets at attractive yields for matching fixed interest annuity contract liabilities.

Product Line Results - Employee Benefits

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Selected financial information				
Annualized premium sales[5]	**$ 12**	$ 9	**$ 44**	$ 42
Net premium revenue	**82**	80	**325**	319
Net (loss) income after tax	**$ (2)**	$ 2	**$ 6**	$ 9

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

For the quarter and full year, annualized premium sales in this product line increased by 36% and 5% respectively in 2015 relative to 2014. The 2015 level of sales is a strong achievement particularly given the weak economic conditions in Canada. The economic weakness contributed to this product line's slow in-force premium revenue growth.

During the fourth quarter and full year earnings from this product line decreased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Fourth quarter	Year
Components of decrease		
2014 gain from update of policy liability assumptions	**$ (3)**	**$ (3)**
Worsened claims experience	**(1)**	**(1)**
Increase in inforce profit margins	**—**	**1**
Total	**$ (4)**	**$ (3)**

In 2014, there was a favourable update of group life policy liability assumptions which did not recur in 2015.

In 2015 worsened claims experience primarily related to health claims partly offset by improved long-term disability results.

Product Line Results - Individual Insurance

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Selected financial information				
Annualized premium sales[6]	**$ 11**	$ 14	**$ 51**	$ 59
Net premium revenue	**92**	91	**366**	362
Net income (loss) after tax				
Net income (loss) after tax shareholders' portion	**$ 2**	$ (1)	**$ 6**	$ 25
Net income (loss) after tax policyholders' portion	**(1)**	8	**(8)**	2
Net income (loss) after tax	**$ 1**	$ 7	**$ (2)**	$ 27

For the fourth quarter and full year, annualized premium sales in this product line decreased by 18% and 13% respectively compared to 2014. This product line's fourth quarter and full year sales result is attributable primarily to decreased sales of universal life policies. The decrease in universal life sales primarily related to the investment fund component within these products as opposed to insurance annualized premium sales. This decline in sales was partly offset by increased sales of participating products. Empire Life's recently launched EstateMax participating product contributed to this increase in participating product sales.   EstateMax is distributed through professional financial advisors aimed at providing simple estate planning solutions to Canadian baby boomers. Empire Life believes that the market response has been favourable based on sales achieved and applications received in 2015. In recent years (beginning in 2011), Empire Life has been shifting its product mix toward shorter term products such as term life, while increasing prices on long-term products, due to the low long-term interest rate environment.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

During the fourth quarter and full year earnings from this product line decreased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Fourth quarter	Year
Components of decrease		
2014 gain from update of policy liability assumptions	**$ (5)**	**$ (5)**
2015 loss from update of policy liability assumptions	**(15)**	**(15)**
2014 favourable legal settlement	**—**	**(6)**
Improved (worsened) mortality, surrender, lapse and other experience	**5**	**(23)**
2014 Quebec premium tax increase	**5**	**5**
Improved investment experience	**4**	**15**
Total	**$ (6)**	**$ (29)**

In 2014, the update of policy liability assumptions was favourable by $5 million.

In 2015, the update of policy liability assumptions was unfavourable by $15 million. The following table provides a breakdown of the components of this amount:

Components of income decrease from update of policy liability assumptions	Year
Lapse	**$ (56)**
Net re-investment assumptions	**39**
Mortality	**8**
Other	**(6)**
Total 2015 loss from update of policy liability assumptions	**$ (15)**

The refinements to lapse rate assumptions for 2015 are primarily related to an update of Empire Life's Term-to-100 and Universal Life level cost of insurance ultimate lapse rate assumptions to reflect the Canadian Institute of Actuaries ("CIA") Research Committee's research papers on Lapse Experience Under Term-to-100 Insurance Policies and Lapse Experience under Universal Life Level Cost of Insurance Policies released September 2015.

The update in investment return assumptions for 2015 was primarily related to a refinement of the projected amount of equities backing individual life liabilities. In addition, there were several refinements to the Canadian Asset Liability Method ("CALM') model for future reinvestment assumptions.

During the second quarter of 2014 a favourable settlement on a lawsuit resulted in a $6 million gain after tax for Empire Life.

For the fourth quarter, mortality, surrender and lapse experience was favourable compared to the fourth quarter of 2014. For the full year, mortality, surrender and lapse experience was unfavourable compared to favourable results in 2014.

During the fourth quarter of 2014, the province of Quebec increased premium tax rates on both in-force policies and new policies sold. Some in-force policies allow for an adjustment to prices or charges to cover the cost of the additional tax. However, some in-force policies are fully guaranteed and cannot be adjusted, resulting in a strengthening of reserves of $5 million after tax in 2014.

There was a gain from investment experience in the fourth quarter of both 2015 and 2014, and the gain improved in 2015 compared to 2014. In the fourth quarter of 2015 the gain was primarily from the increase in interest rate spreads on provincial and corporate bonds.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

There was a gain from investment experience for the full year for 2015 compared to a loss for the comparable period in 2014. While 30 year Canadian federal bond yields decreased in 2015, there was an increase in interest rate spreads on provincial and corporate bonds during 2015 which had a favourable impact on 2015 net income more than offsetting the federal rate decline (as shown in the table below). For full year 2014 the loss was primarily from unfavourable interest rate movements in 2014 (as demonstrated using 30 year bond yields in the following table).

	Fourth quarter		Year	
	2015	2014	**2015**	2014
Interest rate movement				
30 year Canadian federal government bond yield				
End of period	**2.16 %**	2.36 %	**2.16 %**	2.36 %
Beginning of period	**2.20 %**	2.67 %	**2.36 %**	3.24 %
Change during period	**(0.04)%**	(0.31)%	**(0.20)%**	(0.88)%
30 year Province of Ontario spread				
End of period	**1.05 %**	0.95 %	**1.05 %**	0.95 %
Beginning of period	**1.00 %**	0.90 %	**0.95 %**	0.90 %
Change during period	**0.05 %**	0.05 %	**0.10 %**	0.05 %
30 year A rated corporate spread				
End of period	**1.92 %**	1.52 %	**1.92 %**	1.52 %
Beginning of period	**1.85 %**	1.40 %	**1.52 %**	1.39 %
Change during period	**0.07 %**	0.12 %	**0.40 %**	0.13 %

Interest rate movements impact both bond asset fair value and insurance contract liabilities. In 2015 the increase in interest rates (including spreads described above) caused lower bond prices which resulted in a bond asset fair value loss. However these losses were more than offset by decreased insurance contract liabilities resulting from these increases in market interest rates. While the impact of bond asset market value changes on net income is largely reduced due to a corresponding change in insurance contract liabilities, net income is impacted as it is not possible to perfectly match future liability cash flows with future asset cash flows.

Results - Capital and Surplus

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Net income after tax				
Net income after tax shareholders' portion	**$ 5**	$ 6	**$ 37**	$ 22
Net income after tax policyholders' portion	**—**	1	**2**	7
Net income after tax	**$ 5**	$ 7	**$ 39**	$ 29

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

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

During the fourth quarter earnings from this product line decreased, while full year earnings increased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Fourth quarter	Year
Components of increase (decrease)		
Increased (decreased) net income from sale of investments	**$ (1)**	**$ 5**
Lower interest expense	**—**	**4**
Lower investment income	**—**	**(1)**
Increased (lower) net income on hedging instruments	**(1)**	**2**
Total	**$ (2)**	**$ 10**

Increased net income from sale of investments was primarily due to gains from the sale of AFS bonds in 2015.

Lower interest expense was due to the redemption of $200 million 6.73% subordinated debentures on May 20, 2014.

Lower investment income was primarily due to a decrease in invested assets resulting from the investments sold to fund the above mentioned redemption of subordinated debentures.

During the full year of 2015 Empire Life experienced a gain of $2 million after tax on its hedging program (discussed in the Risk Management section later in this report).

Total Cash Flow

	Year	
(in millions of dollars)	**2015**	2014
Cash Flow provided from (used for)		
Operating activities	**$ 149**	$ 152
Investing activities	**(179)**	119
Financing activities	**(9)**	(249)
Net change in cash and cash equivalents	**$ (39)**	$ 22

Cash provided from operating activities in 2015 was close to 2014 levels.

The decrease in cash provided from investing activities during 2015 relative to 2014 was primarily driven by financing activities and the timing of portfolio investment transactions. In 2014 cash provided from investing activities included the sale of investments to fund Empire Life's May 20, 2014 redemption of $200 million of subordinated debentures (described below).

The decrease in cash used for financing activities during 2015 relative to 2014 was primarily due to Empire Life's 2014 redemption of its $200 million 6.73% subordinated debentures at par on May 20, 2014. In addition there was payment of $34 million of dividends to common shareholders by Empire Life in 2014 which did not recur in 2015. The Board of Directors takes a number of factors into consideration in determining the amount of the dividends, if any, including the financial performance of Empire Life, regulatory solvency requirements, capital ratios and growth opportunities. Based on the assessment of these factors, Empire Life did not pay a dividend to common shareholders in 2015.

For an analysis of liquidity for Empire Life, see note 10(e) and note 28(b) to the 2015 consolidated financial statements.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Financial Instruments

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

Empire Life is also subject to credit risk on these financial instruments which could result in a financial loss should the other party fail to discharge an obligation. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, short-term investments and mortgages. Empire Life manages market risk exposure mainly through investment limits and oversight of its in-house investment managers and external investment firms by the Chief Investment Officer, Asset Management Committee and Investment Committee of the Board. The Investment Committee actively monitors the portfolio size and asset mix. Empire Life has a semi-static hedging program as part of its approach to managing this risk. Empire Life manages credit risk by applying its investment guidelines established by the Investment Committee of the Board of Directors. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of Empire Life’s Board on the credit risk to which the portfolio is exposed.

Empire Life manages credit risk with respect to derivatives 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 limited to $100 million. Additional information regarding financial instruments is included in notes 2(d), 3, 10(c), and 28 to the audited consolidated financial statements for the year ended December 31, 2015.

Capital Resources

	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014
MCCSR Ratio	**201%**	202%	202%	190%	197%

Empire Life continues to maintain a strong balance sheet and capital position. The 2013 Debentures are rated by DBRS Limited (“DBRS”) and A.M. Best Company, Inc. (“A.M. Best”). On December 17, 2015, DBRS confirmed its ratings of Empire Life including its issuer rating of “A” (sixth highest of 20 categories), its subordinated debt rating of “A (low)” (seventh highest of 20 categories) and its financial strength rating of “A” (sixth highest of 22 categories). On February 16, 2016, DBRS assigned a rating on Empire Life’s $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares of Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life’s smaller scale, full suite of products, participation in niche markets that reward company strengths and improving levels of profitability and fixed charge coverage.

On May 19, 2015, A.M. Best confirmed its ratings of Empire Life including its issuer rating of “a” (sixth highest of 21 categories), its subordinated debt rating of “bbb+” (eighth highest of 21 categories) and its financial strength rating of “A (Excellent)” (third highest of 16 categories). On February 16, 2016, A.M. Best assigned a rating on Empire Life’s $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares of “bbb” (ninth highest of 21 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's favourable risk-adjusted capital position, continued earnings growth and sustainable market presence in Canada with multiple lines of business.

Empire Life’s risk-based regulatory capital ratio, as measured by MCCSR, of 201% as at December 31, 2015 continued to be above the requirements set by the Office of the Superintendent of Financial Institutions (“OSFI”) as well as Empire Life’s minimum internal targets.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

The MCCSR ratio was stable, decreasing 1 point from the previous quarter and increasing by 4 points for the full year. The change was due to increases in available regulatory capital offset by increases in required regulatory capital for the quarter and for the full year, as shown in the table below.

(millions of dollars)	**Dec 31 2015**	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014
Available regulatory capital					
Tier 1	$ **918**	$ 935	$ 929	$ 883	$ 872
Tier 2	**504**	476	464	466	452
Total	$ **1,422**	$ 1,411	$ 1,393	$ 1,349	$ 1,324
Required regulatory capital	$ **708**	$ 699	$ 691	$ 709	$ 671

The decrease in Tier 1 available regulatory capital from the previous quarter was primarily due to an increase in negative reserves which decrease Tier 1 (but increase Tier 2 as described below). The increase in Tier 1 available regulatory capital for the full year was primarily due to net income. This was partly offset by an increase in negative reserves which decrease Tier 1 (but increase Tier 2 as described below).

Tier 2 available regulatory capital increased from the previous quarter and for the full year primarily due to an increase in negative reserves which increase Tier 2 (but decrease Tier 1 as described above).

Regulatory capital requirements increased from the previous quarter and for the full year. The increase for the quarter was primarily due to increased requirements related to asset default, segregated fund guarantees and interest rate risk. The increase for the full year was primarily due to increased requirements related to segregated fund guarantees.

On January 28, 2016 the Company announced a $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares. Empire Life intends to use the net proceeds from the offering for regulatory capital and general corporate purposes. The offering closed on February 16, 2016 and commenced trading on the Toronto Stock Exchange under the ticker symbol EML.PR.A. Empire Life has granted the underwriters an option to purchase up to $19.5 million of additional preferred shares exercisable at any time up to a period of 30 days from the date of closing. Holders of the preferred shares will be 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%. On a pro forma basis, after giving effect to the preferred share issue (but assuming no exercise of the over-allotment option), the Company estimates that, as at December 31, 2015, its MCCSR would have increased by 17 points from 201% to 218%

Other Comprehensive Income

(in millions of dollars)	Fourth quarter **2015**	Fourth quarter 2014	Year **2015**	Year 2014
Other comprehensive income (loss)	**$ 3.2**	$ 20.6	**$ (12.8)**	$ 32.7
Less: Participating Policyholders	**(0.5)**	(1.4)	**1.1**	(0.5)
Other comprehensive income (loss), attributable to shareholders	**$ 2.7**	$ 19.2	**$ (11.7)**	$ 32.2

Other comprehensive income (OCI) decreased in the fourth quarter and full year of 2015 relative to the comparable periods of 2014. For the fourth quarter this was primarily due to remeasurement of the liability component of post-employment defined benefit ("DB") plans (described below). For the full year this was primarily due to lower unrealized fair value increases relating to AFS bonds in 2015 compared to 2014 primarily due to interest rate movements.

OCI includes the remeasurement of DB plans which had a loss for the full year in 2015 compared to a gain in 2014. The 2015 result for DB plans was primarily due to losses on DB plan liabilities partly offset by gains on DB plan assets. The full year 2014 result for DB plans was primarily due to gains on DB plan assets partly offset by losses on DB plan liabilities.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Unrealized fair value increases and decreases on AFS bonds in OCI do not impact MCCSR. Remeasurement of DB plans does not immediately impact MCCSR as each quarter's remeasurement gain or loss is amortized over 12 quarters for MCCSR purposes.

Industry Dynamics and Management's Strategy

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

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

The Wealth Management product line at Empire Life is comprised of segregated fund products, guaranteed interest products and mutual funds. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management is expecting to grow market share through this long-term performance along with broadened distribution reach and the addition of new funds and fund products such as the new segregated funds family called Empire Life Guaranteed Investment Funds launched in the fourth quarter of 2014. Empire Life achieved strong growth in assets under management from its segregated fund business in 2015. However, Empire Life has taken several steps to limit GMWB risk exposure. The above mentioned fourth quarter 2014 product launch by Empire included a new version of its GMWB product. The new version commands a higher price and reduces the amount of risk Empire Life is taking on, while still offering a competitive guaranteed income solution to customers. Empire Life will continue to monitor the competitive landscape for this product.

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

Individual Insurance products are very long-term in nature and consequently can be subject to new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial policy liabilities exceeds the profit margin in the product pricing. Unless a company opts for increased levels of reinsurance, current price levels in the Canadian marketplace create new business strain that has a negative impact on short-term earnings. Low long-term interest rates continue to have an unfavourable impact on this product line. In the past few years industry prices for longer term life insurance products have increased. Empire Life has also increased prices for these products and has focused its growth efforts on shorter term products, such as 10 year renewable term life insurance. Mortality trends continue to be favourable for life insurance products. Rather than give up the future earnings that would emerge if the trend in mortality improvement witnessed in recent decades continues, Empire Life continues to utilize lower than average levels of reinsurance with the resultant negative impact on short-term earnings. Because of the reasonable long-term returns of this product line, management continues to focus on steady growth, technology development and process improvement in order to continue to have a cost structure that allows us to compete while generating an acceptable long-

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

term financial contribution. Empire Life has been reviewing its Individual Insurance products to improve profitability, reduce interest rate risk, reduce required regulatory capital, develop web based products and processes, and improve the customer and advisor experience.

Risk Management

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

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

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

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

The Board of Directors oversees and monitors the Company's risk management framework, processes and practices and reviews and approves the Company's Enterprise Risk Management Policy and overall risk appetite. Senior management shares responsibility and accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency of contact across the management team. The Company has an Asset Management Committee with responsibility for overseeing the management of corporate policies established by both the Investment Committee and Risk and Capital Committee of the Board. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2015 annual report. Risk management policy development is centralized under the leadership of the Chief Risk Officer and applies to all business units. The Chief Risk Officer is a member of the Asset Management Committee and has Board reporting responsibility with respect to risk and capital management. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers and the risk management department. There is senior management representation and oversight on various interdisciplinary risk control committees. The Company formally establishes and documents its values and risk tolerances through several company-wide policies including a Code of Ethics, Corporate Disclosure principles, enterprise risk management, capital management and whistleblower policies. The Company's strategic risk management policies (including those related to product design and pricing, investment policies and capital management) are also approved by its Board, or a Board committee.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Caution Related to Sensitivities

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

Market Risk

Empire Life's MCCSR ratio, among other things, is sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2015 Empire Life had $7.4 billion of segregated fund assets and liabilities. Of this amount, approximately $7.1 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec 31 2015	Dec 31 2014
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**0.4%**	—%
75% maturity guarantee and a 100% death benefit guarantee	**51.5%**	53.2%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.9%**	5.4%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	**42.2%**	41.4%

All Empire Life segregated fund guarantees are policy based (not deposit-based), thereby generally lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. Policy-based guarantees consider all of the deposits in the customer's policy (whether the fund value is below or above the guaranteed amount) to arrive at an overall net guarantee payment, whereas deposit-based guarantees consider only the deposits where the fund value is below the guaranteed amount and ignores all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, generally policy based guarantees pay less than deposit based guarantees. For segregated fund guarantee insurance contract liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end stock markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end stock markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e. negative amounts are not permitted so zero is used instead as described below) and other regulatory constraints, and this often makes the sensitivity impacts non-linear. In the first table below, Empire Life discloses the sensitivity of net income to changes in segregated fund guarantee insurance contract liabilities. There is a net loss resulting from a 20% decrease at December 31, 2015, but otherwise the amounts shown in the table are nil. These liabilities (present value of future benefits and expenses minus the present value of future fee revenue) are calculated using stochastic modeling techniques based on a range of future economic scenarios. The liabilities are the greater of: (i) the average of the amounts determined in the worst 20% of the scenarios; and (ii) zero. For the nil amounts shown in this table, the liability for Empire Life was negative. Therefore, the alternative level of zero is applied in these tests (zero floor) resulting in a net income impact of nil. Based on stock market levels at December 31 for 2015 and 2014, the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity To Segregated Fund Guarantees:				
December 31, 2015 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ (10)**
December 31, 2014 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**

The impact of stock market changes is not linear. Based on stock market levels at December 31, 2015 the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from a 20% decrease in stock markets is a net loss of $10 million as illustrated in the table above. At a 30% decrease in stock markets the net loss at December 31, 2015 would be $109 million. At December 31, 2015 a 20% and 30% decrease in stock markets would result in an increase in net income by $35 million to a net gain of $25 million and by $58 million to a net loss of $51 million respectively from gains on equity hedging instruments. Based on stock market levels at December 31, 2014 the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from a 20% decrease in stock markets is nil as illustrated in the table above. At December 31, 2014, a decrease in stock markets of 20.2% or more would result in a net loss greater than nil. At December 31, 2014 a 30% decrease in stock markets would result in a net loss of $76 million. At December 31, 2014 a 20.2% and 30% decrease in stock markets would result in an increase in net income by $9 million to $9 million and by $17 million to a net loss of $59 million respectively from gains on equity hedging instruments.

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life had been considering implementing a partial economic hedging program for some time. In the fourth quarter of 2014, Empire Life strengthened its stochastic model, which impacted its base capital position as well as its capital position under sensitivity tests. This encouraged Empire Life to begin implementation of the hedging program in November 2014. Therefore, during the fourth quarter of 2014, Empire initiated a semi-static hedging program, and expanded this program during the first half of 2015. The objective of the hedging program is to partially protect Empire Life from possible future MCCSR ratio declines that might result from adverse stock market price changes. The hedging program presently employs put options and short positions on key equity indices. Empire Life aims to protect 10% to 20% of overall income and MCCSR equity risk through the semi-static hedging program.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for MCCSR purposes related to segregated fund guarantees, but does not have policy liabilities related to these guarantees on its balance sheet. Therefore a by-product of hedging MCCSR exposure is income statement volatility, as the gains or losses from hedging instruments are not offset by changes in policy liabilities related to segregated fund guarantees on the income statement. During the full year of 2015 Empire Life experienced a gain of $2 million after tax on its hedging program. During 2016 and subsequent years, Empire Life expects to expand its hedging program and expects an increase in income statement volatility as a result.

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

Excluding Equity Risk Hedge	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity To Stock Markets:				
December 31, 2015 MCCSR Ratio	**0.7%**	**(13.9)%**	**1.2%**	**(31.6)%**
December 31, 2014 MCCSR Ratio	**9.0%**	**(11.6)%**	**15.3%**	**(25.5)%**

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

The December 31, 2015 and 2014 amounts in the following table include the effect of Empire Life's equity risk hedging program (described below):

Including Equity Risk Hedge	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity To Stock Markets:				
December 31, 2015 MCCSR Ratio	**(1.8)%**	**(10.6)%**	**(3.0)%**	**(24.8)%**
December 31, 2014 MCCSR Ratio	**8.8 %**	**(11.2)%**	**14.9 %**	**(24.4)%**

As of December 2014, the equity hedging program was only partially implemented. It provided $4 million of relief in the 10% stock market decrease scenario and $9 million of relief in the 20% stock market decrease scenario. As at December 31, 2015, it provided $15 million of relief in the 10% stock market decrease scenario and $35 million of relief in the 20% stock market decrease scenario. The full program provides roughly 2.5 times the December 2014 level of protection.

Based on stock market levels as at December 31, 2015 and 2014, the sensitivity of shareholders' net income (excluding changes in segregated fund guarantee insurance contract liabilities) resulting from stock market increases and decreases is as follows (excluding the effect of Empire Life's equity risk hedging program):

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Excluding Equity Risk Hedge				
December 31, 2015 Shareholders' net income*	**$ 22**	**$ (22)**	**$ 44**	**$ (44)**
December 31, 2014 Shareholders' net income*	**$ 17**	**$ (17)**	**$ 33**	**$ (33)**

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

The December 31, 2015 and 2014 amounts in the following table include the effect of Empire Life's equity risk hedging program (described above):

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Including Equity Risk Hedge				
December 31, 2015 Shareholders' net income*	**$ 12**	**$ (7)**	**$ 27**	**$ (9)**
December 31, 2014 Shareholders' net income*	**$ 14**	**$ (13)**	**$ 29**	**$ (24)**

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

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

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees and the resulting actuarial liabilities and MCCSR required capital for Empire Life segregated funds is as follows:

Segregated Funds	**Withdrawal Benefit > Fund Value**		**Maturity Guarantee > Fund Value**		**Death Benefit > Fund Value**		**Actuarial**	**MCCSR**
(in millions of dollars)	**Fund Value**	**Amount At Risk**	**Fund Value**	**Amount At Risk**	**Fund Value**	**Amount At Risk**	**Liabilities**	**Required Capital**
December 31, 2015	**$ 2,343**	**$ 593**	**$ 124**	**$ 4**	**$ 1,415**	**$ 17**	**$ nil**	**$ 130**
December 31, 2014	$ 2,053	$ 384	$ 49	$ 2	$ 360	$ 7	$ nil	$ 102

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee, is greater than the fund value. The amount at risk represents the

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at December 31, 2015, the aggregate amount at risk for these three categories of risk (reported in the above table) was $614 million, an increase from the aggregate amount at risk of $393 million as at December 31, 2014.

For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes including fund performance, deaths, deposits, withdrawals and maturity dates.

The level of actuarial liabilities and required regulatory capital in the above table is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist on future payments to GMWB policyholders, or upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders. The amounts at risk in December 2015 increased from the December 2014 levels for GMWB withdrawal benefit exposure, fund value guarantee exposure and death benefit guarantee exposure due primarily to the recent decrease in many global stock markets. The quarterly update of segregated fund policy data on our stochastic model resulted in an increase in required regulatory capital.

In addition, Empire Life's MCCSR ratio is sensitive to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates, and a 50 basis point decrease in assumed initial reinvestment rate (IRR) for nonparticipating insurance business and segregated fund guarantees, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR). The first column below excludes the impact of market value changes in available for sale (AFS) bonds. The AFS bonds provide a natural economic offset to the interest rate risk arising from our product liabilities. The second column below shows the impact if the AFS bonds were sold to realize the gains from a 50 basis point decrease in interest rates.

	Before The Sale of AFS Assets 50 bps Decrease	After The Sale of AFS Assets 50 bps Decrease
Sensitivity To Market Interest Rates:		
December 31, 2015 MCCSR Ratio	**(17)%**	**(13)%**
December 31, 2014 MCCSR Ratio	**(24)%**	**(21)%**

Operational Risk

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

(1) Legal and Regulatory Risk

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

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

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

(2) Model Risk

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

(3) Human Resources Risk

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

(4) Third Party Risk

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

(5) Technology, Information Security and Business Continuity Risk

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

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

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

continuity and disaster recovery plans and maintains off-site backup facilities and failover capability designed to minimize downtime and accelerate system recovery.

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

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

Business Risk

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

The Company’s business strategies and plans are designed to align with risk appetite, capital position and financial performance objectives. The Company periodically reassesses risk appetite taking into consideration the economic, regulatory and competitive environments in which it operates. The current environment requires the Company to adapt rapidly to new opportunities and challenges and to refine its strategies accordingly. If the Company fails to revise its strategies on a timely basis or adapt to the changing environment, it may not be able to achieve its growth objectives.

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

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

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in Empire Life’s Annual Information Form available at www.sedar.com. Additional disclosures of Empire Life’s sensitivity to risks are included in note 28 to the 2015 consolidated financial statements.

Disclosure Controls and Procedures

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

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Company’s disclosure controls and procedures as of December 31, 2015. Based on that evaluation, management concluded that the Company’s disclosure controls and procedures were effective as at December 31, 2015.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Under the supervision of management, an evaluation of the Company’s internal control over financial reporting was carried out as at December 31, 2015. Based on that evaluation, management concluded that the Company’s internal control over financial reporting was effective as at December 31, 2015. No changes were made in the Company’s internal control over financial reporting during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Critical Accounting Estimates

Empire Life’s significant accounting policies are described in note 2 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions about matters that are inherently uncertain. The most critical of these accounting estimates for Empire Life are the valuation of policy liabilities, financial instrument classification, pension and other employee future benefits and the determination of allowances for impaired investments.

Policy Liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life’s sensitivity to risks related to policy liabilities are included in note 28 to the consolidated financial statements.

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

Pension and Other Employee Future Benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made affect the pension and other employee future benefits expense included in net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI. Additional information regarding pension and other employee future benefits is included in notes 2(j), and 12.

Provision for Impaired Investments

Empire Life maintains a prudent policy in setting the provision for impaired investments. When there is no longer reasonable assurance of full collection of loan principal and loan interest related to a mortgage or policy contract loan, management establishes a specific provision for loan impairment and charges the corresponding reduction in carrying value to income in the period the impairment is identified. In determining the estimated realizable value of the investment, management considers a number of events and conditions. These include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower,

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

repayment history and an assessment of the impact of current economic conditions. Changes in these circumstances may cause subsequent changes in the estimated realizable amount of the investment and changes in the specific provision for impairment.

Available for sale securities are subject to a regular review for losses that are significant or prolonged. Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

Outlook

In 2015 Canada's economy experienced weak growth. 2015 headlines in Canada were filled with economic concerns about commodity prices, over-valued housing markets, stock market declines, low interest rates, weak Canadian dollar and high consumer debt levels. Global concerns in 2015 primarily focused on slowing growth in China, low energy prices, stock market volatility, low interest rates and weak currencies. The U.S. economy was one of the few bright spots with its improvements in many key areas including job market, consumer confidence, increase in interest rates, and strong currency. Canadian long-term interest rates increased in 2015 due to an increase in interest rate spreads on provincial and corporate bonds, bringing some relief after the significant decrease in interest rates that occurred in 2014. Interest rates have now been lower than typical levels for 5 years. 2015 Global stock markets remained volatile, and most significant markets declined in 2015. While the Canadian resource heavy stock market saw significant declines in 2015, the U.S. stock market was down only slightly for the year. The weakening Canadian dollar resulted in strong performance for assets denominated in U.S. dollars which contributed to the performance of many of Empire Life's segregated funds. Stock market conditions mainly impact in-force profit margin results and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line. Looking forward, consumers continue to be cautious about stock market exposure and Empire Life is well positioned with segregated fund, mutual fund and fixed interest annuity product offerings to satisfy demand for lower risk investments.

While Canada fared well during the 2008 financial crisis compared to many other countries, Canada's economy grew slowly in 2015 and there continues to be uncertainty resulting in mixed economic indicators. Western Canada has major economic concerns due to the large sustained drop in world oil prices. There are emerging credit concerns with Canadian oil company bonds. Lower gas prices and a weaker Canadian dollar are expected to improve growth in Ontario and Quebec. The federal government has plans to stimulate the economy through infrastructure spending across Canada. As a result businesses across Canada remain cautious and this could cause pressure in the near term on growth prospects for the Employee Benefits product line. Until oil prices recover, Western Canada is expected to remain weak which could result in weak sales in Western Canada for all of Empire Life's product lines.

A key issue for the Individual Insurance product line since 2011 has been the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in price increases for individual insurance products by Empire Life and many of our competitors. While market long-term interest rates recovered somewhat in 2015, there was significant volatility which has continued so far in 2016. Empire Life has also decreased its emphasis on long-term products in favour of shorter term products, such as 10 year renewable term life insurance. Long-term interest rates, product mix and product pricing are expected to continue to be issues for Empire Life's Individual Insurance product line in 2016.

Regulatory change related to segregated fund guarantees continues to evolve. OSFI continues to review the overall approach for determining capital requirements for segregated fund guarantee risks.

Longer term accounting standard changes are expected by 2019 or later IFRS for Insurance Contracts. In a parallel process, capital adequacy standards are also becoming more aligned with international frameworks. Both of these changes aim at consistent measurement. For Insurance Contracts accounting the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. For capital adequacy standards the goal is consistent treatment of risk within insurance companies from a capital adequacy perspective regardless of the type of business. These two items could have a material impact on Empire Life's future net income and capital ratios, however, much remains unknown.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2011 OSFI implemented substantial regulatory changes for Canadian banks related to Basel III capital standards. These new banking regulations provide a transition plan for banks to move towards more restrictive capital requirements, including tighter restrictions on bank issued financial instruments. New financial instruments issued by banks must comply with these new regulations in order to be included in the banks' capital ratios. Empire Life is not aware of any plans by OSFI to make similar changes for life insurance companies.

The Canadian Securities Administrators ("CSA") is increasing disclosure requirements for mutual fund companies, including point of sale requirements (effective mid-2014) and customer relationship model initiatives (staggered implementation with full effectiveness mid-2016). Mutual fund fees continue to be an area of interest for Canadian securities regulators. The CSA has commissioned independent third party research that will assess the impact of commissions and embedded (trailer) fees on mutual fund flows. This research will support CSA policy decisions concerning Canada's current mutual fund fee structure. Empire Life continues to watch these developments as they may also impact the insurance industry at some future date.

Regulatory change is also occurring for Managing General Agents ("MGAs"). Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. In 2013 the Canadian Life and Health Insurance Association ("CLHIA") developed a new Insurer-MGA Relationship guideline (effective January 1, 2015). The Guideline describes desired outcomes and related practices in five general areas, stating that insurers should: perform due diligence prior to entering into a contract with an MGA, clearly set out roles and responsibilities in the contract, commit to a culture of treating customers fairly, monitor the performance of the MGA and retain ultimate responsibility.

Government pension reform including the Federal Pooled Registration Pension Plan program and the proposed Ontario Registered Pension Plan are expected to reduce future demand for private sector retirement savings products, having an adverse impact on banks, mutual fund companies, life insurance companies and advisors.

Changes to tax rules that deal with the exemption status of certain life insurance policies will come into effect on January 1, 2017. The exemption test aims to distinguish between (and tax differently) policies that are designed as protection versus those that are primarily investments. The new rules represent a change to the tax regime that has existed over the past 30 years. These changes represent a significant change to the policy-holder tax regime, will require all life insurance companies to review and potentially re-price and redesign their product offerings and will impact policies issued after December 31, 2016.

Quarterly Results

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

(in millions of dollars, except earnings per share)	**Dec 31 2015**	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014
Revenue	**$ 391**	$ 212	$ 41	$ 643	$ 541	$ 381	$ 480	$ 524
Shareholders' Net income	**$ 16**	$ 22	$ 44	$ 26	$ 18	$ 24	$ 38	$ 18
Earnings per share - basic and diluted	**$ 16.43**	$ 22.49	$ 45.34	$ 25.97	$ 18.44	$ 24.49	$ 39.22	$ 18.05

For the fourth quarter of 2015, total revenue at Empire Life decreased by 28% to $391 million compared to $541 million in the fourth quarter of 2014. The decrease was primarily due to a lower gain in the fourth quarter on FVTPL investments in 2015 compared to large net gains for the same period in 2014. In the fourth quarter of 2015 the decrease was primarily due to the decline of major stock markets. In the fourth quarter of 2014 interest rates decreased resulting in an increase in bond prices (see Total Revenue section earlier in this report). Revenue volatility during the most recent eight quarters was primarily driven by the impact of market interest rate movements on Fair value change in FVTPL investments. The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities.

For the fourth quarter of 2015, net income was lower relative to the fourth quarter of 2014 primarily due to lower profit from the Employee Benefits product line. The decreased profit from this product line primarily resulted from the 2014 favourable update of policy liability assumptions for group life, which did not recur in 2015. See Product Line Results sections earlier in this report for further information on quarterly results.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Net income variability during the most recent eight quarters was primarily driven by long-term interest rate movements. Long-term interest rates decreased resulting in unfavourable net income in the individual insurance product line during the quarter ending March 31, 2015 and all 2014 quarters. Long-term interest rates increased, resulting in favourable net income in the individual insurance product line during the second, third and fourth quarters of 2015. During the first three quarters of 2015 and all 2014 quarters, Empire Life achieved strong year over year growth in the Wealth Management product line net income. This product line's strong result was primarily due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. Strong fee income was primarily due to the positive impact of favourable stock market conditions on management fees earned, strong segregated fund sales and higher GMWB prices.

Forward-looking Statements and Information

Certain statements in this MD&A about the Company's current and future plans, expectations and intentions, results, market share growth and profitability, strategic objectives or any other future events or developments constitute forward-looking statements and information within the meaning of applicable securities laws. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements and information. Although management believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because there can be no assurance that they will prove to be correct. By their nature, such forward-looking statements and information are subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, market risks including equity risks, hedging risks, interest rate risks, foreign exchange rate risks; liquidity risks; credit risks includingcounterparty risks; insurance risks including mortality risks, policyholder behaviour risks, expense risks, morbidity risks, product design and pricing risks, underwriting and claims risks, reinsurance risks; operational risks, including legal and regulatory risks, model risks, human resources risks, third party risks, technology, information security and business continuity risks; and business risks, including risks with respect to competition, risks with respect to financial strength, capital adequacy risks, risks with respect to distribution channels, risks with respect to changes to applicable income tax legislation, risks with respect to litigation, risks with respect to reputation, risks with respect to risk management policies, risks with respect to intellectual property, risks with respect to significant ownership of common shares. Please see the section titled "Risk Factors" in Empire Life's Annual Information Form available at www.sedar.com for more details on these risks.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements and information include that the general economy remains stable; assumptions on interest rates, mortality rates and policy liabilities; and capital markets continue to provide access to capital. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate potential benefits and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks are, without limitation, based on the assumptions and subject to the risks set out above.

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. When relying on the Company's forward-looking statements and information to make decisions, investors and others should carefully consider the foregoing factors, assumptions and other uncertainties and potential events. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof or the date indicated, and to not use such forward-looking information for anything other than its intended purpose. The Company undertakes no obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise after the date of this document, except as required by law.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Non-GAAP Measures

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

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

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

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

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

Reconciliation of Assets Under Management

	As at December 31	
(in millions of dollars)	**2015**	2014
Assets under management		
General fund assets	**$ 6,996**	$ 6,780
Segregated fund assets	**7,368**	6,948
Total assets per financial statements	**14,364**	13,728
Mutual fund assets	**171**	109
Assets under management	**$ 14,535**	$ 13,837

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

	As at December 31	
(in millions of dollars)	**2015**	2014
DB Plan Assets		
Segregated fund assets	**$ 183**	$ 175
Mutual fund assets	**11**	10

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures