The Empire Life Insurance Company

Management's Discussion and Analysis
For the six months ended June 30, 2017

Management's Discussion and Analysis

This MD&A is dated as of July 27, 2017.

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 second quarter of 2017 should be read in conjunction with the MD&A for the year ended December 31, 2016, the Company's 2016 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 2016 and the previous quarter of 2017. 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

	Second quarter		Year to date	
(in millions of dollars except per share amounts)	**2017**	2016	**2017**	2016
Common shareholders' net income	**$ 33.4**	$ 24.8	**$ 83.6**	$ 62.1
Earnings per share - basic and diluted	**$ 33.91**	$ 25.21	**$ 84.82**	$ 63.02
Return on common shareholders' equity (annualized) ("ROE")	**10.1%**	8.7%	**12.8%**	11.0%

Empire Life reported second quarter common shareholders' net income of $33.4 million for 2017, compared to $24.8 million for second quarter 2016. The increase in earnings for the second quarter of 2017 compared to 2016 is primarily as a result of lower hedge cost in 2017 and improved operating performance in the Employee Benefits product line, partially offset by lower gains in the Individual Insurance product lines. Year to date common shareholders' net income was $83.6 million compared to $62.1 million in 2016 primarily due the above mentioned items and improved operating performance in the Wealth Management product line.

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

The following table provides a breakdown of the sources of earnings[1] for the second quarter and year to date.

Sources of Earnings	Second quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 40.3**	$ 38.7	**$ 83.6**	$ 77.3
Impact of new business	**(3.2)**	(4.2)	**(8.0)**	(7.9)
Experience gains (losses)	**(6.4)**	(15.3)	**(6.8)**	(11.6)
Management actions and changes in assumptions	**0.9**	15.9	**30.5**	27.1
Earnings on operations before income taxes	**31.6**	35.0	**99.3**	84.9
Earnings on surplus	**13.8**	0.7	**15.6**	3.0
Income before income tax	**$ 45.4**	$ 35.7	**$ 114.9**	$ 87.9
Income taxes	**9.8**	8.7	**27.0**	22.2
Shareholders' net income	**$ 35.6**	$ 27.0	**$ 87.9**	$ 65.7
Dividends on preferred shares	**2.2**	2.2	**4.3**	3.6
Common shareholders' net income	**$ 33.4**	$ 24.8	**$ 83.6**	$ 62.1

For the second quarter and year to date of 2017 common shareholders' net income and ROE were higher relative to 2016.

The expected profit on in-force business for the second quarter and year to date increased by 4% and 8% respectively primarily from growth in management and guarantee fees in the Wealth Management product line. Experience gains (losses) improved in the second quarter and year to date primarily due to improved health claim results in the Employee Benefits product line. Gains from management actions in the Individual Insurance line were as a result of improved matching of assets and liabilities during the year to date in 2017 and during the second quarter and year to date in 2016. Earnings on surplus increased primarily due to lower costs from Empire Life's hedging program due to stable Canadian stock prices in 2017 compared to rising Canadian stock prices in 2016.

During the first quarter of 2016, Empire Life issued $149.5 million of preferred shares. The holders are entitled to receive fixed non- cumulative quarterly dividends yielding 5.75% annually. In the fourth quarter 2016 Empire Life issued $200 million principal amount of unsecured subordinated debentures with a maturity date of December 16, 2026. The interest rate on the debentures until December 16, 2021 is 3.383%, and the rate from December 16, 2021 until December 16, 2026 is equal to the 3-month Canadian Bankers' Acceptance Rate plus 1.95%. The issuance of preferred shares and the debenture in 2016 have increased the preferred share dividend and the interest paid relative to the second quarter of 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 2017 net income compared to 2016 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 2016 Annual Management's Discussion and Analysis. However, the International Accounting Standards Board (IASB) issued IFRS 17 Accounting standard for Insurance Contracts in May 2017. IFRS 17 will include fundamental changes from the Canadian Asset Liability Method (CALM) method (equivalent to IFRS 4 Insurance Contracts) that Empire Life currently applies for the valuation of insurance contracts and revenue recognition. The IASB granted a temporary exemption from the application of IFRS 9 Financial Instruments to allow insurance companies the option of implementing both IFRS 17 and IFRS 9 in the same fiscal period. IFRS 9 applies to the measurement of financial assets, the expected credit loss model and hedge accounting. For Insurance Contracts and Financial Instruments accounting the goal is to achieve global consistency under IFRS as opposed to the differing approaches in each country that exist today. IFRS 17 and IFRS 9 are effective 2021 with comparative financial statements for 2020. Empire Life will assess the impact of IFRS 17 and IFRS 9 and the resources required to implement the new accounting standards in 2017 and 2018.

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

The following tables provide a summary of Empire Life results by major product line for the three months ended June 30 and year to date for 2017 and 2016. A discussion of results is provided in the Product Line section of the MD&A. (figures in MD&A may differ due to rounding):

For the three months ended June 30	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
(in millions of dollars)	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Revenue										
Net premium income	**$ 32**	$ 36	**$ 83**	$ 85	**$ 90**	$ 89	**$ —**	$ —	**$ 205**	$ 210
Fee income	**61**	55	**2**	2	**—**	—	**—**	—	**63**	56
Investment income	**10**	10	**1**	1	**45**	44	**13**	10	**69**	65
Realized gain (loss) on FVTPL investments	**—**	(1)	**—**	—	**4**	8	**(2)**	(8)	**2**	(1)
Realized gain (loss) on available for sale investments including impairment write downs	**(1)**	—	**—**	—	**—**	—	**5**	6	**4**	6
Fair value change in FVTPL investments	**4**	14	**—**	2	**153**	216	**3**	(4)	**160**	228
Total revenue	**106**	114	**86**	90	**292**	357	**19**	4	**504**	564
Expenses										
Benefits and expenses	**86**	94	**79**	88	**288**	342	**5**	2	**458**	526
Income and other taxes	**5**	5	**4**	3	**2**	6	**3**	—	**14**	14
Total expenses	**91**	99	**83**	91	**290**	348	**8**	2	**472**	540
Net income (loss) after tax	**$ 15**	$ 16	**$ 4**	$ (1)	**$ 2**	$ 9	**$ 10**	$ 2	**$ 31**	$ 25
Participating policyholders' portion									**(4)**	(2)
Dividends on preferred shares									**2**	2
Common shareholders' net income									**$ 33**	$ 25
Assets under management[2]										
General fund assets[2]	**$ 993**	$ 963							**$ 8,173**	$ 7,668
Segregated fund assets[2]	**$ 8,290**	$ 7,472			**$ 23**	$ 20			**$ 8,313**	$ 7,492
Mutual fund assets[2]	**$ 187**	$ 186							**$ 187**	$ 186
Annualized premium sales[2]			**$ 10**	$ 13	**$ 8**	$ 10				

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

Management's Discussion and Analysis

For the six months ended June 30 (in millions of dollars)	Wealth Management 2017	Wealth Management 2016	Employee Benefits 2017	Employee Benefits 2016	Individual Insurance 2017	Individual Insurance 2016	Capital and Surplus 2017	Capital and Surplus 2016	Total 2017	Total 2016
Revenue										
Net premium income	**$ 59**	$ 92	**$ 167**	$ 169	**$ 181**	$ 179	**$ —**	$ —	**$ 407**	$ 440
Fee income	**119**	108	**5**	4	**—**	—	**—**	—	**124**	111
Investment income	**20**	20	**2**	2	**87**	83	**25**	21	**134**	126
Realized gain (loss) on FVTPL investments	**2**	—	**—**	1	**44**	31	**(9)**	(10)	**37**	22
Realized gain (loss) on available for sale investments including impairment write downs	**(1)**	(1)	**—**	—	**—**	—	**3**	9	**2**	8
Fair value change in FVTPL investments	**18**	—	**—**	3	**182**	280	**8**	(10)	**208**	273
Total revenue	**218**	219	**174**	179	**494**	573	**27**	10	**913**	980
Expenses										
Benefits and expenses	**161**	175	**160**	174	**466**	533	**9**	5	**796**	887
Income and other taxes	**14**	11	**7**	5	**10**	14	**4**	1	**35**	31
Total expenses	**175**	186	**167**	179	**476**	547	**13**	6	**831**	918
Net income after tax	**$ 43**	$ 33	**$ 8**	$ —	**$ 18**	$ 26	**$ 13**	$ 4	**$ 83**	$ 63
Participating policyholders' portion									**(5)**	(3)
Dividends on preferred shares									**4**	4
Common shareholders' net income									**$ 84**	$ 62
Assets under management[2]										
General fund assets[2]	**$ 993**	$ 963							**$ 8,173**	$ 7,668
Segregated fund assets[2]	**$ 8,290**	$ 7,472			**$ 23**	$ 20			**$ 8,313**	$ 7,492
Mutual fund assets[2]	**$ 187**	$ 186							**$ 187**	$ 186
Annualized premium sales[2]			**$ 18**	$ 26	**$ 15**	$ 18				

Total Revenue

(in millions of dollars)	Second quarter 2017	Second quarter 2016	Year to date 2017	Year to date 2016
Revenue				
Net premium revenue	**$ 205**	$ 211	**$ 407**	$ 440
Investment income	**70**	65	**134**	126
Fair value change in FVTPL investments including realized amounts	**162**	226	**246**	295
Realized gain (loss) on AFS investments including impairment write downs	**4**	6	**2**	8
Fee income	**63**	56	**124**	111
Total Revenue	**$ 504**	$ 564	**$ 913**	$ 980

For the second quarter of 2017, total revenue at Empire Life decreased from $564 million in 2016 to $504 million. On a year to date basis, total revenue decreased from $980 million in 2016 to $913 million. The decrease in total revenue is primarily attributable to the impact of market interest rate and stock market movements on investments that are held at market value. The fair value change and the realized amounts is included in fair value through the profit and loss (FVTPL). Revenue volatility is also driven by the impact of market interest rates on the sale of available for sale (AFS) assets. Major revenue items are discussed below.

Net premium revenue for the quarter and year to date decreased primarily due to lower fixed interest annuity premiums. Management believes that customers have started choosing equity products rather than more conservative fixed interest products due to the recent stability in the equity markets and low interest rates.

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

The FVTPL assets experienced a net gain for the second quarter and year to date of 2017 and 2016. The year over year decrease in net gains is due to a larger decrease in interest rates in 2016 and more favourable stock market conditions in 2016.

Realized gain (loss) on AFS investments including impairment write downs was minimal for the quarter and the year to date of 2017 and 2016. The result for both years 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 income for the quarter and year to date increased by 12.2% and 12.0% respectively in 2017 relative to 2016 primarily due to growth in segregated fund management fees and segregated fund guarantee fees. This is discussed in Product Line Results - Wealth Management section later in this report.

Total Benefits and Expenses

	Second quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Benefits and expenses				
Net benefits and claims	**$ 141**	$ 144	**$ 293**	$ 299
Net change in insurance contract liabilities	**220**	291	**313**	407
Policy dividends	**8**	7	**14**	14
Operating expenses	**40**	37	**77**	71
Net commissions	**45**	44	**91**	92
Interest expense	**4**	2	**8**	5
Total benefits and expenses	**$ 458**	**$ 525**	**$ 796**	$ 888

For the second quarter of 2017, total benefits and expenses at Empire Life decreased from $525 million in 2016 to $458 million. On a year to date basis, total benefits and expenses decreased from $888 million in 2016 to $796 million. A substantial portion of the Benefits and Expense change is driven by benefits and claims paid to our policyholders and 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. Net benefits and claims for the second quarter and year to date were lower than the comparable period in 2016 primarily due to lower Employee benefits claims. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released may be larger or smaller than the claims incurred depending on whether claims experience has been more or less than what was estimated for the insurance contract liabilities. Claims experience is the combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities. Year over year claims experience is discussed in each of the impacted product lines (see Product Line Results sections later in this report).

Net change in insurance contract liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, assumptions about the future, and changes in the market value of assets matching insurance contract liabilities. For the quarter and year to date, the main reason for the change from 2016 for this item was 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, 6] See Non-GAAP Measures

Product Line Results - Wealth Management

(in millions of dollars)		As at June 30	
		2017	2016
Assets under management[4]			
General fund annuities[4]	**$**	**993**	$ 963
Segregated funds[4]		**8,313**	7,472
Mutual funds [4]		**187**	186

(in millions of dollars)	Second quarter		Year to date	
	2017	2016	**2017**	2016
Selected financial information				
Net fixed interest annuity premiums	**$ 32**	$ 36	**$ 59**	$ 92
Segregated fund gross sales[4]	**284**	210	**584**	494
Segregated fund net sales[4]	**41**	10	**69**	59
Segregated fund fee income	**59**	53	**117**	104
Mutual fund gross sales[4]	**5**	9	**14**	20
Mutual fund net sales[4]	**(7)**	3	**(10)**	8
Mutual fund fee income	**1**	1	**1**	1
Net income after tax	**$ 15**	**$ 16**	**$ 43**	**$ 33**

Assets in Empire Life general fund annuities increased by 3%, while segregated fund assets increased by 11% during the last 12 months. While the demand for fixed interest immediate annuities increased in 2016, demand in the second quarter and year to date of 2017 has tempered significantly from the low interest rate environment. Demand for fixed interest deferred annuities has also weakened in 2017. The growth in segregated funds over the last 12 months was attributable to increased stock markets and positive net sales from new products introduced in 2014. Mutual fund assets under management are relatively unchanged as a result of lower than anticipated mutual fund sales.

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 second quarter and year to date new fixed interest annuity deposits decreased compared to the comparable periods in 2016. Management believes that customers have started choosing equity products rather than more conservative fixed interest products due to the recent stability in the equity markets and low interest rates.

For the second quarter and year to date of 2017 segregated fund gross sales were up 35% and 18% compared to 2016, primarily due to 75% maturity guarantee product sales which increased by $36 million and $57 million from the second quarter and year to date in 2016 respectively. The products with GMWB and 100% maturity guarantees also increased from the second quarter and year to date periods of 2016. Empire Life closed its segregated fund products that existed on October 31, 2014 to new policies and on November 3, 2014 launched a new suite of investment products including a new segregated funds family and a new version of its Guaranteed Minimum Withdrawal Benefit (“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. The industry segregated fund sales in 2017 were up approximately 16% from 2016, while Empire Life’s sales have increased 18% over the same period.

Mutual fund gross sales for the quarter and year to date were lower than the same period in 2016. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the second quarter and year to date segregated fund fee income increased by 13% relative to the same period in 2016. The increase was primarily due to growth in segregated fund management fees and guarantee fees. Improved stock markets since the second quarter of 2016 have also resulted in higher average assets under management and management fees earned relative to 2016.

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

During the second quarter of 2017 earnings from Wealth Management decreased by $1 million from 2016 and year to date earnings increased by $10 million. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars after tax)	Second quarter	Year to date
Components of increase (decrease)		
Improved investment experience	**$ —**	**$ 7**
Increase in inforce profit margins	**—**	**3**
Worsened annuitant mortality experience	**(1)**	**(1)**
Lower new business strain	**—**	**1**
Total	**$ (1)**	**$ 10**

For the second quarter mortality experience for fixed annuities was less favourable than the second quarter of 2016. The improved investment experience in 2017 year to date relative to 2016 is primarily as a result of the appreciation in the value of interest and credit sensitive assets in the Investment product line relative to 2016. Higher net income on in-force business in 2017 was primarily due to higher fee income as a result of growth in the business and higher stock markets relative to 2016.

Product Line Results - Employee Benefits

	Second quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Selected financial information				
Annualized premium sales[5]	**$ 10**	$ 13	**$ 18**	$ 26
Net premium revenue	**83**	84	**167**	169
Net income (loss) after tax	**$ 4**	$ (1)	**$ 8**	$ —

For the second quarter and year to date, annualized premium sales for Employee Benefits decreased by 17% and 29% respectively in 2017 relative to 2016 which contributed to in-force premium revenue decreases of 2% and 1% for the same periods respectively. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

During the second quarter of 2017 earnings from this product line increased by $5 million relative to 2016. For the year to date earnings from this product line increased by $8 million. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Second quarter	Year to date
Components of increase		
Improved claims experience	**$ 5**	**$ 8**
Total	**$ 5**	**$ 8**

For the second quarter and year to date health claims improved relative to 2016. As Empire Life balances claims management with customer experience it cannot predict whether claims improvement will continue.

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

Product Line Results - Individual Insurance

	Second quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Selected financial information				
Annualized premium sales[6]	**$ 8**	$ 10	**$ 15**	$ 18
Net premium revenue	**90**	89	**181**	179
Net income (loss) after tax				
Net income after tax shareholders' portion	**$ 6**	$ 12	**$ 25**	$ 30
Net loss after tax policyholders' portion	**(4)**	(3)	**(7)**	(4)
Net income (loss) after tax	**$ 2**	$ 9	**$ 18**	$ 26

For the second quarter and year to date new premium sales decreased slightly from the comparable period in 2016 primarily due to the change in product mix from Universal Life to term insurance and tax changes effective January 1, 2017. The net premium revenue increased slightly as a result of higher in-force business since the second quarter of 2016. Empire Life's recently launched EstateMax® participating policy sales are lower than in the second quarter and year to date of 2016 as a result of product modifications launched late in the first quarter. EstateMax® is distributed through professional financial advisors aimed at providing simple estate planning solutions to Canadian baby boomers. In recent years 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 fourth quarter of 2016 Empire Life decided to stop selling universal life insurance products but will continue to administer its in-force block of universal life insurance products.

During the second quarter of 2017 earnings from this product line decreased by $7 million relative to 2016. For the year to date earnings from this product line decreased by $8 million. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	**Second quarter**	**Year to date**
Components of decrease		
Worsened investment experience	**$ (1)**	**$ (12)**
Improved mortality and lapse experience	**4**	**2**
Improved new business strain	**1**	**—**
Higher (lower) gains management actions to improve asset/liability matching	**(11)**	**2**
Total	**$ (7)**	**$ (8)**

The reduced investment experience for the year to date arose from a loss of $10 million after tax in the year to date of 2017 in comparison to an after tax gain of $2 million in 2016 primarily due to unfavourable stock market movements in 2017 compared to favourable movements in the first half of 2016. Mortality and lapse experience in the second quarter and year to date of 2017 was better than 2016. Mortality experience will fluctuate from quarter to quarter. Management actions to improve asset/liability matching occurred in both 2017 and 2016 resulting in increased profit in the second quarter and year to date in both years. During the second quarter and year to date of 2017 gains were $1 million and $22 million respectively compared to $12 million and $20 million respectively for 2016. The improved matching position in both years resulted in a gain from updating insurance contract liabilities. Empire Life increased its investment in real estate limited partnership units during the first quarter of 2017 and the first half of 2016. This investment is used to match long-term insurance contract liabilities. Management continued to make changes to the bond and equity portfolios in this quarter and year to date to reduce the mismatch between the liability and asset portfolio. Management made similar changes to the bond portfolio in the second quarter and year to date of 2016.

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

Management's Discussion and Analysis

Long-term interest rate movements are demonstrated in the following table.

	Second quarter		Year to date	
	2017	2016	**2017**	2016
Interest rate movement				
30 year Canadian federal government bond yield				
End of period	**2.14 %**	1.72 %	**2.14 %**	1.72 %
Beginning of period	**2.31 %**	2.00 %	**2.31 %**	2.16 %
Change during period	**(0.17)%**	(0.28)%	**(0.17)%**	(0.44)%
30 year Province of Ontario spread				
End of period	**0.85 %**	1.05 %	**0.85 %**	1.05 %
Beginning of period	**0.85 %**	1.10 %	**0.90 %**	1.05 %
Change during period	**0.00 %**	(0.05)%	**(0.05)%**	0.00 %
30 year A rated corporate spread (including financials)				
End of period	**1.41 %**	1.81 %	**1.41 %**	1.81 %
Beginning of period	**1.49 %**	1.80 %	**1.60 %**	1.92 %
Change during period	**(0.08)%**	0.01 %	**(0.19)%**	(0.11)%
30 year A rated financials spread				
End of period	**1.90 %**	2.35 %	**1.90 %**	2.35 %
Beginning of period	**1.87 %**	2.30 %	**2.01 %**	2.19 %
Change during period	**0.03 %**	0.05 %	**(0.11)%**	0.16 %

Interest rate movements impact both bond asset fair values and insurance contract liabilities. In the second quarter and year to date of 2017 and 2016, the decrease in interest rates (including spreads described above) caused higher bond prices, which resulted in a bond asset fair value gain.

Stock market movements are demonstrated in the following table.

	Second quarter		Year to date	
	2017	2016	**2017**	2016
Stock market movement				
S&P/TSX Composite Index				
End of period	**15,182**	14,065	**15,182**	14,065
Beginning of period	**15,548**	13,494	**15,288**	13,010
Percentage change during period	**(2.4)%**	4.2%	**(0.7)%**	8.1%
S&P 500 Index				
End of period	**2,423**	2,099	**2,423**	2,099
Beginning of period	**2,363**	2,060	**2,239**	2,044
Percentage change during period	**2.6 %**	1.9%	**8.2 %**	2.7%

In the second quarter and year to date of 2017 the decrease in stock markets caused common share asset fair value losses. However, these losses are significantly reduced by increased insurance contract liabilities.

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

Results - Capital and Surplus

(in millions of dollars)	Second quarter 2017	Second quarter 2016	Year to date 2017	Year to date 2016
Net income after tax				
Net income after tax shareholders' portion	**$ 10**	$ 1	**$ 12**	$ 2
Net income after tax policyholders' portion	**—**	1	**1**	2
Net income after tax	**$ 10**	**$ 2**	**$ 13**	$ 4

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 second quarter and year to date, earnings from Capital and Surplus increased relative to 2016. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars after tax)	Second quarter	Year to date
Components of increase		
Decreased net loss on hedging instruments	**$ 10**	**$ 14**
Increased net income from investments	**2**	**4**
Lower net gains (losses) on investments	**(2)**	**(6)**
Increased interest and other expenses	**(2)**	**(3)**
Total	**$ 8**	**$ 9**

During the second quarter and year to date of 2017, Empire Life experienced a $1 million gain and a $2 million loss after tax respectively on its hedging program primarily due to stable Canadian stock prices compared to a loss of $9 million and $16 million respectively for the comparable period in 2016 primarily due to rising Canadian stock prices in 2016 (discussed in the Risk Management section later in this report).

Increase in net income from investments was primarily due to higher surplus assets in 2017 compared to 2016.

Lower gains (losses) on investments was primarily due to lower gains from the sale of available for sale (AFS) bonds and stocks in 2017 compared to 2016.

Increased interest expense was due to Empire Life's issuance of $200 million of subordinated debt during the fourth quarter of 2016.

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

Total Cash Flow

	Year to date	
(in millions of dollars)	**2017**	2016
Cash Flow provided from (used for)		
Operating activities	**$ 132**	$ 170
Investing activities	**(175)**	(340)
Financing activities	**(12)**	140
Net change in cash and cash equivalents	**$ (55)**	$ (30)

Net change in cash and cash equivalents was minus $55 million made up of the following items.

The decrease in cash provided from operating activities in 2017 was primarily due to higher cash outflows related to income taxes in 2017.

The decrease in cash from investing activities was primarily because of lower short-term investment and lower asset purchases net of maturities. In the first quarter of 2016 the proceeds from the issuance of $149.5 million of preferred shares increased the overall amount of investment activity for that quarter.

The decrease in financing activities in 2017 relative to 2016 was primarily due to the issuance of $149.5 million of preferred shares in the first quarter of 2016.

For an analysis of liquidity for Empire Life, see note 10(e) and note 28(b) to the 2016 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 of Directors. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of Empire Life's Board on the credit risk to which the portfolio is exposed.

Empire Life manages credit risk with respect to derivatives by applying limits and credit rating restrictions established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed, with total credit exposure limited to $100 million. 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, 2016.

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

Capital Resources

	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016
MCCSR Ratio	**249%**	258%	248%	213%	213%

Empire Life continues to maintain a strong balance sheet and capital position. Empire Life's debentures and preferred shares are rated by DBRS Limited ("DBRS") and A.M. Best Company, Inc. ("A.M. Best"). On May 24, 2017, 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), its financial strength rating of "A" (sixth highest of 22 categories) and its Preferred Share rating of Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life's maintenance of market share, good earnings ability, increased capitalization level, fixed charge coverage, conservative investment portfolio and negligible intangibles on the balance sheet.

On June 1 2017, A.M. Best confirmed its ratings of Empire Life including it's "A excellent" financial strength rating (third highest of 16 categories) its "a" long term issuer credit rating (sixth highest of 21 categories), its "bbb+" subordinated debt rating (eighth highest of 21 categories), and its "bbb" Preferred Share rating (ninth highest of 21 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's favourable risk-adjusted capital position, consistently positive operating results, high credit quality investment portfolio and a diversified revenue stream in Canada with multiple lines of business.

Empire Life's risk-based regulatory capital ratio, as measured by MCCSR, of 249% as at June 30, 2017 continues to be significantly 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 decrease in the MCCSR ratio for the second quarter was primarily due to growth of the business and investment of surplus cash. The increase in capital since the second quarter 2016 was primarily due to Empire Life's issuance of $200 million principal amount of unsecured subordinated debentures on December 16, 2016 and strong earnings for the four quarters ending June 30, 2017.

(in millions of dollars)	**Jun 30 2017**	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016
Available regulatory capital					
Tier 1	**$ 1,249**	$ 1,248	$ 1,206	$ 1,123	$ 1,089
Tier 2	**742**	713	707	541	535
Total	**$ 1,991**	$ 1,961	$ 1,913	$ 1,664	$ 1,624
Required regulatory capital	**$ 799**	$ 760	$ 771	$ 781	$ 762

The increase in Tier 1 available regulatory capital in the second quarter of 2017 was primarily due to net income partly offset by an increase in the negative reserves which decrease Tier 1 and increase Tier 2 capital.

The increase in Tier 2 available regulatory capital for the second quarter of 2017 is primarily related to the increase in negative reserves and re-measurement of post-employment defined benefit plan.

Regulatory capital requirements increase from market risk and insurance company risk such as lapse risk, mortality risk and segregated fund guarantees as a result of normal business growth and a decrease in long term interest rates.

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

Other Comprehensive Income

(in millions of dollars after tax)	Second quarter 2017	Second quarter 2016	Year to date 2017	Year to date 2016
Other comprehensive income (loss)	**$ (1)**	$ 9	**$ 7**	$ 7
Less: Participating policyholders	**—**	1	**1**	(1)
Other comprehensive income (loss), attributable to shareholders	**$ (1)**	$ 10	**$ 8**	$ 6

Other comprehensive income (OCI) decreased in the second quarter of 2017. The decrease was primarily due to lower unrealized fair value increases relating to AFS investments. The decrease is primarily due to a smaller decrease in interest rates and credit spreads in most of the fixed income AFS asset classes during the second quarter of 2017 compared to the same period in 2016. For the year to date. OCI increased relative to 2016 primarily due to a lower loss on re-measurement of the liability component of post-employment defined benefit ("DB") plans. The lower loss is primarily due to a smaller decrease in interest rates so far this year relative to the same period in 2016.

Unrealized fair value increases and decreases on AFS bonds in OCI do not impact MCCSR. Re-measurement of DB plans does not immediately impact MCCSR as each quarter's re-measurement 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 can differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for the Company's future net income, OCI, and capital sensitivities. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

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

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life has a semi-static hedging program. The objective of the hedging program is to partially protect Empire Life from possible future 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. The extent of options used is monitored and managed on an ongoing basis, giving consideration to equity risk and the level of available capital.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for 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 second quarter and year to date of 2017, Empire Life experienced a $1 million gain and a $2 million loss after tax respectively on its hedging program primarily due to stable Canadian stock prices compared to a loss of $9 million and $16 million respectively for the comparable period in 2016 primarily due to rising Canadian stock prices in 2016.

Empire Life's MCCSR ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of June 30, 2017, Empire Life had $8.3 billion of segregated fund assets and liabilities. Of this amount, approximately $8.0 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Jun 30 2017	Dec 31 2016
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**1.7%**	1.2%
75% maturity guarantee and a 100% death benefit guarantee	**48.9%**	49.7%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**6.5%**	6.1%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	**42.9%**	43.0%

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.

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

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. Generally as stock markets and interest rates rise the magnitude of the negative liabilities will also rise. In the first table below, Empire Life discloses the sensitivity of net income to changes in segregated fund guarantee insurance contract liabilities. There is a net loss resulting from a 20% and a 30% decrease at June 30, 2017 and at December 31 for 2016, 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 June 30, 2017 and December 31 for 2016, the sensitivity of Empire Life shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

Sensitivity to segregated fund guarantees	**Increase**		**Decrease**		
(in millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
June 30, 2017 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ (25)**	**$ (136)**
December 31, 2016 Shareholders' net income	$ nil	$ nil	$ nil	$ (10)	$ (117)

As per the sensitivity table, the impact of stock market changes on the segregated fund guarantee liabilities is not linear. As noted earlier, Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at June 30, 2017 and December 31, 2016, the sensitivity of Empire Life shareholders' net income (including changes in segregated fund guarantee insurance contract liabilities) resulting from stock market increases and decreases is as follows (excluding the effect of Empire Life's equity risk hedging program):

Sensitivity excluding equity risk hedge	**Increase**		**Decrease**		
(in millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
June 30, 2017 Shareholders' net income	**$ 47**	**$ 23**	**$ (23)**	**$ (72)**	**$ (221)**
December 31, 2016 Shareholders' net income	$ 51	$ 25	$ (25)	$ (60)	$ (196)

The equity risk hedging program provides relief in adverse scenarios, but incurs losses in positive scenarios.

The June 30, 2017 and December 31, 2016 amounts in the following table include the effect of Empire Life's equity risk hedging program (described above):

Sensitivity including equity risk hedge	**Increase**		**Decrease**		
(in millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
June 30, 2017 Shareholders' net income	**$ 37**	**$ 18**	**$ (17)**	**$ (54)**	**$ (188)**
December 31, 2016 Shareholders' net income	$ 36	$ 18	$ (16)	$ (36)	$ (148)

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.

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

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 MCCSR	**Increase**		**Decrease**		
Sensitivity to stock markets (percentage points)	**20%**	**10%**	**10%**	**20%**	**30%**
June 30, 2017 Shareholders' net income	**0.0**	**0.2**	**(14.3)**	**(34.4)**	**(41.7)**
December 31, 2016 Shareholders' net income	(0.7)	(0.2)	(12.1)	(35.3)	(40.1)

The June 30, 2017 and December 31, 2016 amounts in the following table include the effect of Empire Life's equity risk hedging program (described below):

Including Equity Risk Hedge MCCSR	**Increase**		**Decrease**		
Sensitivity to stock markets (percentage points)	**20%**	**10%**	**10%**	**20%**	**30%**
June 30, 2017 Shareholders' net income	**(2.8)**	**(1.3)**	**(12.8)**	**(31.2)**	**(35.2)**
December 31, 2016 Shareholders' net income	(5.4)	(2.6)	(9.7)	(30.4)	(30.2)

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**
June 30, 2017	**$ 2,577**	**$ 623**	**$ 92**	**$ 2**	**$ 871**	**$ 9**	**$ nil**	**$ 162**
December 31, 2016	$ 2,530	$ 627	$ 37	$ 1	$ 324	$ 4	$ nil	$ 150

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 June 30, 2017, the aggregate amount at risk for all three categories of risk is $634 million. At December 31, 2016, the aggregate amount at risk for these three categories of risk was $632 million. The amount at risk increased from $632 million at December 31, 2016 to $634 at June 30, 2017.

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 at June 30, 2017 decreased slightly from the December 2016 levels for GMWB withdrawal benefit exposure as equity market performance was relatively flat in 2017. The quarterly update of segregated fund policy data on our stochastic model resulted in an increase in required regulatory capital.

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

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 non-participating insurance business and segregated fund guarantees for June 30, 2017 and December 31, 2016, 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 attributable to Empire Life's 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.

Sensitivity To Market Interest Rates	**Before The Sale of AFS Assets**	**After The Sale of AFS Assets**
	50 bps Decrease	**50 bps Decrease**
June 30, 2017 MCCSR Ratio	**(20.9)%**	**(15.2)%**
December 31, 2016 MCCSR Ratio	(19.5)%	(14.5)%

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, 2016 and Empire Life's 2016 Annual Information Form available at www.sedar.com. Additional disclosures of Empire Life's sensitivity to risks are included in Note 28 to the 2016 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)	**Jun 30 2017**	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015
Revenue	**$ 504**	$ 410	$ (25)	$ 453	$ 564	$ 416	$ 391	$ 212
Common shareholders' net income	**$ 33**	$ 50	$ 53	$ 38	$ 25	$ 37	$ 16	$ 22
Earnings per share - basic and diluted	**$ 33.91**	$ 50.91	$ 53.34	$ 38.67	$ 25.21	$ 37.81	$ 16.43	$ 22.49

For the second quarter of 2017, total revenue at Empire Life decreased from $564 million in 2016 to $504 million. The decrease in total revenue is primarily attributable to the impact of market interest rate and stock market movements on Fair value change in fair value through profit and loss ("FVTPL") investments.

Revenue includes a change in FVTPL investments including realized amounts which often causes large revenue volatility. For example revenue for the fourth quarter of 2016 was reduced by FVTPL adjustment of a $371 million loss compared to a $162 million gain in the second quarter 2017. The FVTPL assets experienced a net gain for the second quarter of 2017 and 2016 from assets sold as well as an increase in the value of assets held as a result of interest rate decreases in both years and equity market increases in 2016.

Realized gain (loss) on available for sale investments ("AFS") including impairment write downs was minimal for the second quarter of 2017 and 2016. The result for both years was primarily due to the sale of AFS bonds.

Fee income for the second quarter of 2017 increased by 12% relative to the second quarter of 2016, primarily due to the growth in segregated fund management fees and guarantee fees.

For the second quarter of 2017, net income was higher relative to 2016 due to higher profit from lower hedging costs and from improved operating performance in the Employee Benefits product line. The Individual insurance business has realized significant gains in other quarters in 2017 and 2016 primarily attributable to improved stock market conditions, a favourable update of policy liability assumptions for the Individual Insurance business and management actions to improve asset/liability matching in 2017 and 2016.

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

Empire Life improved its matching position in 2017 and throughout 2016 by increasing its investment in real estate limited partnership units during the first quarter of 2017 and the first nine months of 2016 and by making changes to its bond investments. The improved matching position resulted in a gain in the first quarter of 2017 and all four quarters of 2016 from updating insurance contract liabilities.

Net income variability during the most recent eight quarters was often 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 June 30, 2017 and June 30, 2016. Long-term interest rates increased, resulting in favourable net income in the individual insurance product line during the third and fourth quarters of 2015. In addition, unfavourable Individual Insurance mortality, surrender and lapse experience lowered net income in the first, second and third quarters of 2016 and the third quarter of 2015. The annual update of Individual Insurance policy liability assumptions lowered net income in the fourth quarter of 2015. During the first quarter of 2017 and the first and third quarters of 2016 and the third quarter of 2015, 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. Net income from the Employee benefits has been fairly volatile in past quarter from higher claims than expected. Overall Employee Benefits typically represents less than 10% of the company's net income.

Forward-Looking Statements and Information

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

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

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

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

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

Non-GAAP Measures

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

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

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

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

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

Reconciliation of Assets Under Management

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

As at (in millions of dollars)	**June 30, 2017**	June 30, 2016	December 31, 2016
Assets under management			
General fund assets	**$ 8,173**	$ 7,668	$ 7,780
Segregated fund assets	**8,313**	7,492	8,082
Total assets per financial statements	**16,486**	15,160	15,862
Mutual fund assets	**187**	186	189
Assets under management	**$ 16,673**	$ 15,346	$ 16,051

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

As at (in millions of dollars)	**June 30, 2017**	June 30, 2016	December 31, 2016
DB Plan Assets			
Segregated fund assets	**$ 192**	$ 184	$ 195
Mutual fund assets	**13**	12	13

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