The Empire Life Insurance Company

Management's Discussion and Analysis
For the three months ended March 31, 2016

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Management's Discussion and Analysis

This MD&A is dated as of April 28, 2016.

The following Management's Discussion and Analysis ("MD&A") of the unaudited operating results and financial condition of The Empire Life Insurance Company ("Empire Life" or the "Company") for the first quarter of 2016 should be read in conjunction with the MD&A for the year ended December 31, 2015, the Company's annual audited financial statements, the notes relating thereto, and the quarterly unaudited financial statements and notes contained in this report, as well as the Company's MD&A and unaudited interim financial statements for the quarters of 2015. The unaudited condensed 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 condensed 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

	First quarter	
(in millions of dollars except per share amounts)	**2016**	2015
Common shareholders' net income	**$ 37.2**	$ 25.6
Earnings per share - basic and diluted	**$ 37.81**	$ 25.97
Return on common shareholders' equity (annualized) ("ROE")	**13.4%**	10.0%

Empire Life reported first quarter common shareholders' net income of $37.2 million for 2016, compared to $25.6 million for 2015.

The following table provides a breakdown of the sources of earnings[1] for the first quarter.

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

Sources of Earnings (in millions of dollars)	First quarter 2016	2015
Expected profit on in-force business	**$ 36.3**	$ 37.4
Impact of new business	**(1.3)**	(7.4)
Experience gains (losses)	**3.7**	(8.5)
Management actions and changes in assumptions	**11.2**	—
Other	**—**	—
Earnings on operations before income taxes	**49.9**	21.5
Earnings on surplus	**2.3**	12.0
Income before income tax	**$ 52.2**	$ 33.5
Income taxes	**13.6**	7.9
Shareholders' net income	**$ 38.6**	$ 25.6
Dividends on preferred shares	**1.4**	—
Common shareholders' net income	**$ 37.2**	$ 25.6

First quarter common shareholders' net income and ROE were higher relative to 2015 primarily due to higher profit from the Individual Insurance product line. The increased profit from this product line primarily resulted from improved investment experience and management actions to improve asset/liability matching in 2016. Improved investment experience resulted from more favourable stock market and market interest rate movements in 2016. Empire Life improved its matching position in 2016 by increasing its investment in real estate limited partnership units and by making changes to its bond investments during the first quarter. The improved matching position resulted in a gain in 2016 from updating insurance contract liabilities.

The impact of new business improved relative to 2015 primarily due to lower first quarter segregated fund sales and lower Wealth Management expenses.

Earnings on surplus decreased primarily due to lower net income on hedging instruments resulting from the increase in stock markets in 2016.

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 2016 net income compared to 2015 is shown in the Product Line Results sections later in this report.

Management's assessment of industry dynamics, risks and risk management, critical accounting estimates, strategy and outlook remains consistent with the disclosure in the 2015 Annual Management's Discussion and Analysis.

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

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

For the three months ended March 31	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
(in millions of dollars)	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Revenue										
Net premium income	**$ 56**	$ 47	**$ 84**	$ 80	**$ 90**	$ 91	**$ —**	$ —	**$ 230**	$ 218
Fee and other income	**53**	50	**2**	2	**—**	—	**—**	—	**55**	52
Investment income	**10**	11	**1**	1	**39**	39	**11**	10	**61**	61
Realized gain (loss) on FVTPL investments	**1**	—	**1**	1	**23**	22	**(2)**	(1)	**23**	22
Realized gain (loss) on available for sale investments including impairment write downs	**(1)**	—	**—**	—	**—**	1	**3**	9	**2**	10
Fair value change in FVTPL investments	**(14)**	12	**1**	3	**64**	267	**(6)**	(2)	**45**	280
Total revenue	**105**	120	**89**	87	**216**	420	**6**	16	**416**	643
Expenses										
Benefits and expenses	**81**	102	**86**	82	**191**	424	**3**	2	**361**	610
Income and other taxes	**6**	3	**2**	3	**8**	—	**1**	4	**17**	10
Total expenses	**87**	105	**88**	85	**199**	424	**4**	6	**378**	620
Net income (loss) after tax	**$ 18**	$ 15	**$ 1**	$ 2	**$ 17**	$ (4)	**$ 2**	$ 10	**$ 38**	$ 23
Participating policyholders' portion									**(1)**	(3)
Dividends on preferred shares									**1**	—
Common shareholders' net income									**$ 38**	$ 26
Assets under management[2]										
General fund assets	**$ 957**	$ 1,040							**$ 7,316**	$ 7,185
Segregated fund assets	**$ 7,379**	$ 7,277			**$ 20**	$ 23			**$ 7,399**	$ 7,300
Mutual fund assets	**$ 177**	$ 138							**$ 177**	$ 138
Annualized premium sales[2]			**$ 13**	$ 12	**$ 8**	$ 13				

Total Revenue

	First quarter	
(in millions of dollars)	**2016**	2015
Revenue		
Net premium revenue	**$ 230**	$ 218
Investment income	**61**	61
Fair value change in FVTPL investments including realized amounts	**68**	302
Realized gain (loss) on AFS investments including impairment write downs	**2**	10
Fee and other income	**55**	52
Total Revenue	**$ 416**	$ 643

For the quarter, total revenue at Empire Life decreased by 35% to $416 million compared to $643 million in 2015. 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 increased by 6% relative to 2015. The increase related primarily to the fixed interest immediate and deferred annuities portion of the Wealth Management product line, which experienced stronger demand due to improved interest rates offered by Empire Life and customer caution resulting from stock market volatility.

[1, 2, 3, 4, 5] 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 first quarter in 2016 compared to large net gains for the same period in 2015. In 2016 the gain was from an increase in stock prices and bond prices (due to a decrease in market interest rates). In 2015 the gain was primarily from an increase in bond prices (due to a decrease in market interest rates). 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 ("AFS") investments including impairment write downs was a gain for the quarter in both 2016 and 2015. In both years the gain was primarily due to the sale of AFS 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 increased by 5% in 2016 relative to 2015 primarily due to 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

	First quarter	
(in millions of dollars)	**2016**	2015
Benefits and expenses		
Net benefits and claims	**$ 155**	$ 180
Net change in insurance contract liabilities	**116**	337
Change in investment contracts provision	**—**	1
Policy dividends	**6**	6
Operating expenses	**34**	35
Net commissions	**48**	49
Interest expense	**2**	2
Total benefits and expenses	**$ 361**	$ 610

Total benefits and expenses at Empire Life for the quarter decreased by 41% to $361 million compared to $610 million in 2015. 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 for the Employee Benefits line of business. Otherwise net benefits and claims for the quarter were lower than last year primarily due to 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 may 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, the main reason for the large change from 2015 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.

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

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

Product Line Results - Wealth Management

	As at March 31	
(in millions of dollars)	**2016**	2015
Assets under management[3]		
General fund annuities	**$ 958**	$ 1,040
Segregated funds	**7,379**	7,277
Mutual funds	**177**	138

	First quarter	
(in millions of dollars)	**2016**	2015
Selected financial information		
Net fixed interest annuity premiums	**$ 56**	$ 46
Segregated fund gross sales[3]	**284**	329
Segregated fund net sales[3]	**50**	78
Segregated fund fee income	**51**	49
Mutual fund gross sales[3]	**11**	27
Mutual fund net sales[3]	**5**	22
Mutual fund fee income	**1**	—
Net income after tax	**$ 18**	$ 15

Assets in Empire Life general fund annuities decreased by 8%, while segregated fund assets increased by 1% 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 during the last three quarters of 2015 due to the low interest rate environment. The increase over the last 12 months for segregated funds was attributable primarily to net sales described below.

Premium revenue for the Wealth Management product line is composed solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund and mutual fund products. For the first quarter, fixed interest annuity premiums were up 22% compared to 2015 due to improved interest rates offered by Empire Life. Management also believes that customers have chosen more conservative fixed interest products due to concerns with stock market volatility.

For the first quarter, segregated fund gross sales were down 14% compared to 2015 primarily due to lower 75% maturity guarantee product sales which decreased by $30 million. 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 and a new version of its GMWB product. Fees charged to the customer on the new product line are higher than those for the former product line. The new product line's pricing and features are Empire Life's response to the economic, regulatory and competitive landscape in the segregated fund product marketplace. While 2016 sales were down from last year (as described above), the launch of these new segregated fund products has gone well, achieving gross sales of $218 million (2015 $211 million) for the first quarter which represented 77% (2015 64%) of total segregated fund gross sales.

Segregated fund net sales for the quarter were down 36% compared to 2015 primarily due to the above mentioned gross sales result.

1, 2, 3, 4, 5 See Non-GAAP Measures

Mutual fund gross sales were very weak and are still a small component of our Wealth Management assets under management. Management believes that customers have chosen more conservative fixed interest products given stock market volatility, which hurt mutual sales as these products offer no guarantees to customers. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the quarter, segregated fund fee income increased by 5% in 2016 relative to 2015. The increase was primarily due to growth in segregated fund guarantee fees related to GMWB products. Despite the recent recovery in stock markets at the end of the first quarter of 2016, stock markets were weak for much of the quarter, putting downward pressure on average assets under management and management fees earned. As a result segregated fund management fees were up less than 1% in the first quarter compared to the same period in 2015.

During the first quarter earnings from this product line increased relative to 2015. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)		First quarter
Components of increase		
Lower new business strain		**2**
Increase in inforce profit margins		**1**
Total	**$**	**3**

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

Higher net income on in-force business in 2016 was primarily due to lower expenses.

Product Line Results - Employee Benefits

	First quarter			
(in millions of dollars)		**2016**		2015
Selected financial information				
Annualized premium sales[4]	**$**	**13**	$	12
Net premium revenue		**84**		80
Net (loss) income after tax	**$**	**1**	$	2

For the quarter annualized premium sales in this product line increased by 12% in 2016 relative to 2015 which contributed to in-force premium revenue growth of 5% for the same period. The 2016 level of sales is a strong achievement particularly given the weak economic conditions in Canada.

During the first quarter earnings from this product line decreased relative to 2015. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)		First quarter
Components of decrease		
Worsened claims experience		**(1)**
Total	**$**	**(1)**

In 2016 worsened claims experience primarily related to less favourable long-term disability results in 2016.

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

Product Line Results - Individual Insurance

(in millions of dollars)		First quarter 2016		2015
Selected financial information				
Annualized premium sales[5]	**$**	**8**	$	13
Net premium revenue		**90**		91
Net income (loss) after tax				
Net income after tax shareholders' portion	**$**	**19**	$	—
Net income (loss) after tax policyholders' portion		**(2)**		(4)
Net income (loss) after tax	**$**	**17**	$	(4)

For the first quarter, annualized premium sales in this product line decreased by 35% compared to 2015. This product line's first quarter 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. 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.

During the first quarter earnings from this product line increased relative to 2015. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)		First quarter
Components of increase		
Management actions to improve asset/liability matching	**$**	**8**
Improved investment experience		**16**
Improved (worsened) mortality, surrender, lapse and other experience		**(3)**
Total	**$**	**21**

Management actions to improve asset/liability matching resulted in increased profit in the first quarter of 2016. Empire Life increased its investment in real estate limited partnership units during the first quarter. This investment is used to match long term insurance contract liabilities. In addition Empire Life made changes to its bond investments during the quarter to tighten matching of investments with insurance contract liabilities. The improved matching position resulted in a gain from updating insurance contract liabilities.

There was a gain from investment experience for the first quarter of 2016 compared to a loss for the comparable period in 2015. In 2016 the experience gain primarily resulted from favourable stock market movements during 2016. While 30 year Canadian federal bond yields decreased during 2016, there was an increase in interest rate spreads on provincial and corporate financials bonds during 2016 which reduced the impact of interest rate movements (as demonstrated using 30 year bond yields in the following table). In 2015 the loss from investment experience for the first quarter was primarily from unfavourable market interest rate movements (as demonstrated using 30 year bond yields in the following table).

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

Management's Discussion and Analysis

	First quarter	
	2016	2015
Interest rate movement		
30 year Canadian federal government bond yield		
End of period	**2.00 %**	1.98 %
Beginning of period	**2.16 %**	2.36 %
Change during period	**(0.16)%**	(0.38)%
30 year Province of Ontario spread		
End of period	**1.10 %**	0.85 %
Beginning of period	**1.05 %**	0.95 %
Change during period	**0.05 %**	(0.10)%
30 year A rated corporate spread		
End of period	**1.80 %**	1.44 %
Beginning of period	**1.92 %**	1.52 %
Change during period	**(0.12)%**	(0.08)%
30 year A rated financials spread		
End of period	**2.30 %**	1.88 %
Beginning of period	**2.19 %**	1.87 %
Change during period	**0.11 %**	0.01 %

Interest rate movements impact both bond asset fair value and insurance contract liabilities. In the first quarter of 2015 the decrease in interest rates (including spreads described above) caused higher bond prices which resulted in a bond asset fair value gain. However in 2015 these gains were more than offset by increased insurance contract liabilities resulting from these decreases in market interest rates which caused an investment experience loss. In 2016 the bond asset fair value gain was larger than the increase in insurance contract liabilities resulting in an investment experience gain. 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

	First quarter	
(in millions of dollars)	**2016**	2015
Net income after tax		
Net income after tax shareholders' portion	**$ 1**	$ 9
Net income after tax policyholders' portion	**1**	1
Net income after tax	**$ 2**	$ 10

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.

During the first quarter earnings from this product line decreased relative to 2015. The following table provides a breakdown of the components of this year over year change in net income.

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

(in millions of dollars)		First quarter
Components of decrease		
Increased (decreased) net income from investment gains	**$**	**(3)**
Increased (decreased) net income on hedging instruments		**(5)**
Total	**$**	**(8)**

Decreased net income from investment gains was primarily due to lower gains from the sale of AFS bonds in 2016.

During the first quarter of 2016 Empire Life experienced a loss of $7 million after tax on its hedging program primarily due to rising Canadian stock prices, compared to a loss of $2 million for the comparable period in 2015 (discussed in the Risk Management section later in this report).

Total Cash Flow

	First quarter			
(in millions of dollars)		**2016**		2015
Cash Flow provided from (used for)				
Operating activities	**$**	**79**	$	19
Investing activities		**(216)**		14
Financing activities		**146**		—
Net change in cash and cash equivalents	**$**	**9**	$	33

Cash provided from operating activities in 2016 increased from 2015 levels primarily due to increased net cash flows from fixed interest annuity products.

The increase in cash used for investing activities during 2016 relative to 2015 was primarily due to the investment of the proceeds from the first quarter 2016 issuance of $149.5 million of preferred shares (described below) and the investment of the increased cash flows from fixed interest annuity products into matching assets.

The increase in cash provided by financing activities during 2016 relative to 2015 was primarily due to Empire Life's issuance of $149.5 million of Non-Cumulative Rate Reset Preferred Shares ("Preferred Shares") during the first quarter of 2016.

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

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. The investment guidelines establish minimum credit ratings

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

for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of the 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

	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015
MCCSR Ratio	**219%**	201%	202%	202%	190%

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 the 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 the 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 219% as at March 31, 2016 continued to be above the requirements set by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as Empire Life's minimum internal targets.

The MCCSR ratio increased 18 points from the previous quarter. The change was due to increases in available regulatory capital partly offset by increases in required regulatory capital, as shown in the table below.

(millions of dollars)	**Mar 31 2016**	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015
Available regulatory capital					
Tier 1	**$ 1,078**	$ 918	$ 935	$ 929	$ 883
Tier 2	**528**	504	476	464	466
Total	**$ 1,606**	$ 1,422	$ 1,411	$ 1,393	$ 1,349
Required regulatory capital	**$ 734**	$ 708	$ 699	$ 691	$ 709

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

The increase in Tier 1 available regulatory capital from the previous quarter was primarily due to Empire Life's issuance of $149.5 million of Preferred Shares during the first quarter of 2016, which increased Empire Life's MCCSR ratio by 20 points. In addition, Tier 1 available regulatory capital increased due to strong net income during the first quarter of 2016. This was partly offset by an increase in the deduction for negative reserves and an increase in the deduction for cash value deficiency which decrease Tier 1 (but increase Tier 2 as described below).

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

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

During the first quarter of 2016 Empire Life completed a Canadian public offering of $149.5 million of Preferred Shares. Empire Life is using the net proceeds from the offering for regulatory capital and general corporate purposes. The offering closed during the first quarter and commenced trading on the Toronto Stock Exchange under the ticker symbol EML.PR.A. 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%.

Other Comprehensive Income

(in millions of dollars)	First quarter **2016**	2015
Other comprehensive income (loss)	**$ (2.3)**	$ 14.0
Less: Participating policyholders	**(1.0)**	(1.0)
Other comprehensive income (loss), attributable to shareholders	**$ (3.3)**	$ 13.0

Other comprehensive income (OCI) decreased in the first quarter of 2016 relative to the comparable period of 2015 primarily due to lower unrealized fair value increases relating to AFS bonds in 2016 compared to 2015, primarily due to interest rate movements.

OCI includes the remeasurement of DB plans which had a loss for the first quarter in both 2016 and 2015 primarily due to losses on DB plan liabilities.

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.

Risk Management

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 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

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

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 March 31, 2016 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:

	Mar 31 2016	Dec 31 2015
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**0.6%**	0.4%
75% maturity guarantee and a 100% death benefit guarantee	**51.0%**	51.5%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**6.0%**	5.9%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	**42.4%**	42.2%

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

The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e. negative 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 March 31, 2016 and 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 March 31 for 2016 and December 31 for 2015, 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:

(in millions of dollars)	**10% Increase**	**10% Decrease**	**20% Increase**	**20% Decrease**
Sensitivity To Segregated Fund Guarantees:				
March 31, 2016 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ (39)**
December 31, 2015 Shareholders' net income	$ nil	$ nil	$ nil	$ (10)

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

The impact of stock market changes is not linear. Based on stock market levels at March 31, 2016 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 $39 million as illustrated in the table above. At a 30% decrease in stock markets the net loss at March 31, 2016 would be $195 million. At March 31, 2016 a 20% and 30% decrease in stock markets would result in an increase in net income by $44 million to a net gain of $5 million and by $76 million to a net loss of $119 million respectively from gains on equity hedging instruments. 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.

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 2015 and 2016. 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 currently 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 first quarter of 2016 Empire Life experienced a loss of $7 million (2015 loss 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:				
March 31, 2016 MCCSR Ratio	**0.6%**	**(20.5)%**	**1.1%**	**(35.2)%**
December 31, 2015 MCCSR Ratio	0.7%	(13.9)%	1.2%	(31.6)%

The March 31, 2016 and December 31, 2015 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:				
March 31, 2016 MCCSR Ratio	**(2.1)%**	**(16.9)%**	**(4.1)%**	**(26.8)%**
December 31, 2015 MCCSR Ratio	(1.8)%	(10.6)%	(3.0)%	(24.8)%

As of March 31, 2016, the equity hedging program provided $18 million of relief in the 10% stock market decrease scenario and $44 million of relief in the 20% stock market decrease scenario. As of 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.

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

Based on stock market levels as at March 31, 2016 and December 31, 2015, 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				
March 31, 2016 Shareholders' net income*	**$ 23**	**$ (23)**	**$ 45**	**$ (45)**
December 31, 2015 Shareholders' net income*	$ 22	$ (22)	$ 44	$ (44)

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

The March 31, 2016 and December 31, 2015 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				
March 31, 2016 Shareholders' net income*	**$ 12**	**$ (5)**	**$ 27**	**$ (2)**
December 31, 2015 Shareholders' net income*	$ 12	$ (7)	$ 27	$ (9)

*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
March 31, 2016	**$ 2,394**	**$ 622**	**$ 146**	**$ 5**	**$ 1,827**	**$ 23**	**$ nil**	**$ 136**
December 31, 2015	$ 2,343	$ 593	$ 124	$ 4	$ 1,415	$ 17	$ nil	$ 130

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at March 31, 2016, the aggregate amount at risk for these three categories of risk (reported in the above table) was $650 million, an increase from the aggregate amount at risk of $614 million as at December 31, 2015.

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 March 2016 increased from

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

the December 2015 levels for GMWB withdrawal benefit exposure, fund value guarantee exposure and death benefit guarantee exposure due primarily to segregated fund investment performance in 2016 and increased assets under management resulting from net sales. 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 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	**After The Sale of AFS Assets**
	50 bps Decrease	**50 bps Decrease**
Sensitivity To Market Interest Rates:		
March 31, 2016 MCCSR Ratio	**(21)%**	**(17)%**
December 31, 2015 MCCSR Ratio	(17)%	(13)%

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 the MD&A for the year ended December 31, 2015 and 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.

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)	**Mar 31 2016**	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014
Revenue	**$ 416**	$ 391	$ 212	$ 41	$ 643	$ 541	$ 381	$ 480
Common shareholders' net income	**$ 37**	$ 16	$ 22	$ 44	$ 26	$ 18	$ 24	$ 38
Earnings per share - basic and diluted	**$ 37.81**	$ 16.43	$ 22.49	$ 45.34	$ 25.97	$ 18.44	$ 24.49	$ 39.22

For the first quarter of 2016, total revenue at Empire Life decreased by 35% to $416 million compared to $643 million in the first quarter of 2015. The decrease was primarily due to a lower gain in the first quarter on FVTPL investments in 2016 compared to large net gains for the same period in 2015. In the first quarter of 2016 the gain was from an increase in stock prices and bond prices (due to a decrease in market interest rates). In the first quarter of 2015 interest rates decreased resulting in a large 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 first quarter of 2016 net income was higher relative to 2015 primarily due to higher profit from the Individual Insurance product line. The increased profit from this product line primarily resulted from the 2016 management actions to improve asset/liability matching and improved investment experience resulting from more favourable stock market and market interest rate movements in 2016. See Product Line Results sections earlier in this report for further information on quarterly results.

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,

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

resulting in favourable net income in the individual insurance product line during the second, third and fourth quarters of 2015. In addition, unfavourable Individual Insurance mortality, surrender and lapse experience lowered net income in the third quarter of 2015 and the annual update of Individual Insurance policy liability assumptions lowered net income in the fourth quarter of 2015. During the first quarter of 2016, 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 these forward-looking statements and information are based are reasonable, undue reliance should not be placed on them because there can be no assurance that they will prove to be correct. By their nature, 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 risk including equity risk, hedging risk, interest rate riskand foreign exchange rate risk; liquidity risk; credit risk including counterparty risk; insurance risk including mortality risk, policyholder behaviour risk, expense risk, morbidity risk, product design and pricing risk, underwriting and claims risk and reinsurance risk; operational risk, including legal and regulatory risk, model risk, human resources risk, third party risk, technology, information security and business continuity risk; and strategic and business risk, including risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risks with respect to distribution channels, risks with respect to changes to applicable income tax legislation, risks to reputation, risks with respect to intellectual property, and 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 in this MD&A or in the documents referred to in it.

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, this 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 in this MD&A 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 of this MD&A 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] See Non-GAAP Measures

Non-GAAP Measures

The Company uses non-GAAP measures including sources 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 that 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 12 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 (in millions of dollars)		**March 31, 2016**		March 31, 2015		December 31, 2015
Assets under management						
General fund assets	**$**	**7,316**	$	7,185	$	6,996
Segregated fund assets		**7,399**		7,300		7,368
Total assets per financial statements		**14,715**		14,485		14,364
Mutual fund assets		**177**		138		171
Assets under management	**$**	**14,892**	$	14,623	$	14,535

The above table includes the following amounts held by Empire Life's defined benefit ("DB") pension plans.

As at (in millions of dollars)		**March 31, 2016**		March 31, 2015		December 31, 2015
DB Plan Assets						
Segregated fund assets	**$**	**183**	$	183	$	183
Mutual fund assets		**12**		10		11

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