

The Empire Life Insurance Company

Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2016 Unaudited

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
The Company's external auditors have not performed a review of these condensed interim unaudited consolidated financial statements of The Empire Life Insurance Company.



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Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

As at	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents (Note 3)	\$ 169,866	\$ 199,770
Investments		
Short-term investments (Note 3)	132,667	33,652
Bonds (Note 3)	5,872,920	5,193,439
Preferred shares (Note 3)	281,016	194,680
Common shares (Note 3)	887,171	801,778
Derivative assets (Note 3)	3,060	14,649
Mortgages (Note 3)	269,871	289,221
Loans on policies (Note 3)	48,198	46,925
Policy contract loans (Note 3)	80,921	84,921
Total cash and cash equivalents and investments	7,745,690	6,859,035
Accrued investment income	40,468	26,023
Insurance receivables	34,648	47,909
Current income taxes	—	3,361
Other assets	58,462	26,257
Property and equipment	25,349	23,911
Intangible assets	14,039	9,225
Segregated fund assets (Note 4)	7,823,070	7,367,823
Total assets	\$ 15,741,726	\$ 14,363,544
Liabilities		
Accounts payable and other liabilities	\$ 120,499	\$ 59,145
Insurance payables	78,417	77,337
Current income taxes payable	33,266	—
Reinsurance liabilities	569,183	530,826
Insurance contract liabilities	5,325,082	4,798,683
Investment contract liabilities	13,389	11,241
Policyholders' funds on deposit	32,897	32,599
Provision for profits to policyholders	28,702	26,951
Deferred income taxes	1,698	7,910
Subordinated debt	299,381	299,112
Segregated fund policy liabilities	7,823,070	7,367,823
Total liabilities	14,325,584	13,211,627
Equity		
Preferred shares (Note 9)	149,500	—
Common shares (Note 9)	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,217,362	1,121,542
Accumulated other comprehensive income	28,908	10,003
Total equity	1,416,142	1,151,917
Total liabilities and equity	\$ 15,741,726	\$ 14,363,544



Duncan N. R. Jackman
Chairman of the Board



Mark Sylvia
President and Chief Executive Officer

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

Interim Consolidated Statements of Operations

(unaudited, in thousands of Canadian dollars except per share amounts)

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue				
Gross premiums (Note 5)	\$ 248,504	\$ 236,337	\$ 747,561	\$ 710,573
Premiums ceded to reinsurers (Note 5)	(29,853)	(27,923)	(88,554)	(81,610)
Net premiums (Note 5)	218,651	208,414	659,007	628,963
Investment income	60,050	64,641	186,178	192,339
Fair value change in fair value through profit or loss assets	107,895	(113,522)	380,519	(139,658)
Realized gain (loss) on fair value through profit or loss assets sold	706	(4,311)	22,824	34,045
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	6,523	2,908	14,780	19,603
Fee income	59,050	54,221	170,143	160,781
Total revenue	452,875	212,351	1,433,451	896,073
Benefits and expenses				
Gross benefits and claims paid (Note 6)	156,909	175,377	490,281	543,247
Claims recovery from reinsurers (Note 6)	(14,745)	(24,500)	(49,124)	(62,515)
Gross change in insurance contract liabilities (Note 6)	153,353	(56,839)	526,399	7,627
Change in insurance contract liabilities ceded (Note 6)	4,502	(1,603)	38,357	8,350
Change in investment contracts provision	887	118	1,010	937
Policy dividends	6,784	6,232	20,348	18,645
Operating expenses	34,312	37,008	104,926	108,374
Commissions	47,528	45,862	140,758	142,344
Commission recovery from reinsurers	(588)	(624)	(1,878)	(1,770)
Interest expense	2,261	2,258	6,732	6,700
Total benefits and expenses	391,203	183,289	1,277,809	771,939
Premium tax	5,044	3,495	14,316	10,488
Investment and capital tax	999	825	2,997	2,475
Net income before income taxes	55,629	24,742	138,329	111,171
Income taxes	13,371	5,127	32,999	23,669
Net income	\$ 42,258	\$ 19,615	\$ 105,330	\$ 87,502
Less: net income (loss) attributable to participating policyholders	2,015	(2,541)	(578)	(4,892)
Shareholders' net income (loss)	40,243	22,156	105,908	92,394
Less: preferred share dividends declared (Note 10)	2,150	—	5,735	—
Common shareholders' net income	38,093	22,156	100,173	92,394
Earnings per share attributable to common shareholders (Note 8)	\$ 38.67	\$ 22.49	\$ 101.69	\$ 93.79

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

Interim Consolidated Statements of Comprehensive Income

(unaudited, in thousands of Canadian dollars)

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$ 42,258	\$ 19,615	\$ 105,330	\$ 87,502
Other comprehensive income (loss), net of income taxes:				
Items that may be reclassified subsequently to net income:				
Unrealized fair value change on available for sale investments (Note 7)	17,212	(7,704)	44,564	1,681
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7)	(4,756)	(2,115)	(10,776)	(14,218)
Net unrealized fair value increase (decrease)	12,456	(9,819)	33,788	(12,537)
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 7)	(325)	(3,026)	(14,883)	(3,486)
Total other comprehensive income (loss)	12,131	(12,845)	18,905	(16,023)
Comprehensive income (loss)	\$ 54,389	\$ 6,770	\$ 124,235	\$ 71,479
Comprehensive income (loss) attributable to:				
Participating policyholders	\$ 2,913	\$ (3,364)	\$ 814	\$ (6,506)
Shareholders	51,476	10,134	123,421	77,985
Total	\$ 54,389	\$ 6,770	\$ 124,235	\$ 71,479

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

Interim Consolidated Statements of Changes in Equity

(unaudited, in thousands of Canadian dollars)

For the nine months ended	September 30, 2016			September 30, 2015		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Preferred shares (Note 9)	\$ 149,500	\$ —	\$ 149,500	\$ —	\$ —	\$ —
Common shares (Note 9)	985	—	985	985	—	985
Contributed surplus	19,387	—	19,387	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	1,075,120	46,422	1,121,542	966,543	52,541	1,019,084
Net income (loss)	105,908	(578)	105,330	92,394	(4,892)	87,502
Preferred share dividends declared	(5,735)	—	(5,735)	—	—	—
Preferred share issue costs net of income tax (Note 9)	(3,775)	—	(3,775)	—	—	—
Retained earnings - end of period	1,171,518	45,844	1,217,362	1,058,937	47,649	1,106,586
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	3,588	6,415	10,003	15,324	7,499	22,823
Other comprehensive income (loss)	17,513	1,392	18,905	(14,409)	(1,614)	(16,023)
Accumulated other comprehensive income (loss) - end of period	21,101	7,807	28,908	915	5,885	6,800
Total equity	\$ 1,362,491	\$ 53,651	\$ 1,416,142	\$ 1,080,224	\$ 53,534	\$ 1,133,758
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ 46,697	\$ 9,883	\$ 56,580	\$ 12,972	\$ 7,087	\$ 20,059
Remeasurements of post-employment benefit liabilities	(26,366)	(1,306)	(27,672)	(12,616)	(643)	(13,259)
Shareholder portion of policyholders' accumulated other comprehensive income	770	(770)	—	559	(559)	—
Total accumulated other comprehensive income (loss)	\$ 21,101	\$ 7,807	\$ 28,908	\$ 915	\$ 5,885	\$ 6,800

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

Interim Consolidated Statements of Cash Flows

(unaudited, in thousands of Canadian dollars)

For the nine months ended	September 30, 2016	September 30, 2015
Operating activities		
Net income	\$ 105,330	\$ 87,502
Non-cash items affecting net income:		
Change in contract liabilities	527,409	8,564
Change in reinsurance liability	38,357	8,350
Fair value change in fair value through profit or loss assets	(380,519)	139,658
Realized (gain) loss on assets including impairment write downs on available for sale assets	(37,604)	(53,648)
Amortization related to discount on debt instruments	(58,856)	(54,906)
Amortization related to property and equipment and intangible assets	3,295	3,292
Deferred income taxes	(546)	(2,801)
Other items	25,930	(35,800)
Cash provided from (used for) operating activities	222,796	100,211
Investing activities		
Portfolio investments		
Purchases and advances	(1,827,503)	(1,684,686)
Sales and maturities	1,542,785	1,485,088
Loans on policies		
Advances	(6,034)	(5,560)
Repayments	8,779	6,973
(Increase) decrease in short-term investments	(99,015)	(7,990)
Purchase of property and equipment and intangible assets	(9,547)	(7,281)
Cash provided from (used for) investing activities	(390,535)	(213,456)
Financing activities		
Dividends paid to preferred shareholders (Note 10)	(3,585)	—
Interest paid on subordinated debt	(4,305)	(4,305)
Preferred share issue (Note 9)	149,500	—
Preferred share issue costs net of income tax (Note 9)	(3,775)	—
Cash provided from (used for) financing activities	137,835	(4,305)
Net change in cash and cash equivalents	(29,904)	(117,550)
Cash and cash equivalents - beginning of period (Note 3)	199,770	239,102
Cash and cash equivalents - end of period (Note 3)	\$ 169,866	\$ 121,552
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 7,641	\$ 26,913
Interest income received	97,998	97,613
Dividend income received	26,145	28,847

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

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

1. Description of Company and Summary of Operations

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

These Interim Consolidated Financial Statements were approved by the Company's Board of Directors (the Board) on October 27, 2016.

2. Significant Accounting Policies

(a) Basis of preparation

These unaudited condensed Interim Consolidated Financial Statements are prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) and follow the same accounting policies and methods of computation as the most recent annual financial statements. These condensed Interim Consolidated Financial Statements do not include all of the disclosures required under International Financial Reporting Standards (IFRS) for annual financial statements and should be read in conjunction with the notes to the Company's audited Consolidated Financial Statements for the year ended December 31, 2015.

(b) Basis of consolidation

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

(c) Accounting changes

(i) New accounting pronouncements adopted in 2016

(1) *IFRS Annual Improvements*

The IASB periodically issues improvements to clarify the requirements of IFRS and eliminate inconsistencies within and between standards. Adoption of the 2012-2014 improvements on January 1, 2016 in accordance with their respective transition provisions did not have a significant impact on the Consolidated Financial Statements.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

(ii) New accounting pronouncements issued but not yet effective

(1) *IFRS 15 Revenue from Contracts with Customers*

In May 2014 the IASB published IFRS 15, which introduces a single model for recognizing revenue from contracts with customers. IFRS 15 excludes insurance contracts from its scope and is primarily applicable to the Company's non-insurance revenue. The standard is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The Company is currently evaluating the impact of IFRS 15 on its Consolidated Financial Statements.

(2) *IFRS 9 Financial Instruments and amendments to IFRS 4 Insurance Contracts*

In July 2014 the IASB published the complete version of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model and new hedge accounting guidance. The Company is currently evaluating the impact of IFRS 9 on its Consolidated Financial Statements as well as the implementation options for insurers set out in the September 2016 amendment to IFRS 4 which allows eligible insurers to defer the adoption of IFRS 9 until the new insurance contracts standard is adopted, or 2021 at the latest.

(3) *IFRS 16 Leases*

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

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

3. Financial Instruments

(a) Summary of Cash and cash equivalents and investments

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

As at Asset category	September 30, 2016			December 31, 2015		
	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Cash and cash equivalents						
Cash	\$ 20,683	\$ —	\$ 20,683	\$ 21,390	\$ —	\$ 21,390
Cash equivalents	149,183	—	149,183	178,380	—	178,380
Total cash and cash equivalents	169,866	—	169,866	199,770	—	199,770
Short-term investments						
Canadian federal government	4,799	99,831	104,630	4,781	4,996	9,777
Canadian provincial governments	—	—	—	5,994	—	5,994
Municipal	4,005	—	4,005	—	—	—
Corporate	24,032	—	24,032	17,881	—	17,881
Total short-term investments	32,836	99,831	132,667	28,656	4,996	33,652
Bonds						
Canadian government bonds issued or guaranteed by:						
Federal government	91,287	276,305	367,592	76,053	214,285	290,338
Provincial & municipal governments	2,950,414	418,058	3,368,472	2,575,792	392,143	2,967,935
Total Canadian government bonds	3,041,701	694,363	3,736,064	2,651,845	606,428	3,258,273
Canadian corporate bonds by industry sector:						
Financial services	525,742	350,283	876,025	475,027	386,044	861,071
Infrastructure	302,776	21,188	323,964	279,858	22,193	302,051
Utilities	333,163	42,046	375,209	274,431	33,070	307,501
Communications	48,530	29,122	77,652	1,484	24,444	25,928
Energy	43,670	48,845	92,515	40,999	53,352	94,351
Consumer staples	102,987	94,647	197,634	95,887	76,326	172,213
Industrials	57,913	31,778	89,691	61,790	15,650	77,440
Health care	73,027	20,146	93,173	70,821	13,001	83,822
Materials	10,993	—	10,993	10,789	—	10,789
Total Canadian corporate bonds	1,498,801	638,055	2,136,856	1,311,086	624,080	1,935,166
Total bonds	4,540,502	1,332,418	5,872,920	3,962,931	1,230,508	5,193,439
Total preferred shares - Canadian	276,172	4,844	281,016	189,645	5,035	194,680
Common shares						
Canadian						
Common shares	558,088	63,549	621,637	505,534	61,831	567,365
Real estate limited partnership units	74,274	—	74,274	60,396	—	60,396
U.S.	170,825	—	170,825	154,482	—	154,482
Other	20,435	—	20,435	19,535	—	19,535
Total common shares	823,622	63,549	887,171	739,947	61,831	801,778
Total derivative assets	3,060	—	3,060	14,649	—	14,649
Loans and receivables						
Mortgages	—	—	269,871	—	—	289,221
Loans on policies	—	—	48,198	—	—	46,925
Policy contract loans	—	—	80,921	—	—	84,921
Total financial instruments	\$ 5,846,058	\$ 1,500,642	\$ 7,745,690	\$ 5,135,598	\$ 1,302,370	\$ 6,859,035

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

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

As at	September 30, 2016			December 31, 2015		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 20,683	\$ 149,183	\$ 169,866	\$ 21,390	\$ 178,380	\$ 199,770
Short-term investments	—	32,836	32,836	—	28,656	28,656
Bonds	—	4,540,502	4,540,502	—	3,962,931	3,962,931
Preferred shares	276,172	—	276,172	189,645	—	189,645
Common shares	749,348	74,274	823,622	679,551	60,396	739,947
Derivative assets	3,037	23	3,060	14,482	167	14,649
Available for sale:						
Short-term investments	—	99,831	99,831	—	4,996	4,996
Bonds	—	1,332,418	1,332,418	—	1,230,508	1,230,508
Preferred shares	4,844	—	4,844	5,035	—	5,035
Common shares	63,549	—	63,549	61,831	—	61,831
Loans and Receivables						
Mortgages	—	279,327	279,327	—	300,186	300,186
Loans on policies	—	48,198	48,198	—	46,925	46,925
Policy contract loans	—	80,921	80,921	—	84,921	84,921
Total	\$ 1,117,633	\$ 6,637,513	\$ 7,755,146	\$ 971,934	\$ 5,898,066	\$ 6,870,000

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

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 and there were no Level 3 investments during the period ended September 30, 2016 or during the year ended December 31, 2015.

For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments, refer to Note 14.

(b) Impairments

For the nine months ended September 30, 2016, the Company reclassified a pre-tax loss of \$777 from OCI to Net income due to write downs of impaired AFS common and preferred shares (for the nine months ended September 30, 2015, \$1,321). Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

For additional information on the fair values of the Company's AFS investments, refer to Note 3 (a). For analysis of the Company's risks arising from financial instruments, refer to Note 14.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

(c) Derivative financial instruments

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

As at	September 30, 2016			December 31, 2015		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 123,175	\$ 1,055	\$ 4	\$ 94,312	\$ 977	\$ 340
Equity options	322,732	1,982	—	299,876	13,505	—
Over-the-counter						
Foreign currency forwards	174,263	23	441	175,368	167	36
Total	\$ 620,170	\$ 3,060	\$ 445	\$ 569,556	\$ 14,649	\$ 376

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

For analysis of the Company's risks arising from financial instruments, refer to Note 14.

4. Segregated Funds

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

As at	September 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 328,200	\$ 301,764
Short-term investments	189,131	151,203
Bonds	1,692,418	1,528,873
Common and preferred shares	5,625,667	5,362,003
Other assets	22,914	59,085
	7,858,330	7,402,928
Less segregated funds held within general fund investments	(35,260)	(35,105)
Total	\$ 7,823,070	\$ 7,367,823

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

As at	September 30, 2016			December 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 110,878	\$ 217,322	\$ 328,200	\$ 42,827	\$ 258,937	\$ 301,764
Short-term investments	—	189,131	189,131	—	151,203	151,203
Bonds	—	1,692,418	1,692,418	—	1,528,873	1,528,873
Common and preferred shares	5,625,667	—	5,625,667	5,362,003	—	5,362,003
Total	\$ 5,736,545	\$ 2,098,871	\$ 7,835,416	\$ 5,404,830	\$ 1,939,013	\$ 7,343,843

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

There were no transfers between Level 1 and Level 2, and there were no Level 3 investments during the period ended September 30, 2016 or during the year ended December 31, 2015.

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

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Segregated fund assets - beginning of period	\$ 7,491,598	\$ 7,192,128	\$ 7,367,823	\$ 6,948,475
Additions to segregated funds:				
Amount received from policyholders	258,057	366,174	940,114	1,145,068
Interest	15,016	13,791	41,336	43,059
Dividends	28,361	31,623	93,519	99,714
Other income	7,598	7,857	22,044	23,975
Net realized gains on sale of investments	104,508	30,514	177,383	370,749
Net unrealized increase in fair value of investments	228,861	—	225,210	—
	642,401	449,959	1,499,606	1,682,565
Deductions from segregated funds:				
Amounts withdrawn or transferred by policyholders	252,363	302,214	877,377	933,150
Net unrealized decrease in fair value of investments	—	173,224	—	415,949
Management fees and other operating costs	57,187	55,892	166,827	167,628
	309,550	531,330	1,044,204	1,516,727
Net change in segregated funds held within general fund investments	(1,379)	(3,644)	(155)	(7,200)
Segregated fund assets - end of period	\$ 7,823,070	\$ 7,107,113	\$ 7,823,070	\$ 7,107,113

(d) Empire Life's exposure to segregated fund guarantee risk

Segregated fund products issued by Empire Life contain death, maturity, and withdrawal benefit guarantees. Changes in global equity markets impact Empire Life's estimated liability for those guarantees. The impact of market risk in segregated funds on shareholders' net income is disclosed in Note 14.

5. Insurance Premiums

	For the three months ended			September 30, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 114,293	\$ (22,889)	\$ 91,404	\$ 115,136	\$ (21,195)	\$ 93,941
Health premiums	89,627	(6,908)	82,719	85,873	(6,668)	79,205
Total life and health premiums	203,920	(29,797)	174,123	201,009	(27,863)	173,146
Annuity premiums	44,584	(56)	44,528	35,328	(60)	35,268
Total insurance premiums	\$ 248,504	\$ (29,853)	\$ 218,651	\$ 236,337	\$ (27,923)	\$ 208,414

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

For the nine months ended	September 30, 2016			September 30, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 344,040	\$ (68,082)	\$ 275,958	\$ 342,496	\$ (61,898)	\$ 280,598
Health premiums	266,504	(20,284)	246,220	256,064	(19,541)	236,523
Total life and health premiums	610,544	(88,366)	522,178	598,560	(81,439)	517,121
Annuity premiums	137,017	(188)	136,829	112,013	(171)	111,842
Total insurance premiums	\$ 747,561	\$ (88,554)	\$ 659,007	\$ 710,573	\$ (81,610)	\$ 628,963

6. Benefits and Expenses

(a) Insurance contract benefits and claims paid

For the three months ended	September 30, 2016			September 30, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 44,206	\$ (11,088)	\$ 33,118	\$ 56,416	\$ (20,138)	\$ 36,278
Health claims	61,114	(3,115)	57,999	60,528	(3,470)	57,058
Total life and health claims	105,320	(14,203)	91,117	116,944	(23,608)	93,336
Annuity benefits	51,589	(542)	51,047	58,433	(892)	57,541
Benefits and claims paid	\$ 156,909	\$ (14,745)	\$ 142,164	\$ 175,377	\$ (24,500)	\$ 150,877

For the nine months ended	September 30, 2016			September 30, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 131,859	\$ (36,160)	\$ 95,699	\$ 151,688	\$ (48,958)	\$ 102,730
Health claims	197,716	(11,438)	186,278	190,916	(11,243)	179,673
Total life and health claims	329,575	(47,598)	281,977	342,604	(60,201)	282,403
Annuity benefits	160,706	(1,526)	159,180	200,643	(2,314)	198,329
Benefits and claims paid	\$ 490,281	\$ (49,124)	\$ 441,157	\$ 543,247	\$ (62,515)	\$ 480,732

(b) Change in insurance contract liabilities and reinsurance ceded

For the three months ended	September 30, 2016			September 30, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ 128,602	\$ 8,396	\$ 136,998	\$ (13,309)	\$ (2,472)	\$ (15,781)
Health	16,324	(4,632)	11,692	(399)	704	305
Total life and health	144,926	3,764	148,690	(13,708)	(1,768)	(15,476)
Annuity	8,427	738	9,165	(43,131)	165	(42,966)
Change in Insurance Contract Liabilities	\$ 153,353	\$ 4,502	\$ 157,855	\$ (56,839)	\$ (1,603)	\$ (58,442)
Change attributable to:						
Normal changes - New Business	\$ 18,690	\$ (3,639)	\$ 15,051	\$ 50,228	\$ 854	\$ 51,082
- In-Force Business	134,663	8,141	142,804	(107,067)	(2,457)	(109,524)
Change in Insurance Contract Liabilities	\$ 153,353	\$ 4,502	\$ 157,855	\$ (56,839)	\$ (1,603)	\$ (58,442)

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

For the nine months ended	September 30, 2016			September 30, 2015		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ 477,625	\$ 44,568	\$ 522,193	\$ 113,957	\$ 3,807	\$ 117,764
Health	40,542	(7,950)	32,592	(2,166)	4,102	1,936
Total life and health	518,167	36,618	554,785	111,791	7,909	119,700
Annuity	8,232	1,739	9,971	(104,164)	441	(103,723)
Change in Insurance Contract Liabilities	\$ 526,399	\$ 38,357	\$ 564,756	\$ 7,627	\$ 8,350	\$ 15,977
Change attributable to:						
Normal changes - New Business	\$ 65,609	\$ (9,453)	\$ 56,156	\$ 61,396	\$ 1,457	\$ 62,853
- In-Force Business	460,790	47,810	508,600	(53,769)	6,893	(46,876)
Change in Insurance Contract Liabilities	\$ 526,399	\$ 38,357	\$ 564,756	\$ 7,627	\$ 8,350	\$ 15,977

7. Income Taxes included on Other Comprehensive Income (Loss)

Other comprehensive income (loss) is presented net of income taxes.

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

For the three months ended	September 30, 2016			September 30, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 23,478	\$ 6,266	\$ 17,212	\$ (10,482)	\$ (2,778)	\$ (7,704)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(6,524)	(1,768)	(4,756)	(2,908)	(793)	(2,115)
Remeasurements of post-employment benefit liabilities	(444)	(119)	(325)	(4,124)	(1,098)	(3,026)
Total other comprehensive income (loss)	\$ 16,510	\$ 4,379	\$ 12,131	\$ (17,514)	\$ (4,669)	\$ (12,845)

For the nine months ended	September 30, 2016			September 30, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 60,789	\$ 16,225	\$ 44,564	\$ 2,290	\$ 609	\$ 1,681
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(14,780)	(4,004)	(10,776)	(19,603)	(5,385)	(14,218)
Remeasurements of post-employment benefit liabilities	(20,302)	(5,419)	(14,883)	(4,750)	(1,264)	(3,486)
Total other comprehensive income (loss)	\$ 25,707	\$ 6,802	\$ 18,905	\$ (22,063)	\$ (6,040)	\$ (16,023)

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

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

For the three months ended	September 30, 2016			September 30, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 20,807	\$ 5,553	\$ 15,254	\$ (9,094)	\$ (2,409)	\$ (6,685)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(5,183)	(1,395)	(3,788)	(3,275)	(885)	(2,390)
Remeasurements of post-employment benefit liabilities	(424)	(113)	(311)	(3,936)	(1,048)	(2,888)
Shareholder portion of policyholder other comprehensive income (loss)	104	26	78	(80)	(21)	(59)
Total other comprehensive income (loss)	\$ 15,304	\$ 4,071	\$ 11,233	\$ (16,385)	\$ (4,363)	\$ (12,022)

For the nine months ended	September 30, 2016			September 30, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 54,976	\$ 14,673	\$ 40,303	\$ 2,835	\$ 754	\$ 2,081
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(11,974)	(3,220)	(8,754)	(17,888)	(4,890)	(12,998)
Remeasurements of post-employment benefit liabilities	(19,374)	(5,171)	(14,203)	(4,536)	(1,207)	(3,329)
Shareholder portion of policyholder other comprehensive income (loss)	224	57	167	(227)	(64)	(163)
Total other comprehensive income (loss)	\$ 23,852	\$ 6,339	\$ 17,513	\$ (19,816)	\$ (5,407)	\$ (14,409)

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

For the three months ended	September 30, 2016			September 30, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 2,671	\$ 713	\$ 1,958	\$ (1,388)	\$ (369)	\$ (1,019)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(1,341)	(373)	(968)	367	92	275
Remeasurements of post-employment benefit liabilities	(20)	(6)	(14)	(188)	(50)	(138)
Shareholder portion of policyholder other comprehensive income (loss)	(104)	(26)	(78)	80	21	59
Total other comprehensive income (loss)	\$ 1,206	\$ 308	\$ 898	\$ (1,129)	\$ (306)	\$ (823)

For the nine months ended	September 30, 2016			September 30, 2015		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 5,813	\$ 1,552	\$ 4,261	\$ (545)	\$ (145)	\$ (400)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(2,806)	(784)	(2,022)	(1,715)	(495)	(1,220)
Remeasurements of post-employment benefit liabilities	(928)	(248)	(680)	(214)	(57)	(157)
Shareholder portion of policyholder other comprehensive income (loss)	(224)	(57)	(167)	227	64	163
Total other comprehensive income (loss)	\$ 1,855	\$ 463	\$ 1,392	\$ (2,247)	\$ (633)	\$ (1,614)

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

8. Earnings Per Share

Earnings per share (EPS) is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred shares do not dilute EPS as the shares are not convertible into common shares.

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

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Basic and diluted EPS				
Common shareholders' net income	\$ 38,093	\$ 22,156	\$ 100,173	\$ 92,394
Weighted average number of common shares outstanding	985,076	985,076	985,076	985,076
Basic and diluted EPS	\$ 38.67	\$ 22.49	\$ 101.69	\$ 93.79

9. Capital Stock

As at	September 30, 2016			December 31, 2015		
	Shares authorized	Shares issued and outstanding	Amount	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 1	unlimited	5,980,000	\$ 149,500	—	—	\$ —
Common shares	2,000,000	985,076	\$ 985	2,000,000	985,076	\$ 985

During the period February 16th to March 1, 2016 Empire Life issued to the public 5,980,000 Non-Cumulative Rate Reset Preferred Shares, Series 1 (Series 1 Preferred Shares) at \$25 per share. Holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including April 17, 2021. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 4.99%. Holders of Series 1 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 2 (Series 2 Preferred Shares), subject to certain conditions, on April 17, 2021 and on April 17 every five years thereafter. Holders of the Series 2 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.99%.

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

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

10. Dividends

Common shareholder dividends

There were no common shareholder dividends paid in 2016 or 2015.

Preferred shareholder dividends

On February 25, 2016 the Board approved a cash dividend of \$0.2402 per share on the issued and outstanding Series 1 Preferred Shares, payable on the 17th day of April, 2016.

On April 28, 2016 the Board approved a cash dividend of \$0.359375 per share on the issued and outstanding Series 1 Preferred Shares, payable on the 17th day of July, 2016.

On July 28, 2016 the Board approved a cash dividend of \$0.359375 per share on the issued and outstanding Series 1 Preferred Shares, payable on the 17th day of October, 2016.

On October 27, 2016 the Board approved a cash dividend of \$0.359375 per share on the issued and outstanding Series 1 Preferred Shares, payable on the 17th day of January, 2017.

11. Segmented Information

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

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

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

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

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

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

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

	For the three months ended September 30, 2016				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 44,528	\$ 85,006	\$ 89,117	\$ —	\$ 218,651
Interest income	7,961	1,562	41,183	310	51,016
Total investment income	10,097	926	47,316	1,711	60,050
Fair value change in fair value through profit or loss assets	6,308	669	99,530	1,388	107,895
Realized gain (loss) on fair value through profit or loss assets	1,569	—	9,107	(9,970)	706
Realized gain (loss) on available for sale assets including impairment write downs	—	—	—	6,523	6,523
Fee income from external customers	56,214	2,445	381	10	59,050
Net benefits and claims	51,047	59,634	31,483	—	142,164
Net change in insurance contract liabilities	9,165	6,574	142,116	—	157,855
Change in investment contract provision	887	—	—	—	887
Policy dividends	—	—	6,784	—	6,784
Amortization of property and equipment and intangibles	375	260	539	—	1,174
Total operating expenses	11,090	9,837	13,121	264	34,312
Net commission expense	19,249	8,289	19,402	—	46,940
Interest expense	—	—	—	2,261	2,261
Premium tax	—	2,504	2,540	—	5,044
Investment and capital tax	—	—	999	—	999
Income tax expense (recovery)	6,639	942	6,854	(1,064)	13,371
Net income (loss) after tax	20,639	1,266	22,152	(1,799)	42,258

	For the three months ended September 30, 2015				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 35,268	\$ 81,767	\$ 91,379	\$ —	\$ 208,414
Interest income	8,865	1,491	36,199	9,874	56,429
Total investment income	10,745	1,058	42,483	10,355	64,641
Fair value change in fair value through profit or loss assets	(26,223)	(2,832)	(87,821)	3,354	(113,522)
Realized gain (loss) on fair value through profit or loss assets	(25)	—	(7,085)	2,799	(4,311)
Realized gain (loss) on available for sale assets including impairment write downs	(132)	(111)	(119)	3,270	2,908
Fee income from external customers	51,838	1,920	400	63	54,221
Net benefits and claims	57,543	59,913	33,421	—	150,877
Net change in insurance contract liabilities	(42,966)	(1,758)	(13,718)	—	(58,442)
Change in investment contract provision	118	—	—	—	118
Policy dividends	—	—	6,232	—	6,232
Amortization of property and equipment and intangibles	300	280	527	—	1,107
Total operating expenses	12,224	10,971	13,633	180	37,008
Net commission expense	19,860	8,329	17,049	—	45,238
Interest expense	—	—	—	2,258	2,258
Premium tax	—	1,742	1,753	—	3,495
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	7,761	703	(6,260)	2,923	5,127
Net income (loss) after tax	16,933	1,902	(13,067)	13,847	19,615

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

For the nine months ended September 30, 2016

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 136,829	\$ 253,656	\$ 268,522	\$ —	\$ 659,007
Interest income	24,118	4,568	112,557	20,059	161,302
Total investment income	30,652	2,804	129,969	22,753	186,178
Fair value change in fair value through profit or loss assets	5,880	3,200	379,783	(8,344)	380,519
Realized gain (loss) on fair value through profit or loss assets	2,166	647	39,660	(19,649)	22,824
Realized gain (loss) on available for sale assets including impairment write downs	(188)	(188)	(25)	15,181	14,780
Fee income from external customers	161,977	7,299	837	30	170,143
Net benefits and claims	159,180	191,387	90,590	—	441,157
Net change in insurance contract liabilities	9,971	11,430	543,355	—	564,756
Change in investment contract provision	1,010	—	—	—	1,010
Policy dividends	—	—	20,348	—	20,348
Amortization of property and equipment and intangibles	1,050	763	1,482	—	3,295
Total operating expenses	34,988	29,622	39,473	843	104,926
Net commission expense	60,785	25,482	52,613	—	138,880
Interest expense	—	—	—	6,732	6,732
Premium tax	—	7,120	7,196	—	14,316
Investment and capital tax	—	—	2,997	—	2,997
Income tax expense (recovery)	17,821	1,061	13,997	120	32,999
Net income (loss) after tax	53,561	1,316	48,177	2,276	105,330

For the nine months ended September 30, 2015

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 111,842	\$ 243,205	\$ 273,916	\$ —	\$ 628,963
Interest income	27,243	4,460	104,564	28,520	164,787
Total investment income	32,788	2,644	126,982	29,925	192,339
Fair value change in fair value through profit or loss assets	(34,995)	(2,012)	(104,870)	2,219	(139,658)
Realized gain (loss) on fair value through profit or loss assets	894	1,141	30,458	1,552	34,045
Realized gain (loss) on available for sale assets including impairment write downs	63	170	482	18,888	19,603
Fee income from external customers	152,693	6,896	990	202	160,781
Net benefits and claims	198,332	187,753	94,647	—	480,732
Net change in insurance contract liabilities	(103,723)	(6,753)	126,453	—	15,977
Change in investment contract provision	937	—	—	—	937
Policy dividends	—	—	18,645	—	18,645
Amortization of property and equipment and intangibles	1,346	755	1,191	—	3,292
Total operating expenses	38,991	30,711	38,006	666	108,374
Net commission expense	64,460	24,285	51,829	—	140,574
Interest expense	—	—	—	6,700	6,700
Premium tax	—	5,213	5,275	—	10,488
Investment and capital tax	—	—	2,475	—	2,475
Income tax expense (recovery)	16,766	2,909	(6,875)	10,869	23,669
Net income (loss) after tax	47,523	7,926	(2,498)	34,551	87,502

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

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

As at	September 30, 2016				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 971,653	\$ 168,496	\$ 4,957,745	\$ 1,820,762	\$ 7,918,656
Segregated funds	7,802,512	—	20,558	—	7,823,070
Total assets	\$ 8,774,165	\$ 168,496	\$ 4,978,303	\$ 1,820,762	\$ 15,741,726

As at	December 31, 2015				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 959,181	\$ 162,597	\$ 4,301,805	\$ 1,572,138	\$ 6,995,721
Segregated funds	7,347,426	—	20,397	—	7,367,823
Total assets	\$ 8,306,607	\$ 162,597	\$ 4,322,202	\$ 1,572,138	\$ 14,363,544

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

12. Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. In January 2016 the Company made a \$20,000 commitment to purchase additional units in a real estate limited partnership. Draws on this commitment are payable on demand up to and including July 31, 2018.

On January 29, 2016, a cash call was settled to purchase units for \$2,000 in this real estate limited partnership.

On June 29, 2016, a cash call was settled to purchase units for \$6,667 in this real estate limited partnership.

On July 14, 2016, a cash call was settled to purchase units for \$1,666 in this real estate limited partnership.

At September 30, 2016 there remained \$9,667 (December 31, 2015, \$ nil) of outstanding cash calls to purchase units in the real estate limited partnership.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

13. Capital Management

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act* (Canada) as established and monitored by OSFI. Under the guidelines established by OSFI, the Company's regulatory capital consists of two tiers. The Company's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, negative reserves on insurance contract liabilities and subordinated debt. OSFI's target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at September 30, 2016 and December 31, 2015 the Company was in compliance with these ratios.

As at	September 30, 2016	December 31, 2015
Tier 1 Regulatory Capital	\$ 1,123,066	\$ 917,617
Tier 2 Regulatory Capital	540,655	504,430
Total Regulatory Capital	\$ 1,663,721	\$ 1,422,047

14. Risk Management

The Company is exposed to risks arising from its investing activities and its insurance operations and to general reputational risk associated with these activities and its ability to manage specific risks. The 2015 Annual Report describes the Company's enterprise risk management framework including the principal risks and associated risk management strategies for the risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company: market, liquidity, credit and insurance.

Caution related to sensitivities

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

(a) Market risk

The Company's most significant market risks are equity risk, interest rate risk and foreign exchange rate risk. Information related to market risk sensitivities should be read in conjunction with the information contained in the Risk Management section of the Company's 2015 Annual Report.

(1) Equity risk

The following table summarizes the estimated potential impact on the Company of a change in global equity markets. The Company uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. The Company has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. The amounts in the following table include the effect of Empire Life's general fund equity risk economic hedging program. For segregated fund guarantees

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. The amounts shown below for segregated fund guarantees represent the impact on shareholders' net income.

As at September 30, 2016					
	10% Increase	10% Decrease	20% Increase	20% Decrease	
Shareholders' net income (excludes segregated fund guarantees)	\$ 16,728	\$ (14,003)	\$ 34,312	\$ (21,534)	
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil	
Shareholders' other comprehensive income	\$ 2,276	\$ (2,276)	\$ 4,552	\$ (4,552)	
Policyholders' other comprehensive income	\$ 2,377	\$ (2,377)	\$ 4,754	\$ (4,754)	
Shareholders' net income (due to segregated fund guarantees)	\$ nil	\$ nil	\$ nil	\$ nil	

As at September 30, 2015					
	10% Increase	10% Decrease	20% Increase	20% Decrease	
Shareholders' net income (excludes segregated fund guarantees)	\$ 6,739	\$ (1,949)	\$ 16,498	\$ 1,024	
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil	
Shareholders' other comprehensive income	\$ 2,089	\$ (2,089)	\$ 4,178	\$ (4,178)	
Policyholders' other comprehensive income	\$ 2,369	\$ (2,369)	\$ 4,738	\$ (4,738)	
Shareholders' net income (due to segregated fund guarantees)	\$ nil	\$ nil	\$ nil	\$ (46,082)	

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

As at	September 30, 2016	December 31, 2015
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 311,488	\$ 286,544
Percentage of total cash and investments	4.0%	4.2%
Exposure to the largest single issuer of common equities	\$ 74,274	\$ 60,396
Percentage of total cash and investments	1.0%	0.9%

(2) Interest rate risk

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

As at September 30, 2016					
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease	
Shareholders' net income	\$ 10,549	\$ (11,844)	\$ 19,960	\$ (25,163)	
Policyholders' net income	\$ 566	\$ (621)	\$ 1,084	\$ (1,302)	
Shareholders' other comprehensive income	\$ (34,491)	\$ 40,373	\$ (63,102)	\$ 86,626	
Policyholders' other comprehensive income	\$ (1,568)	\$ 1,710	\$ (2,993)	\$ 3,562	

As at September 30, 2015					
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease	
Shareholders' net income	\$ 8,003	\$ (8,962)	\$ 15,161	\$ (19,015)	
Policyholders' net income	\$ 514	\$ (564)	\$ 984	\$ (1,183)	
Shareholders' other comprehensive income	\$ (29,997)	\$ 34,481	\$ (55,509)	\$ 73,446	
Policyholders' other comprehensive income	\$ (1,337)	\$ 1,422	\$ (2,589)	\$ 2,928	

Condensed Notes to the Interim Consolidated Financial Statements

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(3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at September 30, 2016, a 10% fluctuation in the US dollar would have an impact of approximately \$ nil (September 30, 2015, \$ nil) on Net income, \$ nil (September 30, 2015, \$ nil) on shareholders' OCI and \$ nil (September 30, 2015, \$ nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

(b) Credit risk

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

As at	September 30, 2016		December 31, 2015	
Cash and cash equivalents	\$	169,866	\$	199,770
Short-term investments		132,667		33,652
Bonds		5,872,920		5,193,439
Preferred shares		281,016		194,680
Derivative assets		3,060		14,649
Mortgages		269,871		289,221
Reinsurance		99,463		94,922
Loans on policies		48,198		46,925
Policy contract loans		80,921		84,921
Accrued investment income		40,468		26,023
Insurance receivables		34,648		47,909
Trade accounts receivable		46,530		20,803
Total	\$	7,079,628	\$	6,246,914

Concentration of credit risk

(1) Bonds and debentures

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

As at	September 30, 2016		December 31, 2015	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 378,573	6%	\$ 308,435	6%
AA	591,810	10%	524,546	10%
A	4,053,279	70%	3,628,158	70%
BBB (and lower ratings)	849,258	14%	732,300	14%
Total	\$ 5,872,920	100%	\$ 5,193,439	100%

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

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

As at	September 30, 2016		December 31, 2015	
Provincial bond holdings	\$	3,205,701	\$	2,845,599
Percentage of total bond holdings		54.6%		55.0%

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(unaudited, in thousands of Canadian dollars except for per share amounts, and shares authorized and issued and outstanding)

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

As at	September 30, 2016		December 31, 2015	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 40,415	1%	\$ 66,769	1%
1 - 5 years	582,879	10%	560,124	11%
5 - 10 years	687,088	12%	571,599	11%
Over 10 years	4,562,538	77%	3,994,947	77%
Total	\$ 5,872,920	100%	\$ 5,193,439	100%

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

As at	September 30, 2016	December 31, 2015
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 3,718,967	\$ 3,480,719
Percentage of total cash and investments	48.0%	50.8%
Exposure to the largest single issuer of corporate bonds	\$ 160,950	\$ 151,859
Percentage of total cash and investments	2.1%	2.2%

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

(2) Preferred shares

The Company's preferred share investments are all issued by Canadian companies, with 1% (December 31, 2015, 4%) of these investments rated as P1 and the remaining 99% (December 31, 2015, 96%) rated as P2.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$269,871 or 100% (December 31, 2015, \$288,622 or 99%) of the total mortgage portfolio.

Glossary of Terms

(unaudited)

Accumulated Other Comprehensive Income (AOCI)

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

Active Market

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

Available For Sale (AFS) Finance Assets

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

Canadian Asset Liability Method (CALM)

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

Canadian Institute of Actuaries (CIA)

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

Canadian Life and Health Insurance Association (CLHIA)

The Canadian Life and Health Insurance Association (CLHIA) is an organization representing life insurance and health insurance providers in Canada. The Canadian life and health insurance industry provides a wide range of financial security products to more than 26 million Canadians and their dependents. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

Chartered Professional Accountants of Canada (CPA Canada)

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

Earnings on Surplus

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

Effective Interest Method

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

Expected Profit from In-Force Business

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

Glossary of Terms

(unaudited)

Experience Gains and Losses

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

Fair Value Through Profit or Loss (FVTPL)

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

Impact on New Business

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

International Financial Reporting Standards (IFRS)

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

Management Actions and Changes in Assumptions

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

Minimum Continuing Capital and Surplus Requirements (MCCSR)

The ratio of the available regulatory capital of a life insurance company to its required regulatory capital, each as calculated under OSFI's published guidelines.

Other Comprehensive Income (OCI)

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

Office of the Superintendent of Financial Institutions Canada (OSFI)

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

Participating Policies

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

Return on Shareholders' Equity (ROE)

A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

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EMPIRE LIFE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Established in 1923 and a subsidiary of E-L Financial Corporation Limited, The Empire Life Insurance Company (Empire Life) provides individual and group life and health insurance, investment and retirement products to Canadians.

Our mission is to make it simple, fast and easy for Canadians to get the investment, insurance and group benefits coverage they need to build wealth, generate income and achieve financial security.

Empire Life is rated A (Excellent) by A.M. Best Company¹ and is rated A for financial strength by Dominion Bond Rating Service (DBRS)².

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

¹ As at May 27, 2016

² As at May 27, 2016

Transfer Agent and Registrar

CST Trust Company
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario, M5J 2Y1
Phone 416-981-9633
Toll Free 800-564-6253
www.computershare.com/service

Stock Exchange Listing

Preferred Shares, Series 1 EML.PR.A

Reporting Procedure for Accounting and Auditing Matters

If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

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

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

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