The Empire Life Insurance Company

Management's Discussion and Analysis
For the nine months ended September 30, 2017

Empire Life®

Management's Discussion and Analysis

This MD&A is dated as of October 26, 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 third 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 quarters 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

	Third quarter		Year to date	
(in millions of dollars except per share amounts)	**2017**	2016	**2017**	2016
Common shareholders' net income	**$ 39.1**	$ 38.1	**$ 122.6**	$ 100.2
Earnings per share - basic and diluted	**$ 39.67**	$ 38.67	**$ 124.49**	$ 101.69
Return on common shareholders' equity (annualized) ("ROE")	**11.6%**	12.8%	**12.4%**	11.6%

Empire Life reported third quarter common shareholders' net income of $39.1 million for 2017, compared to $38.1 million for third quarter 2016. The increase in earnings for the third quarter of 2017 compared to 2016 is primarily as a result of improved operating performance in the Employee Benefits product line and lower hedge costs, partially offset by lower gains in the Individual Insurance product lines. Year to date common shareholders' net income was $122.6 million compared to $100.2 million in 2016 primarily due to the above mentioned items and improved operating performance in the Wealth Management product line.

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

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

Sources of Earnings	**Third quarter**		**Year to date**	
(in millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 43.6**	$ 42.2	**$ 129.5**	$ 119.6
Impact of new business	**(3.8)**	(1.7)	**(14.1)**	(9.6)
Experience gains (losses)	**14.5**	9.7	**7.7**	(1.9)
Management actions and changes in assumptions	**(2.7)**	7.7	**27.8**	34.8
Earnings on operations before income taxes	**51.6**	57.9	**150.8**	142.9
Earnings on surplus	**3.4**	(4.6)	**19.0**	(1.6)
Income before income tax	**$ 55.0**	$ 53.3	**$ 169.8**	$ 141.3
Income taxes	**13.7**	13.1	**40.7**	35.4
Shareholders' net income	**$ 41.2**	$ 40.2	**$ 129.0**	$ 105.9
Dividends on preferred shares	**2.1**	2.1	**6.4**	5.7
Common shareholders' net income	**$ 39.1**	$ 38.1	**$ 122.6**	$ 100.2

For the third quarter and year to date of 2017 common shareholders' net income was higher relative to 2016. Despite the higher net income, ROE was lower for the third quarter of 2017 due to higher levels of common shareholders' equity on September 30, 2017 compared to September 30, 2016. ROE for the year to date of 2017 was higher than 2016 due to the strong increase in common shareholders' net income.

The expected profit on in-force business for the third quarter and year to date increased by 3% and 8% respectively. The growth for the year to date was primarily from growth in management and guarantee fees in the Wealth Management product line. The impact of new business was primarily driven by higher segregated fund gross sales in the third quarter and year to date of 2017. Experience gains (losses) improved in the third quarter and year to date primarily due to improved health and long-term disability 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 third 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.

Preferred Shares & Subordinated Debentures	**As at**	**September 30, 2017**	December 31, 2016	September 30, 2016
(in millions of dollars)	**Date Issued**		(issued and outstanding)	
Preferred shares	January 2016	**$ 149.5**	$ 149.5	$ 149.5
Subordinated debentures	May 2013	**300.0**	300.0	300.0
Subordinated debentures	December 2016	**200.0**	200.0	
Subordinated debentures	September 2017	**200.0**		

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth since May 2013. In 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 for the period ending on April 17, 2021. After that 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%. In the fourth quarter 2016 Empire Life issued $200 million principal amount of unsecured subordinated debentures with a maturity date at December 16, 2026. The interest rate on the debentures is 3.383% paid semi-annually until December 16, 2021. After that the interest rate will be the 3-month Canada deposit offer rate plus 1.95% from December 16, 2021 to December 16, 2026. In the third quarter of 2017 Empire Life issued $200 million principal amount of unsecured subordinated debentures with a maturity date of March 15, 2028. The interest rate on the debentures is 3.664% paid semi-annually until March 15, 2023. After that the interest rate will be the 3-month Canada deposit offer rate plus 1.53% from March 15, 2023 to March 15, 2028. The issuances of the debentures in 2016 and 2017 have increased the interest paid relative to the third quarter of 2016 and year to date 2016. Empire Life may call for redemption on or after May 31, 2018, subject to OSFI approval, the subordinated debenture issued in May 2013.

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

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. The adoption of IFRS 17 and IFRS 9 will be a significant initiative for Empire Life and for the industry. Empire Life is currently assessing the impact that IFRS 17 and IFRS 9 will have on the Consolidated Financial Statements.

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.

The following tables provide a summary of Empire Life results by major product line for three months ended September 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 September 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	**$ 42.7**	$ 44.5	**$ 82.0**	$ 85.0	**$ 92.6**	$ 89.1	**$ —**	$ —	**$ 217.3**	$ 218.6
Fee income	**59.6**	56.2	**2.6**	2.4	**—**	0.4	**—**	—	**62.2**	59.0
Investment income	**9.7**	10.2	**0.9**	0.9	**46.1**	47.4	**13.1**	1.6	**69.8**	60.1
Realized gain (loss) on FVTPL investments	**0.2**	1.6	**—**	—	**16.8**	9.1	**(2.4)**	(10.0)	**14.6**	0.7
Realized gain (loss) on available for sale investments including impairment write downs	**—**	—	**—**	—	**—**	—	**(1.1)**	6.5	**(1.1)**	6.5
Fair value change in FVTPL investments	**(12.9)**	6.4	**(1.9)**	0.7	**(213.3)**	99.5	**(0.3)**	1.3	**(228.4)**	107.9
Total revenue	**99.3**	118.9	**83.6**	89.0	**(57.8)**	245.5	**9.3**	(0.6)	**134.4**	452.8
Expenses										
Benefits and expenses	**74.0**	91.6	**73.6**	84.3	**(75.1)**	212.9	**4.5**	2.4	**77.0**	391.2
Income and other taxes	**6.2**	6.6	**4.1**	3.5	**6.8**	10.4	**0.9**	(1.1)	**18.0**	19.4
Total expenses	**80.2**	98.2	**77.7**	87.8	**(68.3)**	223.3	**5.4**	1.3	**95.0**	410.6
Net income (loss) after tax	**$ 19.1**	$ 20.7	**$ 5.9**	$ 1.2	**$ 10.5**	$ 22.2	**$ 3.9**	$ (1.9)	**$ 39.4**	$ 42.2
Participating policyholders' portion									**(1.8)**	2.0
Dividends on preferred shares									**2.2**	2.1
Common shareholders' net income									**$ 39.0**	$ 38.1
Assets under management[3]										
General fund assets[3]	**$ 957.0**	$ 971.7							**$ 8,257.1**	$ 7,918.7
Segregated fund assets[3]	**$ 8,359.4**	$ 7,802.5			**$ 20.3**	$ 20.6			**$ 8,379.7**	$ 7,823.1
Mutual fund assets[3]	**$ 180.7**	$ 187.7							**$ 180.7**	$ 187.7
Annualized premium sales[3]			**$ 9.2**	$ 9.6	**$ 8.4**	$ 10.5				

1, 2, 3, 4, 5, 6, 7, 8, 9, 10 See Non-GAAP Measures

For the nine months ended September 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	**$ 102.0**	$ 136.8	**$ 248.7**	$ 253.7	**$ 273.5**	$ 268.5	**$ —**	$ —	**$ 624.2**	$ 659.0
Fee income	**178.7**	162.0	**7.7**	7.3	**0.3**	0.8	**—**	—	**186.7**	170.1
Investment income	**29.5**	30.7	**2.6**	2.8	**133.4**	130.0	**38.5**	22.7	**204.0**	186.2
Realized gain (loss) on FVTPL investments	**2.1**	2.2	**0.3**	0.6	**61.0**	39.7	**(11.8)**	(19.7)	**51.6**	22.8
Realized gain (loss) on available for sale investments including impairment write downs	**—**	(0.2)	**—**	(0.2)	**(0.1)**	—	**1.5**	15.2	**1.4**	14.8
Fair value change in FVTPL investments	**6.1**	5.9	**(1.5)**	3.2	**(31.7)**	379.8	**7.0**	(8.4)	**(20.1)**	380.5
Total revenue	**318.4**	337.4	**257.8**	267.4	**436.4**	818.8	**35.2**	9.8	**1,047.8**	1,433.4
Expenses										
Benefits and expenses	**235.3**	266.0	**233.2**	257.9	**391.0**	746.4	**13.1**	7.5	**872.6**	1,277.8
Income and other taxes	**20.6**	17.8	**11.2**	8.2	**16.5**	24.2	**4.8**	0.1	**53.1**	50.3
Total expenses	**255.9**	283.8	**244.4**	266.1	**407.5**	770.6	**17.9**	7.6	**925.7**	1,328.1
Net income after tax	**$ 62.5**	$ 53.6	**$ 13.4**	$ 1.3	**$ 28.9**	$ 48.2	**$ 17.3**	$ 2.2	**$ 122.1**	$ 105.3
Participating policyholders' portion									**(7.0)**	(0.6)
Dividends on preferred shares									**6.5**	5.7
Common shareholders' net income									**$ 122.6**	$ 100.2
Assets under management[2]										
General fund assets[2]	**$ 957.0**	$ 971.7							**$ 8,257.1**	$ 7,918.7
Segregated fund assets[2]	**$ 8,359.4**	$ 7,802.5			**$ 20.3**	$ 20.6			**$ 8,379.7**	$ 7,823.1
Mutual fund assets[2]	**$ 180.7**	$ 187.7							**$ 180.7**	$ 187.7
Annualized premium sales[2]			**$ 27.3**	$ 35.1	**$ 23.7**	$ 28.0				

Total Revenue

	Third quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Revenue				
Net premium revenue	**$ 217.3**	$ 218.7	**$ 624.2**	$ 659.0
Investment income	**69.8**	60.0	**204.0**	186.2
Fair value change in FVTPL investments including realized amounts	**(213.9)**	108.6	**31.4**	403.3
Realized gain (loss) on AFS investments including impairment write downs	**(1.0)**	6.5	**1.4**	14.8
Fee income	**62.2**	59.1	**186.7**	170.1
Total Revenue	**$ 134.4**	$ 452.9	**$ 1,047.7**	$ 1,433.4

For the third quarter of 2017, total revenue at Empire Life decreased from $452.9 million in 2016 to $134.4 million. On a year to date basis, total revenue decreased from $1,433.4 million in 2016 to $1,047.7 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 are 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, 7, 8, 9, 10] See Non-GAAP Measures

Investment income has increased for the quarter and year to date. The increase is as a result of a combination of factors including a larger investment portfolio, slightly higher interest rate on new investments and a change in asset mix to include higher yielding securities.

In 2017, the FVTPL assets experienced a net loss for the third quarter and a net gain for the year to date, while 2016 FVTPL assets experienced a net gain for the third quarter and year to date. 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 5.2% and 9.8% 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

	Third quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Benefits and expenses				
Net benefits and claims	**$ 135.8**	$ 142.2	**$ 428.6**	$ 441.2
Net change in insurance contract liabilities	**(152.0)**	157.8	**160.8**	564.8
Change in investment contracts provision	**0.1**	0.9	**0.2**	1.0
Policy dividends	**7.2**	6.8	**21.6**	20.3
Operating expenses	**37.6**	34.3	**114.4**	104.9
Net commissions	**44.3**	46.9	**135.1**	138.9
Interest expense	**4.0**	2.3	**11.9**	6.7
Total benefits and expenses	**$ 77.0**	$ 391.2	**$ 872.6**	$ 1,277.8

For the third quarter of 2017, total benefits and expenses at Empire Life decreased from $391.2 million in 2016 to $77.0 million. On a year to date basis, total benefits and expenses decreased from $1,277.8 million in 2016 to $872.6 million. A substantial portion of the Benefits and Expense change is driven by the impact of market interest rate and stock market movements on net change in insurance contract liabilities. Excluding market related changes Total benefits and expenses for the quarter and year to date have not changed materially since 2016. 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 third 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).

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

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.

Operating expenses for the quarter and year to date have increased primarily as a result of the ongoing modernization of operating systems and expenses related to adapting to regulatory changes.

Product Line Results - Wealth Management

	As at September 30	
(in millions of dollars)	**2017**	2016
Assets under management[4]		
General fund annuities[4]	**$ 957.0**	$ 971.7
Segregated funds[4]	**8,359.4**	7,802.5
Mutual funds [4]	**180.7**	187.7

	Third quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Selected financial information				
Net fixed interest annuity premiums	**$ 42.9**	$ 44.5	**$ 102.1**	$ 136.8
Segregated fund gross sales[4]	**218.5**	207.0	**802.7**	701.3
Segregated fund net sales[4]	**15.2**	6.2	**83.8**	65.6
Segregated fund fee income	**58.7**	55.2	**175.6**	159.1
Mutual fund gross sales[4]	**3.7**	6.9	**17.5**	27.0
Mutual fund net sales[4]	**(8.3)**	0.5	**(17.9)**	8.3
Mutual fund fee income	**0.7**	0.7	**2.2**	2.2
Net income after tax	**$ 19.1**	$ 20.5	**$ 62.5**	$ 53.5

Assets in Empire Life general fund annuities decreased by 1.5%, while segregated fund assets increased by 7.1% and mutual fund assets decreased by 3.7% during the last 12 months. While the demand for fixed interest immediate annuities increased in 2016, demand in the third quarter and year to date of 2017 has been tempered by 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 decreased as a result of lower than anticipated mutual fund sales combined with the closure of three mutual funds in the third quarter of 2017.

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 third 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 third quarter and year to date of 2017 segregated fund gross sales were up 5.5% and 14.5% compared to 2016, primarily due to 75% maturity guarantee product sales which increased by $11.7 million and $68.2 million from the third quarter and year to date in 2016 respectively. The products with 100% maturity guarantees also increased from the third quarter and year to date periods of 2016. The products with Guaranteed Minimum Withdrawal Benefit ("GMWB") decreased in the quarter, but increased year to date from the level achieved in the 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

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

"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. On October 23, 2017, Empire Life launched a new version of its GMWB product which is more capital efficient than the previous product, resulting in overall lower costs for the consumer. The industry segregated fund sales in 2017 were up approximately 13% from 2016, while Empire Life's sales have increased 14.5% 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 third quarter and year to date segregated fund fee income increased by 6.3% and 10.4%, 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 third quarter of 2016 have also resulted in higher average assets under management and management fees earned relative to 2016.

The following table provides a breakdown of the sources of earnings[5] for the third quarter and year to date for Wealth Management.

Sources of Earnings[5] - Wealth Management	**Third quarter**		**Year to date**	
(in millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 27.2**	$ 27.2	**$ 81.6**	$ 74.5
Impact of new business	**(1.8)**	(0.9)	**(6.4)**	(4.4)
Experience gains (losses)	**(0.1)**	0.8	**7.9**	1.2
Management actions and changes in assumptions	**—**	—	**—**	—
Earnings on operations before income taxes	**25.3**	27.1	**83.1**	71.3
Income taxes	**6.2**	6.6	**20.5**	17.8
Shareholders' net income	**$ 19.1**	$ 20.5	**$ 62.6**	$ 53.5

The expected profit on in-force business for the third quarter was equal to last year as higher fee income in 2017 was offset by higher expenses in 2017. For the year to date increased expected profit on in-force business was primarily from higher fee income as a result of growth in the business and higher stock markets relative to 2016. The impact of new business was primarily driven by higher segregated fund gross sales in the third quarter and year to date of 2017. The improved experience gains for the year to date primarily relate to investment experience as a result of the appreciation in the value of interest and credit sensitive assets in the Wealth Management product line relative to 2016.

Product Line Results - Employee Benefits

	Third quarter		**Year to date**	
(in millions of dollars)	**2017**	2016	**2017**	2016
Selected financial information				
Annualized premium sales[6]	**$ 9.2**	$ 9.5	**$ 27.3**	$ 35.1
Net premium revenue	**82.0**	85.0	**248.7**	253.7
Net income (loss) after tax	**$ 5.9**	$ 1.3	**$ 13.4**	$ 1.3

For the third quarter and year to date, annualized premium sales for Employee Benefits decreased by 3.0% and 22.1% respectively in 2017 relative to 2016 which contributed to in-force premium revenue decreases of 3.6% and 1.9% 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.

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

The following table provides a breakdown of the sources of earnings[7] for the third quarter and year to date for Employee Benefits.

Sources of Earnings[7] - Employee Benefits	**Third quarter**		**Year to date**	
(in millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 6.0**	$ 5.0	**$ 16.5**	$ 15.2
Impact of new business	**(1.9)**	(1.2)	**(6.3)**	(4.5)
Experience gains (losses)	**3.8**	(1.6)	**8.1**	(8.3)
Management actions and changes in assumptions	**—**	—	**—**	—
Earnings on operations before income taxes	**7.9**	2.2	**18.3**	2.4
Income taxes	**2.0**	0.9	**4.9**	1.1
Shareholders' net income	**$ 5.9**	$ 1.3	**$ 13.4**	$ 1.3

Expected profit for the third quarter and year to date increased primarily as a result of improved mix of inforce business to more profitable contracts. Third quarter and year to date improvement in experience gains primarily related to improved health and long-term disability claims relative to 2016. As Empire Life balances claims management with customer experience it cannot predict whether claims improvement will continue.

Product Line Results - Individual Insurance

	Third quarter		**Year to date**	
(in millions of dollars)	**2017**	2016	**2017**	2016
Selected financial information				
Annualized premium sales[8]	**$ 8.5**	$ 10.5	**$ 23.7**	$ 28.0
Net premium revenue	**92.5**	89.1	**273.5**	268.5
Net income (loss) after tax				
Net income after tax shareholders' portion	**$ 13.5**	$ 21.5	**$ 38.4**	$ 51.9
Net loss after tax policyholders' portion	**(2.9)**	0.7	**(9.5)**	(3.7)
Net income (loss) after tax	**$ 10.5**	$ 22.2	**$ 28.9**	$ 48.2

For the third quarter and year to date new premium sales decreased slightly from the comparable period in 2016 primarily due to the change in product mix offering by Empire Life 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 third quarter of 2016. Empire Life's recently launched EstateMax® participating policy sales are lower than in the third 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.

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

The following table provides a breakdown of the sources of earnings[9] for the third quarter and year to date for Individual Insurance (excludes policyholders' portion).

Sources of Earnings[9]- Individual Insurance (excl. policyholders' portion)	Third quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 10.3**	$ 10.0	**$ 31.4**	$ 29.9
Impact of new business	**(0.1)**	0.4	**(1.4)**	(0.7)
Experience gains (losses)	**10.8**	10.5	**(8.3)**	5.2
Management actions and changes in assumptions	**(2.7)**	7.7	**27.8**	34.8
Earnings on operations before income taxes	**18.3**	28.6	**49.5**	69.2
Income taxes	**4.9**	7.1	**11.1**	17.3
Shareholders' net income	**$ 13.4**	$ 21.5	**$ 38.4**	$ 51.9

The profitability of the Individual insurance inforce business has improved as a result of previous asset and liability management strategies. The impact of new business is modest as prices and expenses are as expected. The experience gains for the third quarter were favourable in both years primarily due to rising interest rates in 2017 and improved stock markets in 2016 respectively. The experience gains from rising interest rates and stock markets were partially offset by unfavourable surrender and lapse experience in both 2017 and 2016.

Management actions to improve asset/liability matching occurred primarily in the first half of 2017 and in the third quarter and year to date of 2016 resulting in a gain in both years. Empire Life increased its investment in real estate limited partnership units during the first quarter of 2017 and the first nine months 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. Re-balancing of the bond portfolio during the third quarter of 2017 resulted in a loss for the quarter. Management made similar changes to the bond portfolio in the third quarter and year to date of 2016.

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

	Third quarter		Year to date	
	2017	2016	**2017**	2016
Interest rate movement				
30 year Canadian federal government bond yield				
End of period	**2.47 %**	1.67 %	**2.47 %**	1.67 %
Beginning of period	**2.14 %**	1.72 %	**2.31 %**	2.16 %
Change during period	**0.33 %**	(0.05)%	**0.16 %**	(0.49)%
30 year Province of Ontario spread				
End of period	**0.80 %**	1.00 %	**0.80 %**	1.00 %
Beginning of period	**0.85 %**	1.05 %	**0.90 %**	1.05 %
Change during period	**(0.05)%**	(0.05)%	**(0.10)%**	(0.05)%
30 year A rated corporate spread (including financials)				
End of period	**1.46 %**	1.73 %	**1.46 %**	1.73 %
Beginning of period	**1.41 %**	1.81 %	**1.60 %**	1.92 %
Change during period	**0.05 %**	(0.08)%	**(0.14)%**	(0.19)%
30 year A rated financials spread				
End of period	**1.99 %**	2.26 %	**1.99 %**	2.26 %
Beginning of period	**1.90 %**	2.35 %	**2.01 %**	2.19 %
Change during period	**0.09 %**	(0.09)%	**(0.02)%**	0.07 %

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

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

Stock market movements are demonstrated in the following table.

	Third quarter		Year to date	
	2017	2016	**2017**	2016
Stock market movement				
S&P/TSX Composite Index				
End of period	**15,634.9**	14,725.9	**15,634.9**	14,725.9
Beginning of period	**15,182.2**	14,064.6	**15,287.6**	13,010.0
Percentage change during period	**3.0%**	4.7%	**2.3%**	13.2%
S&P 500 Index				
End of period	**2,519.4**	2,168.3	**2,519.4**	2,168.3
Beginning of period	**2,423.4**	2,098.9	**2,238.8**	2,043.9
Percentage change during period	**4.0%**	3.3%	**12.5%**	6.1%

In the third quarter and year to date of 2017 the increase in stock markets caused common share asset fair value gains. However, the impact of these gains is significantly reduced by increased insurance contract liabilities.

Results - Capital and Surplus

	Third quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Net income after tax				
Net income after tax shareholders' portion	**$ 2.7**	$ (3.1)	**$ 14.8**	$ (0.8)
Net income after tax policyholders' portion	**1.2**	1.3	**2.5**	3.1
Net income after tax	**$ 3.9**	$ (1.8)	**$ 17.3**	$ 2.3

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.

The following table provides a breakdown of the sources of earnings[10] for the third quarter and year to date for Capital and Surplus (excludes policyholders' portion).

Sources of Earnings[10]- Capital and Surplus (excl. policyholders' portion)	Third quarter		Year to date	
(in millions of dollars)	**2017**	2016	**2017**	2016
Income from investments	**$ 10.0**	$ 7.2	**$ 37.2**	$ 37.2
Gains (losses) on hedging instruments	**(2.2)**	(9.2)	**(5.2)**	(31.3)
Interest and other expenses	**(4.5)**	(2.5)	**(13.1)**	(7.5)
Earnings before income taxes	**3.3**	(4.6)	**18.9**	(1.6)
Income taxes	**0.6**	(1.5)	**4.2**	(0.8)
Shareholders' net income	**$ 2.7**	$ (3.1)	**$ 14.7**	$ (0.8)

Income from investments increased in the third quarter of 2017 compared to third quarter 2016 primarily because of higher assets in surplus. During the third quarter and year to date of 2017, Empire Life experienced lower losses on its hedging program primarily due to the moderate rise in Canadian stock prices in 2017 compared to relatively steeper price increases in 2016 (discussed in the Risk Management section later in this report). 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, 7, 8, 9, 10] See Non-GAAP Measures

Total Cash Flow

(in millions of dollars)	Year to date 2017	2016
Cash Flow provided from (used for)		
Operating activities	**$ 241.2**	$ 222.8
Investing activities	**(428.4)**	(390.5)
Financing activities	**185.2**	137.8
Net change in cash and cash equivalents	**$ (2.0)**	$ (29.9)

Net change in cash and cash equivalents was minus $2.0 million made up of the following items.

The increase in cash provided from operating activities in 2017 was primarily due to higher cash inflows related to changes in working capital levels in 2017.

The decrease in cash from investing activities was primarily due to the investment of the proceeds from the third quarter 2017 issuance of $199.3 million of subordinated debt compared to the investment of the proceeds from the first quarter 2016 issuance of $149.5 million of preferred shares in 2016.

The increase in financing activities in 2017 relative to 2016 was primarily due to the issuance of $199.3 million of subordinated debt in the third quarter of 2017 and 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, 7, 8, 9, 10] See Non-GAAP Measures

Capital Resources

	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016
MCCSR Ratio	**274.2%**	249.2%	258.0%	248.3%	213.0%

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 its "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 274.2% as at September 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 increase in the MCCSR ratio for the third quarter was primarily due to the $200 million debenture issue on September 15, 2017. The increase in capital since the third quarter 2016 was primarily due to Empire Life's issuance of $200 million principal amount of unsecured subordinated debentures on December 16, 2016, $200 million principal amount of unsecured subordinated debentures on September 15, 2017 and strong earnings for the four quarters ending September 30, 2017.

(in millions of dollars)	**Sep 30 2017**	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016
Available regulatory capital					
Tier 1	**$ 1,310.5**	$ 1,248.8	$ 1,248.2	$ 1,206.1	$ 1,123.1
Tier 2	**877.1**	741.8	713.2	707.2	540.7
Total	**$ 2,187.6**	$ 1,990.6	$ 1,961.4	$ 1,913.3	$ 1,663.8
Required regulatory capital	**$ 797.9**	$ 798.7	$ 760.1	$ 770.7	$ 781.2

The increase in Tier 1 available regulatory capital in the third quarter of 2017 was primarily due to net income and a decrease in the negative reserves which increase Tier 1 and decrease Tier 2 capital.

The increase in Tier 2 available regulatory capital for the third quarter of 2017 is primarily due to Empire Life's issuance of $200 million principal amount of unsecured subordinated debt, subject to the maximum allowed by regulatory guidelines.

Regulatory capital requirements decreased during the third quarter of 2017 from lower market risk and insurance company risk such as lapse risk due to an increase in long-term interest rates. This was partly offset by increased asset default risk, mortality risk and segregated fund guarantees as a result of normal business growth.

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

Effective January 1, 2018, MCCSR will be replaced by the Life Insurance Capital Adequacy Test (LICAT). The LICAT is intended to improve the quality of available capital and provide a better alignment of the risk measures with the long-term economics of the life insurance business. The LICAT will behave differently under various economic scenarios when compared to MCCSR. As a result LICAT ratios are not comparable to the MCCSR ratio. Although OSFI has not released the final LICAT Guidelines, significant work has been done by Empire Life in preparation for the implementation of LICAT. Empire Life has a strong capital position under MCCSR and will continue to have a strong capital position under the LICAT framework.

Other Comprehensive Income

	Third quarter		Year to date	
(in millions of dollars after tax)	**2017**	2016	**2017**	2016
Other comprehensive income (loss)	**$ (18.9)**	$ 12.1	**$ (11.5)**	$ 18.9
Less: Participating policyholders	**0.9**	(0.9)	**1.9**	(1.4)
Other comprehensive income (loss), attributable to shareholders	**$ (18.0)**	$ 11.2	**$ (9.6)**	$ 17.5

Other comprehensive income (OCI) decreased in the third quarter and year to date of 2017. The decrease was primarily due to lower unrealized fair value increases relating to AFS investments. The decrease is primarily due to an increase in interest rates, partly offset by decreases in some credit spreads in most of the fixed income AFS asset classes during the third quarter and year to date of 2017 compared 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.

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.

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

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 third quarter and year to date of 2017, Empire Life experienced a $1.6 million loss and a $3.8 million loss after tax respectively on its hedging program primarily due to stable Canadian stock prices compared to a loss of $6.8 million and $22.9 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 September 30, 2017, Empire Life had $8.4 billion of segregated fund assets and liabilities. Of this amount, approximately $8.1 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Sep 30 2017	Dec 31 2016
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**1.9%**	1.2%
75% maturity guarantee and a 100% death benefit guarantee	**48.6%**	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))	**43.0%**	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.

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 September 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 September 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%**
September 30, 2017 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ (26.4)**	**$ (138.0)**
December 31, 2016 Shareholders' net income	$ nil	$ nil	$ nil	$ (9.7)	$ (117.2)

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

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 September 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%**
September 30, 2017 Shareholders' net income	**$ 47.8**	**$ 23.9**	**$ (23.9)**	**$ (74.2)**	**$ (217.2)**
December 31, 2016 Shareholders' net income	$ 50.6	$ 25.3	$ (25.3)	$ (60.3)	$ (196.2)

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

The September 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%**
September 30, 2017 Shareholders' net income	**$ 41.8**	**$ 20.8**	**$ (20.0)**	**$ (64.3)**	**$ (197.8)**
December 31, 2016 Shareholders' net income	$ 36.0	$ 17.7	$ (15.7)	$ (35.6)	$ (147.7)

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.

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%**
September 30, 2017 Shareholders' net income	**1.7**	**1.0**	**(17.2)**	**(40.1)**	**(53.7)**
December 31, 2016 Shareholders' net income	(0.7)	(0.2)	(12.1)	(35.3)	(40.1)

The September 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%**
September 30, 2017 Shareholders' net income	**(0.7)**	**(0.2)**	**(16.1)**	**(37.6)**	**(48.8)**
December 31, 2016 Shareholders' net income	(5.4)	(2.6)	(9.7)	(30.4)	(30.2)

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

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
September 30, 2017	**$ 2,579.0**	**$ 614.8**	**$ 51.4**	**$ 1.1**	**$ 606.1**	**$ 6.1**	**$ nil**	**$ 168.1**
December 31, 2016	$ 2,529.8	$ 627.1	$ 36.5	$ 1.2	$ 323.7	$ 4.2	$ nil	$ 150.5

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 September 30, 2017, the aggregate amount at risk for all three categories of risk is $622.0 million. At December 31, 2016, the aggregate amount at risk for these three categories of risk was $632.5 million. 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 September 30, 2017 decreased slightly from the December 2016 levels for GMWB withdrawal benefit exposure as equity market performance is positive for 2017 year to date. 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 non-participating insurance business and segregated fund guarantees for September 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 50 bps Decrease	After The Sale of AFS Assets 50 bps Decrease
September 30, 2017 MCCSR Ratio	**(23.5)**	**(17.6)**
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.

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

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)	**Sep 30 2017**	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015
Revenue	**$ 134.4**	$ 503.5	$ 409.8	$ (24.9)	$ 452.9	$ 564.6	$ 416.0	$ 390.9
Common shareholders' net income	**$ 39.1**	$ 33.4	$ 50.2	$ 52.5	$ 38.1	$ 24.8	$ 37.2	$ 16.2
Earnings per share - basic and diluted	**$ 39.67**	$ 33.91	$ 50.91	$ 53.34	$ 38.67	$ 25.21	$ 37.81	$ 16.43

For the third quarter of 2017, total revenue at Empire Life decreased from $452.9 million in 2016 to $134.4 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 $371.4 million loss compared to a $161.8 million gain in the second quarter 2017 and a $213.9 million loss in the third quarter of 2017. The FVTPL assets experienced a net loss of $213.9 million caused by increasing interest rates for the third quarter of 2017. The FVTPL assets experienced a $31.4 million gain for the third quarter of 2016 due to declining interest rates.

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

Fee income for the third quarter of 2017 increased by 5.2% relative to the third quarter of 2016, primarily due to the growth in segregated fund management fees and guarantee fees.

For the third 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.

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 ended 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 quarter of 2017 and the fourth quarter of 2015. In addition, unfavourable Individual Insurance surrender and lapse experience lowered net income in all of the periods shown in the above table. 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, 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.

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

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.

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

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

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures

Non-GAAP Measures

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

Sources of earnings breaks down Empire Life earnings into several categories which are useful to assess the performance of the business. These categories include expected profit from in-force business, impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. The 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.

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)	**September 30, 2017**	September 30, 2016	December 31, 2016
Assets under management			
General fund assets	**$ 8,257.1**	$ 7,918.7	$ 7,780.2
Segregated fund assets	**8,379.7**	7,823.1	8,082.0
Total assets per financial statements	**16,636.8**	15,741.8	15,862.2
Mutual fund assets	**180.7**	187.7	188.9
Assets under management	**$ 16,817.5**	$ 15,929.5	$ 16,051.1

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

As at (in millions of dollars)	**September 30, 2017**	September 30, 2016	December 31, 2016
DB Plan Assets			
Segregated fund assets	**$ 193.5**	$ 191.3	$ 195.0
Mutual fund assets	**13.7**	12.4	12.6

[1, 2, 3, 4, 5, 6, 7, 8, 9, 10] See Non-GAAP Measures