Financial Corporation Limited

ANNUAL REPORT
2017

Financial Highlights

(Millions of dollars, except per share amounts)

Years ended December 31		2017		2016
Shareholders' Net Income	**$**	**668**	$	333
Shareholders' Comprehensive Income	**$**	**633**	$	316
Common Shareholders' Equity	**$**	**5,253**	$	4,654
Basic Earnings per Common Share	**$**	**166.17**	$	80.88
Net Equity Value per Common Share (1)	**$**	**1,316.64**	$	1,159.26
Contribution to Shareholders' Net Income:				
E-L Corporate	**$**	**498**	$	182
Empire Life		**170**		151
	$	**668**	$	333
E-L Corporate				
Shareholders' Net Income	**$**	**498**	$	182
Investment and Other Income	**$**	**118**	$	108
Investments - Corporate	**$**	**4,853**	$	4,342
Empire Life				
Common Shareholders' Net Income	**$**	**170**	$	151
Net Premiums and Fee Income	**$**	**1,091**	$	1,110
Assets Under Management (1)	**$**	**17,578**	$	16,051
Minimum Continuing Capital and Surplus Requirements (%)		**281.9**		248.3

(1) See Non-GAAP measures within the Management's Discussion and Analysis

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 11:30 a.m. on Thursday May 10, 2018 at Vantage Venues, Room L2, 150 King Street West, 27th Floor, Toronto, Ontario. All shareholders are invited to attend.

Board of Directors

J. Christopher Barron,
Corporate Director

James F. Billett,
President, J.F. Billett Holdings Ltd.

Michael J. Cooper,
President and Chief Responsible Officer, Dream Unlimited Corporation

William J. Corcoran, LL.B.,
Corporate Director

Duncan N.R. Jackman,
Chairman, President and Chief Executive Officer, E-L Financial Corporation Limited

The Honourable Henry N.R. Jackman,
Honorary Chairman, The Empire Life Insurance Company

R.B. Matthews,
Chairman, Longview Asset Management Ltd.

Clive P. Rowe,
Partner, Oskie Capital

Mark M. Taylor,
Corporate Director

Honorary Director

The Right Honourable John N. Turner

Officers

Chairman, President and Chief Executive Officer
Duncan N.R. Jackman

Vice-President and Chief Financial Officer
Scott F. Ewert

Vice-President, General Counsel and Corporate Secretary
Richard B. Carty

Treasurer
Susan C. Clifford

REPORT ON E-L FINANCIAL CORPORATION LIMITED

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for the years ended December 31, 2017 and 2016 for E-L Financial Corporation Limited ("E-L Financial" or the "Company"). This MD&A should be read in conjunction with the December 31, 2017 year end consolidated financial statements and the notes, which form part of the E-L Financial Corporation Limited 2017 Annual Report dated March 6, 2018. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Figures in MD&A may differ due to rounding.

This MD&A contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, any forward-looking statements within this discussion will occur, or if they do, that any benefits may be derived from them.

Unless otherwise stated, all per share amounts are based on the average number of Common Shares and Series A Convertible Preference Shares outstanding for the period, adjusted for the Company's proportionate interest in its own common shares held indirectly through investments in associates.

Additional information relating to the Company, including its Annual Information Form, may be found at www.sedar.com.

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 "Description of the Business" in E-L Financial'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.

Non-GAAP measures

The MD&A contains information using non-GAAP measures. Current Canadian GAAP is IFRS for the Company's consolidated financial statements. The Company believes that these measures provide useful information to its shareholders in evaluating the Company's financial results. Where non-GAAP measures are used, descriptions have been provided as to the nature of the adjustments made.

The MD&A contains reference to net equity value, net equity value per common share and growth in net equity value per common share. Net equity value per common share is described and reconciled to shareholders' equity on page 7. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

The MD&A also contains non-consolidated cash flow information of E-L Financial which is a non-GAAP presentation. The information is useful as it separates the Company's cash flows from the cash flows of its subsidiaries. This information is reconciled to the consolidated cash flows on page 10.

Other non-GAAP measures are also used in the Empire Life Insurance Company ("Empire" or "Empire Life") section of the MD&A. These include references to annualized premium sales, assets under management, mutual fund gross and net sales, segregated fund gross and net sales and sources of earnings. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

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. The Company believes that these measures provide useful information to its shareholders in evaluating Empire Life's underlying financial results.

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. These terms are defined in the Glossary of Terms found at the end of this report. The sources of earnings components are reconciled to net income on page 19.

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. The Company believes that these measures provide useful information to its shareholders in evaluating Empire Life's underlying financial results.

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

(in millions of dollars)	**2017**	2016
General fund assets	**$ 8,712.6**	$ 7,780.2
Segregated fund assets	**8,681.9**	8,082.0
Total Empire Life assets	**17,394.5**	15,862.2
Mutual fund assets	**183.7**	188.9
Total assets under management	**$ 17,578.2**	$ 16,051.1

The Company

E-L Financial operates as an investment and insurance holding company. In managing its operations, the Company distinguishes between two operating segments, E-L Corporate and Empire Life.

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies and other private companies. E-L Financial holds a 51.9% interest in a closed-end investment corporation, United Corporations Limited ("United") which is listed on the Toronto Stock Exchange. United is an investment vehicle for long-term growth through investments in common equities. The invested assets and operations of United are consolidated and included in the E-L Corporate segment. In addition, E-L Corporate has two significant investments in associates including a 36.7% interest in Algoma Central Corporation ("Algoma") and a 24.0% interest in Economic Investment Trust Limited ("Economic"). Algoma and Economic are accounted for using the equity method.

The Company's investment in Empire Life (99.3% interest) is consolidated by E-L Financial. The Empire Life operating segment underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products.

The Company's strategy is to accumulate shareholder value through long-term capital appreciation and dividend income from its investments. E-L Financial oversees its investments through representation on the boards of directors of the subsidiaries and the other companies in which the Company has significant shareholdings.

Overview of results attributable to shareholders of E-L Financial

The following tables summarize the results of the Company's business segments:

E-L Financial consolidated		**Fourth quarter**			**Year**
(millions of dollars)		**2017**	2016	**2017**	2016
Contribution to net income					
E-L Corporate[1]	**$**	**209.0**	$ 47.9	**$ 498.3**	$ 181.6
Empire Life[2]		**48.1**	52.2	**169.8**	151.5
Net income		**257.1**	100.1	**668.1**	333.1
Other comprehensive income (loss)[2]		**18.4**	(10.6)	**(34.7)**	(17.1)
Comprehensive income	**$**	**275.5**	$ 89.5	**$ 633.4**	$ 316.0

E-L Corporate		**Fourth quarter**			**Year**
(millions of dollars)		**2017**	2016	**2017**	2016
Revenue					
Net gain on investments[3]	**$**	**257.4**	$ 65.9	**$ 544.5**	$ 155.8
Investment and other income		**26.2**	22.9	**117.6**	107.6
Share of associates income (loss)		**13.6**	(31.2)	**35.8**	(12.1)
		297.2	57.6	**697.9**	251.3
Expenses					
Operating		**8.7**	7.2	**28.5**	25.4
Income taxes		**37.6**	7.3	**92.3**	31.2
Non-controlling interests		**41.9**	(4.8)	**78.8**	13.1
		88.2	9.7	**199.6**	69.7
Net income		**209.0**	47.9	**498.3**	181.6
Other comprehensive income (loss), net of taxes[1]		**1.5**	5.4	**(42.1)**	(18.5)
Comprehensive income	**$**	**210.5**	$ 53.3	**$ 456.2**	$ 163.1

Empire Life		**Fourth quarter**			**Year**
(millions of dollars)		**2017**	2016	**2017**	2016
Revenue					
Net premiums	**$**	**210.0**	$ 222.5	**$ 834.2**	$ 881.5
Net gain on investments[3]		**269.5**	(374.4)	**302.4**	43.7
Investment income		**77.2**	68.7	**281.2**	254.9
Fee income		**70.1**	58.2	**256.8**	228.4
		626.8	(25.0)	**1,674.6**	1,408.5
Expenses					
Benefits and expenses		**552.8**	(98.8)	**1,428.4**	1,182.1
Income and other taxes		**20.2**	21.9	**70.3**	69.2
Non-controlling and participating policyholders' interests		**5.7**	(0.3)	**6.1**	5.7
		578.7	(77.2)	**1,504.8**	1,257.0
Net income		**48.1**	52.2	**169.8**	151.5
Other comprehensive income, net of taxes[2]		**16.9**	(16.0)	**7.4**	1.4
Comprehensive income	**$**	**65.0**	$ 36.2	**$ 177.2**	$ 152.9

(1) Net of non-controlling interests
(2) Net of non-controlling interests and participating policyholders' income (loss)
(3) Includes fair value change on fair value through profit and loss ("FVTPL") investments and realized gains on available for sale ("AFS") investments

E-L Financial reported consolidated net income of $668.1 million or $166.17 per common share compared with $333.1 million or $80.88 per common share in 2016. The increase in net income is primarily due to E-L Corporate's net gain on investments of $544.5 million compared to $155.8 million in 2016. E-L Corporate's global investment portfolio was positively impacted by stronger equity markets returns as 2017 yielded a pre-tax total return of 14% compared to 6% in the prior year.

The Empire Life segment reported net income of $169.8 million in 2017 compared to $151.5 million in 2016. The increase in net income was a result of continued growth in the Wealth Management product line, improved performance of the Employee Benefits product line and lower hedge costs partly offset by lower gains in the Individual Insurance product line.

Consolidated comprehensive income for 2017 was $633.4 million or $157.33 per common share compared to $316.0 million or $76.50 per common share in 2016. The movement in comprehensive income is mainly due to the reasons noted above.

Net equity value per share

Investments in Algoma and Economic are accounted for using the equity method and are not carried at fair value. Therefore, to provide an indication of the accumulated shareholder value, the following table adjusts shareholders' equity to reflect investments in associates at fair value:

(millions of dollars, except per share amounts)		**2017**		2016
E-L Financial shareholders' equity	**$**	**5,552.9**	$	4,954.2
Less: First preference shares		**(300.0)**		(300.0)
		5,252.9		4,654.2
Adjustments for investments in associates not carried at fair value:				
Carrying value		**(330.1)**		(309.6)
Fair value [(1)]		**381.1**		316.1
		51.0		6.5
Non-controlling interest and deferred tax		**(11.5)**		(0.9)
		39.5		5.6
Net equity value	**$**	**5,292.4**	$	4,659.8
Common Shares [(2)] outstanding at year end		**4,019,667**		4,019,667
Net equity value per Common Share [(2)]	**$**	**1,316.64**	$	1,159.26

(1) Based on quoted market prices
(2) Common Shares includes Series A Convertible Preference Shares

Growth in net equity value

The Company's objective is to build long-term shareholder value by compounding growth in net equity value per Common Share over the long term. Set out below is a table that shows the net equity value per common share and growth for the respective fiscal periods. The growth in net equity value includes dividends paid to common shareholders.

Annual	Net equity value*	Growth*
	$	%
2008	551.59	(17.8)
2009	681.51	23.6
2010	747.28	9.7
2011	642.98	(13.9)
2012	740.49	15.2
2013	872.45	28.0
2014	970.65	11.3
2015	1,089.23	12.3
2016	1,159.26	6.8
2017	1,316.64	14.0
Compounded annual growth in net equity value*		
2008 - 2017 - 10 years		7.7
1969 - 2017 - Since inception		12.7

* This chart was drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

Summary of quarterly results

The following table summarizes the quarterly results:

(millions of dollars, except per share amounts)	**2017**				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Net gain (loss) on investments (1)	**$ 526.9**	$ (239.9)	$ 208.7	$ 351.2	$ (308.4)	$ 292.4	$ 298.7	$ (83.2)
Net premium income	**210.0**	217.4	204.4	202.5	222.4	218.7	210.6	229.8
Investment and other income	**173.4**	157.5	174.6	150.1	150.0	141.2	158.7	141.0
Associates (2)	**13.6**	9.4	12.1	0.7	(31.3)	16.9	8.6	(6.3)
Total	**$ 923.9**	$ 144.4	$ 599.8	$ 704.5	$ 32.7	$ 669.2	$ 676.6	$ 281.3
Net income (loss) (3)	**$ 257.1**	$ 49.4	$ 97.5	$ 264.1	$ 100.1	$ 191.3	$ 103.2	$ (61.4)
Earnings (loss) per common share								
- basic	**$ 64.47**	$ 11.60	$ 23.84	$ 66.26	$ 24.49	$ 47.72	$ 25.28	$ (16.62)
- diluted	**$ 58.80**	$ 11.31	$ 22.30	$ 60.41	$ 22.77	$ 43.52	$ 23.48	$ (16.62)

(1) Fair value change on FVTPL investments and realized gain (loss) on AFS investments
(2) Share of income (loss) of associates
(3) Attributable to shareholders

Quarterly trend analysis

The consolidated revenue and consolidated net income of the Company are expected to fluctuate on a quarterly basis given its two segments. In particular, equity market movements, changes in interest rates, underwriting results, policy liability discount rates and policy reserve adjustments are likely to cause fluctuations.

Revenue for the fourth quarter of 2017 increased from both the prior quarter of 2017 and the fourth quarter of 2016 mainly due to the impact of higher net fair value investment gains for E-L Corporate and Empire

Life. The increase in net investment gains compared to the third quarter of 2017 and fourth quarter of 2016 is due to both positive equity returns and the the impact of movements in long term interest rates.

Net premium income for the quarter decreased compared to the third quarter of 2017 and fourth quarter of 2016 mainly due to lower fixed interest annuity premiums. Management believes that customers are choosing equity products rather than more conservative fixed interest products due to the recent appreciation in equity markets and low interest rates.

Fourth quarter results

For the three months ended December 31, 2017, E-L Financial had consolidated net income of $257.1 million or $64.47 per common share compared with $100.1 million or $24.49 per common share in 2016.The $157.0 million increase is mainly due to E-L Corporate's $257.4 million net gain on investments in the fourth quarter of 2017 compared to a $65.9 million in 2016. The increase in the net gain on investments was due to both higher equity market returns and foreign currencies strengthening against the Canadian dollar in the fourth quarter of 2017. Income from associates earned $13.6 million for the fourth quarter of 2017 compared to a loss of $31.2 million in 2016. The 2016 results included an impairment write down of $31.8 million related to the Company's investment in Algoma. Empire Life's net income for the quarter was $48.1 million compared to $52.2 million in 2016. The decrease in income is mainly due to lower gains in the Individual Insurance product line partly offset by improved operating performance in the Wealth Management product line.

For the three months ended December 31, 2017, E-L Financial had consolidated comprehensive income of $275.5 million or $69.16 per share compared with $89.5 million or $21.79 per share for the comparable period in 2016. Other comprehensive income ("OCI") was $18.4 million compared to a other comprehensive loss ("OCL") of $10.6 million in the fourth quarter of 2016. The increase in OCI is mainly due to higher unrealized investment gains on AFS investments within the Empire Life segment during the quarter partially offset by a decline in the net remeasurement of defined benefit plan compared to the fourth quarter of 2016.

Liquidity and capital resources

Consolidated cash flows

The condensed cash flow of United and Empire Life, as well as E-L Financial non-consolidated and consolidated are presented below:

Year ended December 31 (millions of dollars)	E-L Financial (non-consolidated)	United	Empire Life	Consolidation adjustments	**E-L Financial**	
Cash flows from:					**2017**	2016
Operating activities	$ 56.1	$ 8.5	$ 297.4	$ (15.2)	**$ 346.8**	$ 334.2
Financing activities	(38.9)	(27.4)	279.6	14.0	**227.3**	282.7
Investing activities	(23.9)	19.3	(651.7)	1.2	**(655.1)**	(503.4)
(Decrease) increase in cash and cash equivalents	(6.7)	0.4	(74.7)	—	**(81.0)**	113.5
Cash and cash equivalents, at the beginning of the year	31.9	19.1	368.9	—	**419.9**	306.5
Cash and cash equivalents, at the end of the year	$ 25.2	$ 19.5	$ 294.2	$ —	**$ 338.9**	$ 420.0

The increase in cash provided from operating activities in 2017 relative to 2016 reflects the increase in cash earnings during 2017 compared to the prior year along with changes in working capital levels.

The decrease in financing activity cash flows during 2017 relative to 2016 was primarily due to Empire Life's issuance of $200 million of subordinated debentures in 2017 compared to the issuance of $200 million of subordinated debentures and $149.5 million of preferred shares in 2016.

The change in cash from investing activities during 2017 relative to 2016 was primarily driven by the timing of portfolio investment transactions and the investment of proceeds from Empire Life's 2017 and 2016 subordinated debt and preferred share issuances.

Non-consolidated cash flows of E-L Financial

E-L Financial's corporate cash flows from operating activities, before payment of dividends, are primarily comprised of dividends and interest received, less operating expenses and income taxes.

The following table details the non-consolidated cash flows of the Company on a direct basis, excluding the cash flows of the subsidiaries. This table has been prepared to assist the reader in isolating the cash flows of E-L Financial (non-consolidated).

(millions of dollars)	**2017**	2016
Cash flows from:		
Operating activities		
Dividends from subsidiaries	**$ 14.0**	$ 13.4
Dividends and interest	**66.9**	59.7
Expenses and taxes, net of other income	**(24.8)**	(26.9)
	56.1	46.2
Financing activities		
Cash dividends	**(35.6)**	(31.1)
Margin loan	**100.0**	—
Interest paid on margin loan	**(0.2)**	—
Purchases of subsidiary shares	**(103.1)**	(3.8)
	(38.9)	(34.9)
Investing activities		
Purchases of investments	**(1,132.4)**	(319.4)
Proceeds from sales of investments	**1,057.3**	295.5
Net sales (purchases) of short-term investments	**44.4**	(47.3)
Dividends from associates	**6.8**	4.9
	(23.9)	(66.3)
Decrease in cash and cash equivalents	**(6.7)**	(55.0)
Cash and cash equivalents, at the beginning of the year	**31.9**	86.9
Cash and cash equivalents, at the end of the year	**$ 25.2**	$ 31.9

Operating cash flows for 2017 increased relative to the prior period reflecting changes in working capital.

On March 2, 2016, the Board of Directors approved a change to the Company's dividend policy, increasing its quarterly dividend to $1.25 per Common Share from $0.125 per share. On November 1, 2017, the Company drew on a margin loan to purchase $100,000 Series 3 Preferred Shares from Empire Life. The Preferred Shares are eliminated on consolidation.

During the first quarter of 2017, for diversification reasons, E-L Financial reallocated the assets managed by one of the global investment managers. This resulted in higher investment portfolio turnover compared to the prior year.

E-L Financial maintains sufficient liquidity through holding short-term investments, cash equivalents and high quality marketable investments that may be sold, if necessary, to fund new investment opportunities and to meet any operating cash flow requirements.

Selected annual information

(millions of dollars, except per share amounts)		**2017**		2016		2015
Revenue		**2,372.6**		1,659.8		1,989.7
Shareholder net income						
E-L Corporate		**498.3**		181.6		447.2
Empire Life		**169.8**		151.5		87.4
Total		**668.1**		333.1		534.6
Earnings per share						
- basic		**166.17**		80.88		132.18
- diluted		**152.83**		75.80		121.74
Assets						
E-L Corporate		**5,245.1**		4,721.3		4,603.6
Empire Life		**17,394.5**		15,862.2		14,363.6
Total assets		**22,639.6**		20,583.5		18,967.2
Cash dividends declared per share						
First Preference shares, Series 1	**$**	**1.3250**	$	1.3250	$	1.3250
First Preference shares, Series 2	**$**	**1.1875**	$	1.1875	$	1.1875
First Preference shares, Series 3	**$**	**1.3750**	$	1.3750	$	1.3750
Common shares	**$**	**5.00**	$	5.00	$	0.50

Revenues and net income over the period have been significantly impacted by fluctuations in the global stock markets. E-L Corporate reported $568.9 million in net gains on investments in 2015 reflecting the impact on the global investment portfolio as the foreign currencies strengthened against the Canadian dollar. This compared to net gains on investments of $155.8 million and $544.5 million for 2016 and 2017 respectively. In 2016 investment returns in local currencies improved but were partially offset by the strengthening of the Canadian dollar relative to the U.S. dollar and Euro. In 2017 equity market returns in local currency were significantly higher than the prior year but were partially offset by foreign currency movements.

The fluctuation in Empire Life's revenue for the three year period is primarily driven by the impact of market interest rate movements on Empire Life's FVTPL investments.

Over the past three years, assets have continued to increase due to the growth in the investment portfolio combined with positive investment returns.

During 2016 the Company increased its annual dividend to Common shareholders to $5.00 from $0.50.

Disclosure controls and procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company under Canadian securities laws is recorded, processed, summarized and reported within the specified time periods, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. Under the supervision of management, an evaluation was carried out on the effectiveness of the Company's disclosure controls and procedures as of December 31, 2017. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2017.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Under the supervision of management, an evaluation of the Company's internal control over financial reporting was carried out as at December 31, 2017. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2017. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Critical accounting estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada which require estimates and assumptions in determining amounts reported in the financial statements. Note 2 to the consolidated financial statements describes the significant accounting policies. The Company considers the following items to be particularly susceptible to changes in estimates and judgments:

Insurance-related liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivity to risks related to policy liabilities are included in note 22 to the consolidated financial statements.

Pension and other employee future benefits

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

Impairment

The Company maintains a prudent policy in setting the provision for impaired investments. When there is no longer reasonable assurance of full collection of loan principal and loan interest related to a mortgage or policy contract loan, management establishes a specific provision for loan impairment and charges the corresponding reduction in carrying value to income in the period the impairment is identified. In determining the estimated realizable value of the investment, management considers a number of events and conditions. These include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. Changes in these circumstances may cause subsequent changes in the estimated realizable amount of the investment and changes in the specific provision for impairment.

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

Investments in associates recognize an impairment loss if the investment in associates’ recoverable amount is determined to be lower than the investment’s carrying amount at the reporting date. Recoverable amount is equal to the higher of the investment’s fair value less costs of disposal and value in use. Impairment losses are recognized in the consolidated statements of income. Previously recognized impairment losses are reversed if the investment’s recoverable amount subsequently increases and there is a significant indication that the circumstances that led to the initial recognition of the impairment loss have improved or recovered completely.

Consolidation

There could be judgment involved in assessing control or significant influence of certain of the Company’s interests in other entities. The Company has applied judgment to assess which party has power or influence over the relevant activities of these entities. When assessing decision making power, the Company has considered voting rights, contractual agreements, relative share holdings, and other facts and circumstances. The initial assessment of control or influence is reassessed when there are changes in facts and circumstances.

Fair value estimates

In measuring the fair value of financial instruments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate. Judgment is also required in the classification of fair value measurements within the levels of the fair value hierarchy, in particular those items categorized within Level 3 of the hierarchy.

Accounting changes

New accounting pronouncements adopted in 2017

Amendments to IAS 12 Income Taxes (“IAS 12”)

In January 2016, the IASB issued amendments to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. They also clarify certain other aspects of accounting for deferred tax assets. Adoption of the amendment on January 1, 2017 did not have a significant impact on the consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows (“IAS 7”)

In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. Adoption of the amendment on January 1, 2017 did not have a significant impact on the consolidated financial statements.

New accounting pronouncements issued but not yet effective

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue which is effective on January 1, 2018. This will replace IAS 18 *Revenue* which covers contracts for goods and services and IAS 11 *Construction Contracts* which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Management has completed their analysis of IFRS 15 and has assessed that there are no material impacts to the Company and the consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and measurement* with a new mixed measurement model having only two measurement categories of amortized cost and FVTPL for financial assets.

Under IFRS 9, all financial assets currently within the scope of IAS 39 will be measured at either amortized cost or FVTPL. Classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at FVTPL. A debt instrument is measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at FVTPL. For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognized in OCI unless it gives rise to an accounting mismatch in profit or loss.

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (Subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two different solutions for insurance companies relating to IFRS 9, both of which are optional:

- a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and
- the 'overlay approach'

The Company will apply the temporary exemption for periods beginning before January 1, 2021, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. To assess whether activities are 'predominantly connected with insurance' two criteria were satisfied:

- Carrying amount of liabilities arising from contracts within IFRS 17's scope is significant, compared to the total carrying amount of liabilities; and
- Comparison of total carrying amount of liabilities connected with insurance with the total carrying amount of all of its liabilities. Liabilities connected with insurance include segregated fund liabilities measured at FVTPL applying IAS 39, and liabilities that arise because the insurer issues or fulfills obligations arising from those insurance and segregated fund contracts. The second test is passed if the resulting percentage is either: greater than 90%; or if it is less than or equal to 90% but greater than 80%, the insurer is not engaged in a significant activity unconnected with insurance.

We have consider the total insurance liabilities, which include segregated fund liabilities, against our total liabilities and have concluded that the Company meets both criteria noted above. The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its consolidated financial statements.

IFRS 16 Leases

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

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required to be restated. The Company is evaluating the impact of IFRS 17 on its consolidated financial statements.

Analysis of business segments

The remainder of this MD&A discusses the individual results of operations and financial condition of the Company's business segments: E-L Corporate and Empire Life.

E-L CORPORATE

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies, a limited partnership and other private companies.

Investments in Economic and Algoma are reported as investments in associates and are discussed below. Investments in equities and fixed income securities held directly by E-L Financial and through United are combined to form "Investments – corporate".

The following table provides a summary of E-L Corporate's results:

	Fourth quarter		Year	
(millions of dollars)	**2017**	2016	**2017**	2016
Revenue				
Net gain on investments	**$ 257.4**	$ 65.9	**$ 544.5**	$ 155.8
Investment and other income	**26.2**	22.9	**117.6**	107.6
Share of associates income (loss)	**13.6**	(31.2)	**35.8**	(12.1)
	297.2	57.6	**697.9**	251.3
Expenses				
Operating	**8.7**	7.2	**28.5**	25.4
Income taxes	**37.6**	7.3	**92.3**	31.2
Non-controlling interests	**41.9**	(4.8)	**78.8**	13.1
	88.2	9.7	**199.6**	69.7
Net income	**209.0**	47.9	**498.3**	181.6
Other comprehensive income (loss), net of taxes	**1.5**	5.4	**(42.1)**	(18.5)
Comprehensive income	**$ 210.5**	$ 53.3	**$ 456.2**	$ 163.1

Investments - corporate

Investments - corporate includes investments in equities and short-term fixed-income investments. At December 31, 2017, investments - corporate had aggregate investments of $4.9 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2016 of $4.3 billion. The fair value of investments - corporate is summarized in the table below:

(millions of dollars)	**2017**	2016
Short-term investments	**$ 21.2**	$ 65.6
Preferred shares	**1.1**	1.1
Derivative asset	**0.2**	—
Common shares and units		
Canadian and U.S.	**2,784.0**	2,776.7
Europe	**1,054.6**	929.0
Other *	**992.1**	569.2
Total	**4,830.7**	4,274.9
Total invested assets	**$ 4,853.2**	$ 4,341.6

* Other investments includes equities and investment funds with exposure to Emerging Markets of $459.9 (December 31, 2016 - $145.1) and Japan of $421.8 (December 31, 2016 - $367.7).

The increase in E-L Corporate's net income for the fourth quarter of 2017 is primarily attributable to net investment gains on the global investment portfolio. For the fourth quarter of 2017, E-L Corporate had a net gain on investments of $257.4 million compared to $65.9 million for the same period in 2016, resulting in a positive pre-tax return on investments of approximately 6% in 2017 compared to a 2% return in the prior year. The $191.5 million increase in the net gain on investments was due to both higher equity market returns and foreign currencies strengthening against the Canadian dollar in the fourth quarter of 2017.

For the year ended December 31, 2017, E-L Corporate's net gain on investments was $544.5 million compared with $155.8 million in 2016, resulting in a positive pre-tax return on investments of approximately 14% in 2017 compared to 6% for 2016. This difference can primarily be attributed to the stronger equity market performance during 2017 relative to 2016.

The following table details the 2017 return on investments by geographic region:

	Investment return
	%
Canada and U.S.	13
Europe	16
Other	20

Key contributors to the Other geographic region's investment returns included investments in Japan and emerging markets.

Share of associates income

The details of E-L Corporate's share of income of associates are as follows:

	Fourth quarter		**Year**	
(millions of dollars)	**2017**	2016	**2017**	2016
Algoma	**$ 4.9**	$ (3.6)	**$ 20.6**	$ 12.7
Economic	**8.7**	4.2	**15.2**	7.0
	13.6	0.6	**35.8**	19.7
Impairment write down	**—**	(31.8)	**—**	(31.8)
	$ 13.6	$ (31.2)	**$ 35.8**	$ (12.1)

E-L Financial's share of Algoma's earnings for the fourth quarter of 2017 was $4.9 million compared to a net loss of $3.6 million in the prior year. Algoma's net loss in 2016 included an impairment expense relating to the Domestic Dry-Bulk and Product Tanker fleets.

For the year ended December 31, 2017, Algoma's net earnings attributable to E-L Financial increased 63% compared to 2016. The increase is principally attributable to the Domestic Dry-Bulk segment. Net income for 2016 included gains related to the cancellation of shipbuilding contracts, the refund of progress payments made on those contracts, offset by significant impairment expenses. Earnings for fiscal 2017 reflect a foreign currency exchange gain compared to a loss in 2016. Excluding the specific transactions noted above, Algoma's net income increased approximately 16% compared to the prior year.

The Company's share of Economic's net income for the fourth quarter of 2017 increased over the prior year as a result of higher equity market returns and foreign currencies strengthening against the Canadian dollar in the fourth quarter of 2017. Economic's global investment portfolio had a quarterly pre-tax return, gross of fees, of 7.1% in the fourth quarter of 2017 compared to a return of 1.1% for the same period in 2016. On a full year basis, Economic's global investment portfolio had a pre-tax return, gross of fees, of 11.5% during 2017 compared to a 4.5% return in 2016.

(millions of dollars)			**2017**			2016
	Ownership	**Carrying value**	**Fair value**	Ownership	Carrying value	Fair value
Algoma [(1)]	**36.7%**	**181.9**	**226.8**	36.3%	173.2	173.2
Economic	**24.0%**	**148.2**	**154.3**	24.0%	136.4	142.9
Total		**330.1**	**381.1**		309.6	316.1

[(1)] On December 21, 2017, Algoma purchased 361,418 common shares for cancellation resulting in an increase in the Company's ownership.

Additional information relating to Algoma and Economic may be found on their respective profiles at www.sedar.com.

Risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance.

Market risk

Market risk is the most significant risk impacting E-L Corporate as its investing activities are influenced by market price, foreign currency and interest rate risk. As the Company's investment portfolio is represented by Canadian and global equities, the value of its investments will vary from day to day depending on a number of market factors including economic conditions, global events, market news, and on the performance of the issuers of the securities in which the Company invests. Changes in foreign currency exchange rates will also affect the value of investments of non-Canadian dollar securities. As of December 31, 2017, 44% (2016 - 49%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 11% (2016 - 12%) in Euros and 9% (2016 - 8%) in the Japanese Yen representing the largest foreign currency exposures.

Credit risk

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact the Company is included in the Annual Information Form which is available at www.sedar.com. Disclosures regarding E-L Corporate's financial instruments, including financial risk management, are included in Notes 4, 6 and 22 to the consolidated financial statements.

Outlook

The Company's future earning prospects are dependent on the successful management of its E-L Corporate portfolio and on the continued profitability of its insurance company subsidiary. The performance of the E-L Corporate portfolio is impacted by global securities markets and the selection of equity and fixed income investments. The Company continues to maintain its strategy of accumulating shareholder value through long-term capital appreciation and dividend income.

REPORT ON EMPIRE LIFE

Empire Life provides a broad range of life insurance and wealth management products, employee benefit plans and financial services to meet the needs of individuals, professionals and businesses through a network of Independent Financial Advisors ("IFA"), Managing General Agents ("MGA"), National Account firms, Mutual Fund Dealers and Employee Benefits brokers and representatives.

Empire Life reported fourth quarter common shareholders' net income of $48.3 million for 2017, compared to $52.5 million for fourth quarter 2016. The decrease in earnings for the fourth quarter of 2017 compared to 2016 is primarily as a result of lower gains in the Individual Insurance product line partly offset by improved operating performance in the Wealth Management product line. Full year common shareholders' net income was $170.9 million compared to $152.7 million in 2016 primarily due to improved operating performance in the Wealth Management and Employee Benefits product lines and lower hedge costs, partially offset by lower gains in the Individual Insurance product line. Despite the higher net income for the full year 2017, ROE was lower than full year 2016 due to higher levels of common shareholders' equity during 2017 compared to 2016. Empire Life's net income attributable to the owners of E-L Financial, after adjustment for non-controlling interests, is shown in the following table:

	Fourth quarter		Year	
(millions of dollars)	**2017**	2016	**2017**	2016
Empire Life common shareholders' net income	**$ 48.3**	$ 52.5	**$ 170.9**	$ 152.7
Non-controlling interests	**0.2**	0.3	**1.1**	1.2
Net income, contribution to E-L Financial	**$ 48.1**	$ 52.2	**$ 169.8**	$ 151.5
Empire Life return on common shareholders' equity (annualized) ("ROE")	**13.8%**	17.1%	**12.8%**	13.1%

The following table provides a breakdown of the sources of earnings for the fourth quarter and year to date:

Sources of Earnings	Fourth quarter		Year	
(millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 53.0**	$ 39.9	**$ 182.5**	$ 159.5
Impact of new business	**(7.9)**	(5.5)	**(22.0)**	(15.2)
Experience gains	**8.2**	34.5	**15.9**	32.6
Management actions and changes in assumptions	**4.4**	5.5	**32.2**	40.3
Earnings on operations before income taxes	**57.8**	74.4	**208.6**	217.2
Earnings (losses) on surplus	**8.5**	(1.1)	**27.5**	(2.7)
Income before income tax	**66.3**	73.3	**236.1**	214.5
Income taxes	**14.8**	18.6	**55.6**	54.0
Empire Life's shareholders' net income	**51.5**	54.7	**180.5**	160.6
Dividends on preferred shares (1)	**3.2**	2.2	**9.6**	7.9
Empire Life common shareholders' net income	**$ 48.3**	$ 52.5	**$ 170.9**	$ 152.7

(1) Includes $1.3 million (2016 - $nil) preference share dividends to E-L Financial

The expected profit on in-force business for the fourth quarter and year increased by 32.8% and 14.4% respectively. The growth for the fourth quarter and the year 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 new business expenses incurred in the Individual insurance product line relative to 2016. The experience gains for the fourth quarter were favourable in both years primarily in the Individual Insurance product line due to improved stock markets in 2017 and rising interest rates and strongly improved stock markets in 2016.These items also had a favourable impact on experience gains (losses) for the full year in

2017 and 2016. Experience gains also benefited from favourable health claims results in the Employee Benefits product line in 2017. These favourable items were partly offset by unfavourable surrender and lapse experience in the Individual insurance product line in the fourth quarter and year during both 2017 and 2016. Gains from management actions in the Individual Insurance product line primarily resulted from improved matching of assets and liabilities during the fourth quarter and year in both 2017 and 2016. In both 2017 and 2016, the update of policy liability assumptions did not have a significant impact on common shareholders' net income. 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 and higher investment income due to higher assets in surplus in 2017.

(millions of dollars)	Date issued	**2017**	2016
Preferred Shares & Subordinated Debentures			
Preferred Shares	January 2016	**$ 149.5**	$ 149.5
Preferred Shares	November 2017	**$ 100.0**	$ —
Subordinated debentures	May 2013	**$ 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 of 2017 Empire Life issued $100 million preferred shares to E-L Financial . E-L Financial is entitled to receive non-cumulative quarterly dividends yielding 4.9% annually for the period ending January 17, 2023. After that the dividend rate will be reset at the 5-year Government of Canada rate at that time plus 3.24%. 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 fourth quarter of 2016 and year 2016. Empire Life may call for redemption on or after May 31, 2018, subject to OSFI approval, the subordinated debenture issued in May 2013.

The following table provides a summary of Empire Life results by major product line:

Three months ended December 31

(millions of dollars)	Wealth Management 2017	Wealth Management 2016	Employee Benefits 2017	Employee Benefits 2016	Individual Insurance 2017	Individual Insurance 2016	Capital & Surplus 2017	Capital & Surplus 2016	Total 2017	Total 2016
Revenue										
Net premium income	**$ 33.5**	$ 39.0	**$ 81.9**	$ 85.2	**$ 94.6**	$ 98.3	**$ —**	$ —	**$ 210.0**	$ 222.5
Fee income	**67.3**	55.5	**2.5**	2.5	**—**	0.2	**0.3**	0.1	**70.1**	58.3
Investment income	**10.0**	10.4	**1.1**	0.9	**49.2**	45.8	**16.9**	11.6	**77.2**	68.7
Net gains (losses) on investments [1]	**13.9**	(12.5)	**1.1**	(2.8)	**253.0**	(349.9)	**1.7**	(9.2)	**269.5**	(374.4)
	124.7	92.4	**86.6**	85.8	**396.8**	(205.6)	**18.9**	2.5	**626.8**	(24.9)
Expenses										
Benefits and expenses	**96.8**	81.7	**75.6**	71.6	**372.9**	(255.9)	**6.8**	2.9	**552.0**	(99.7)
Income and other taxes	**6.9**	2.2	**4.4**	5.5	**6.9**	15.4	**2.9**	(0.2)	**21.0**	22.9
	103.7	83.9	**80.0**	77.1	**379.8**	(240.5)	**9.7**	2.7	**573.0**	(76.8)
Net income (loss) after tax	**$ 21.0**	$ 8.5	**$ 6.6**	$ 8.7	**$ 17.0**	$ 34.9	**$ 9.2**	$ (0.2)	**$ 53.8**	$ 51.9
Participating policyholders' portion									**2.4**	(2.8)
Dividends on preferred shares									**3.1**	2.2
Empire Life's common shareholders' net income									**48.3**	52.5
Non-controlling interests in net income									**0.2**	0.3
Net income attributable to owners of E-L Financial									**$ 48.1**	$ 52.2

Twelve months ended December 31

(millions of dollars)	Wealth Management 2017	Wealth Management 2016	Employee Benefits 2017	Employee Benefits 2016	Individual Insurance 2017	Individual Insurance 2016	Capital & Surplus 2017	Capital & Surplus 2016	Total 2017	Total 2016
Revenue										
Net premium income	**$ 135.5**	$ 175.8	**$ 330.6**	$ 338.9	**$ 368.1**	$ 366.8	**$ —**	$ —	**$ 834.2**	$ 881.5
Fee income	**246.0**	217.5	**10.2**	9.8	**0.3**	1.0	**0.3**	0.1	**256.8**	228.4
Investment income	**39.5**	41.1	**3.7**	3.7	**182.6**	175.8	**55.4**	34.3	**281.2**	254.9
Net gains (losses) on investments [1]	**22.0**	(4.6)	**(0.1)**	0.8	**282.2**	69.6	**(1.4)**	(22.1)	**302.4**	43.7
	443.0	429.8	**344.4**	353.2	**833.2**	613.2	**54.3**	12.3	**1,674.6**	1,408.5
Expenses										
Benefits and expenses	**332.1**	347.7	**308.8**	329.5	**763.9**	490.5	**19.9**	10.4	**1,424.6**	1,178.1
Income and other taxes	**27.5**	20.0	**15.6**	13.7	**23.4**	39.6	**7.7**	(0.1)	**74.1**	73.2
	359.6	367.7	**324.4**	343.2	**787.3**	530.1	**27.6**	10.3	**1,498.7**	1,251.3
Net income after tax	**$ 83.4**	$ 62.1	**$ 20.0**	$ 10.0	**$ 45.9**	$ 83.1	**$ 26.7**	$ 2.0	**$ 175.9**	$ 157.2
Participating policyholders' portion									**(4.6)**	(3.4)
Dividends on preferred shares									**9.6**	7.9
Empire Life's common shareholders' net income									**170.9**	152.7
Non-controlling interests in net income									**1.1**	1.2
Net income attributable to owners of E-L Financial									**$ 169.8**	$ 151.5

[1] Includes fair value change on FVTPL investments and realized gains on AFS investments

Product Line Results - Wealth Management

(millions of dollars)		**2017**		2016
Assets under management				
General fund annuities	**$**	**971.9**	$	970.0
Segregated funds		**8,661.1**		8,061.1
Mutual funds		**183.7**		188.9

		Fourth quarter				Year		
(millions of dollars)		**2017**		2016		**2017**		2016
Selected financial information								
Net fixed interest annuity premiums	**$**	**33.4**	$	39.0	**$**	**135.5**	$	175.8
Segregated fund gross sales		**309.5**		326.2		**1,112.1**		1,027.5
Segregated fund net sales		**56.0**		91.7		**139.8**		157.3
Segregated fund fee income		**66.4**		54.3		**241.9**		213.4
Mutual fund gross sales		**9.0**		6.3		**26.6**		33.3
Mutual fund net sales		**(3.5)**		(0.7)		**(21.5)**		7.6
Mutual fund fee income		**0.8**		0.7		**3.0**		2.9
Net income after tax	**$**	**21.0**	$	8.6	**$**	**83.4**	$	62.1

Assets in Empire Life general fund annuities increased by 0.2%, while segregated fund assets increased by 7.4% and mutual fund assets decreased by 2.8% during the last 12 months. While the demand for fixed interest immediate and deferred annuities increased in 2016, demand in the fourth quarter and year of 2017 has been tempered by the low interest rate environment. 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 and 2017. 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 fourth quarter and year new fixed interest annuity deposits decreased compared to the comparable periods in 2016. Management believes that customers are 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 fourth quarter of 2017 segregated fund gross sales were down 5.1% compared to 2016, primarily due to 75% maturity guarantee product sales which decreased by $11.2 million from the fourth quarter in 2016. For the full year of 2017 segregated fund gross sales were up 8.2% compared to 2016, primarily due to 75% maturity guarantee product sales which increased by $57.0 million from the full year in 2016. The products with 100% maturity guarantees and the products with Guaranteed Minimum Withdrawal Benefit ("GMWB") also decreased from the fourth quarter 2016, but increased for the full year from the level achieved in 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 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 another 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 9.7% from 2016, while Empire Life's sales have increased 8.2% over the same period.

Mutual fund gross sales for the quarter increased from the fourth quarter in 2016 but were lower than 2016 for the full year. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the fourth quarter and year segregated fund fee income increased by 22.0% and 13.3%, 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 fourth 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 for the fourth quarter and year to date for Wealth Management:

Sources of Earnings - Wealth Management	**Fourth quarter**		**Year**	
(millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 36.4**	$ 25.4	**$ 118.0**	$ 99.9
Impact of new business	**(2.3)**	(2.0)	**(8.7)**	(6.5)
Experience gains	**0.7**	7.3	**8.6**	8.5
Management actions and changes in assumptions	**(7.0)**	(19.9)	**(7.0)**	(19.9)
Earnings on operations before income taxes	**27.9**	10.8	**110.9**	82.1
Income taxes	**6.9**	2.2	**27.5**	20.0
Empire Life's shareholders' net income	**$ 21.0**	$ 8.6	**$ 83.4**	$ 62.1

The expected profit on in-force business for the fourth quarter and the year increased 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 expenses and higher segregated fund gross sales in the full year of 2017. The experience gains primarily relate to investment experience as a result of the appreciation or depreciation in the value of interest and credit sensitive assets matching the fixed interest immediate and deferred annuities in the Wealth Management product line. This experience has been favourable for the fourth quarter and full year during 2017 and 2016. In 2017 and 2016 there were updates to the assumptions for general fund annuities in the fourth quarter. In 2017, this primarily related to annuitant mortality assumptions for immediate annuity business. In 2016, this primarily related to investment return assumptions and refinements to the modelling of preferred share investment cash flows for deferred and immediate annuity business.

Product Line Results - Employee Benefits

	Fourth quarter		**Year**	
(millions of dollars)	**2017**	2016	**2017**	2016
Selected financial information				
Annualized premium sales	**$ 15.8**	$ 9.0	**$ 43.1**	$ 44.1
Net premium revenue	**81.9**	85.2	**330.6**	338.9
Net income after tax	**$ 6.6**	$ 8.6	**$ 20.0**	$ 10.0

For the fourth quarter and year, annualized premium sales for Employee Benefits increased by 75.6% and decreased 2.3% respectively in 2017 relative to 2016. In-force premium revenue decreased 3.9% and 2.5% 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.

The following table provides a breakdown of the sources of earnings for the fourth quarter and year to date for Employee Benefits:

Sources of Earnings - Employee Benefits	Fourth quarter		Year	
(millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 5.3**	$ 4.8	**$ 21.8**	$ 20.0
Impact of new business	**(3.2)**	(3.2)	**(9.5)**	(7.7)
Experience gains (losses)	**3.6**	3.1	**11.7**	(5.2)
Management actions and changes in assumptions	**3.2**	7.0	**3.2**	7.0
Earnings on operations before income taxes	**8.9**	11.7	**27.2**	14.1
Income taxes	**2.3**	3.1	**7.2**	4.1
Empire Life's shareholders' net income	**$ 6.6**	$ 8.6	**$ 20.0**	$ 10.0

Expected profit for the fourth quarter and year increased primarily as a result of improved mix of inforce business to more profitable contracts. The impact of new business relates primarily to the cost of acquiring new business. Fourth quarter and year improvement in experience gains primarily related to improved health claims relative to 2016. As Empire Life balances claims management with customer experience it cannot predict whether claims improvement will continue. In both 2017 and 2016, the update of policy liability assumptions was favourable primarily due to a favourable assumption update for the group long-term disability policy liability in the fourth quarter.

Product Line Results - Individual Insurance

	Fourth quarter		Year	
(millions of dollars)	**2017**	2016	**2017**	2016
Selected financial information				
Annualized premium sales	**$ 8.1**	$ 13.5	**$ 31.9**	$ 41.5
Net premium revenue	**94.6**	98.2	**368.1**	366.8
Net income after tax				
Net income after tax shareholders' portion	**$ 17.3**	$ 38.3	**$ 55.7**	$ 90.2
Net loss after tax policyholders' portion	**(0.3)**	(3.3)	**(9.8)**	(7.1)
Net income after tax	**$ 17.0**	$ 35.0	**$ 45.9**	$ 83.1

For the fourth quarter and year new premium sales decreased 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 decreased in the fourth quarter of 2017 compared to the same period in 2016, but increased slightly for the full year as a result of higher in-force business since the fourth quarter of 2016. Empire Life's recently launched EstateMax® participating policy sales are lower in the fourth quarter of 2017 and for the year than in the fourth quarter and year 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.

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

Sources of Earnings - Individual Insurance (excludes policyholders' portion)

	Fourth quarter		Year	
(millions of dollars)	**2017**	2016	**2017**	2016
Expected profit on in-force business	**$ 11.3**	$ 9.7	**$ 42.7**	$ 39.6
Impact of new business	**(2.4)**	(0.3)	**(3.8)**	(1.0)
Experience gains (losses)	**3.9**	24.1	**(4.4)**	29.3
Management actions and changes in assumptions	**8.2**	18.4	**36.0**	53.2
Earnings on operations before income taxes	**21.0**	51.9	**70.5**	121.1
Income taxes	**3.7**	13.6	**14.8**	30.9
Empire Life's shareholders' net income	**$ 17.3**	$ 38.3	**$ 55.7**	$ 90.2

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 was primarily driven by higher new business expenses incurred in the Individual insurance product line relative to 2016. The experience gains for the fourth quarter were favourable in both years primarily due to improved stock markets in 2017 and rising interest rates and improved stock markets in 2016. These items also had a favourable impact on experience gains for the full year in 2017 and 2016. The experience gains from rising interest rates and stock markets were partially offset by unfavourable surrender and lapse experience in the fourth quarter of both 2017 and 2016 and for the full year in 2016. For the full year in 2017 unfavourable surrender and lapse experience more than offset favourable experience from stock markets.

Management actions to improve asset/liability matching occurred in the fourth quarter and year of 2017 and 2016 resulting in a gain in both years. Management continued to make changes to the bond portfolios in the fourth quarter and year to reduce the mismatch between the liability and asset portfolio. Management made similar changes to the bond portfolio in the fourth quarter and year of 2016. Empire Life increased its investment in real estate limited partnership units early in 2017 and 2016 years. This investment is used to match long-term insurance contract liabilities. For the full year gains from management actions were lower in 2017 than 2016 primarily due to higher gains from increased investment in real estate limited partnership units and changes to the bond portfolios during 2016

In 2017, the update of policy liability assumptions in the fourth quarter was slightly unfavourable compared to a net favourable update in 2016. The following table provides a breakdown of the components of this amount:

Components of pretax income (decrease) increase from update of policy liability assumptions

	Year	
(millions of dollars)	**2017**	2016
Lapse/premium assumptions	**$ (18.9)**	$ (25.4)
Net investment assumptions	**(32.6)**	(14.4)
Mortality	**16.1**	9.4
Other	**34.6**	40.9
Total (loss) gain from update of policy liability assumptions (excluding policyholders' portion)	**(0.8)**	10.5

The refinements to lapse/premium assumptions for 2017 were primarily related to universal life projected premiums and lapse rates. The refinements to lapse/premium assumptions for 2016 were primarily related to emerging lapse rate experience for increasing renewal lapse rates on renewable Term 10 business.

The primary change in the net investment assumptions for 2017 is related to a refinement to the projection of equity assets backing the non-participating liability segment valuation at 2017 year-end, to reflect a reduced reliance on these assets in the future, with a corresponding increased reliance on fixed income instruments. This assumption change results in lower overall future yields and greater policy liabilities. The update in investment return assumptions for 2016 was primarily due to regular updates to reinvestment rates and credit spreads for the Canadian Asset Liability Method ("CALM") valuation model for future investment assumptions.

Mortality assumptions benefited from changes in experience and a revised mortality improvement scale provided by the Canadian Institute of Actuaries that was adopted into the valuation.

Other policy liability assumption updates for 2017 and 2016 were primarily related to refinements to the modelling of reinsurance treaties.

	Fourth quarter		Year	
	2017	2016	**2017**	2016
Interest rate movement				
30 year Canada federal government bond yield				
End of period	**2.26 %**	2.31 %	**2.26 %**	2.31 %
Beginning of period	**2.47 %**	1.67 %	**2.31 %**	2.16 %
Change during period	**(0.21)%**	0.64 %	**(0.05)%**	0.15 %
30 year Province of Ontario spread				
End of period	**0.70 %**	0.90 %	**0.70 %**	0.90 %
Beginning of period	**0.80 %**	1.00 %	**0.90 %**	1.05 %
Change during period	**(0.10)%**	(0.10)%	**(0.20)%**	(0.15)%
30 year A rated corporate spread (including financials)				
End of period	**1.32 %**	1.60 %	**1.32 %**	1.60 %
Beginning of period	**1.46 %**	1.73 %	**1.60 %**	1.92 %
Change during period	**(0.14)%**	(0.13)%	**(0.28)%**	(0.32)%
30 year A rated financials spread				
End of period	**1.87 %**	2.01 %	**1.87 %**	2.01 %
Beginning of period	**1.99 %**	2.26 %	**2.01 %**	2.19 %
Change during period	**(0.12)%**	(0.25)%	**(0.14)%**	(0.18)%

Interest rate movements impact both bond asset fair values and insurance contract liabilities. In the fourth quarter and year to date of 2017, 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:

	Fourth quarter		Year	
	2017	2016	**2017**	2016
Stock market movement				
S&P/TSX Composite Index				
End of period	**16,209.1**	15,287.6	**16,209.1**	15,287.6
Beginning of period	**15,634.9**	14,725.9	**15,287.6**	13,010.0
Percentage change during period	**3.7%**	3.8%	**6.0%**	17.5%
S&P 500 Index				
End of period	**2,673.6**	2,238.8	**2,673.6**	2,238.8
Beginning of period	**2,519.4**	2,168.3	**2,238.8**	2,043.9
Percentage change during period	**6.1%**	3.3%	**19.4%**	9.5%

In the fourth quarter and year 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

	Fourth quarter		Year	
(millions of dollars)	**2017**	2016	**2017**	2016
Net income after tax				
Net income (loss) after shareholders' portion	**$ 6.6**	$ (0.8)	**$ 21.5**	$ (1.7)
Net income after tax policyholders' portion	**2.6**	0.5	**5.2**	3.6
Net income (loss) after tax	**$ 9.2**	$ (0.3)	**$ 26.7**	$ 1.9

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 for the fourth quarter and year to date for Capital and Surplus (excludes policyholders' portion).

Sources of Earnings - Capital and Surplus (excludes policyholders' portion)

	Fourth quarter		Year	
(millions of dollars)	**2017**	2016	**2017**	2016
Income from investments	**$ 18.9**	$ 8.3	**$ 56.4**	$ 45.5
Losses on hedging instruments	**(3.7)**	(6.6)	**(8.9)**	(37.9)
Interest and other expenses	**(6.7)**	(2.8)	**(19.9)**	(10.4)
Earnings (loss) before income taxes	**8.5**	(1.1)	**27.6**	(2.8)
Income taxes	**1.9**	(0.3)	**6.1**	(1.1)
Empire Life's shareholders' net income (loss)	**$ 6.6**	$ (0.8)	**$ 21.5**	$ (1.7)

Income from investments increased in the fourth quarter and year of 2017 compared to fourth quarter and year of 2016 primarily because of higher assets in surplus. During the fourth quarter and year 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 a total of $400 million of subordinated debt made up of $200 million issued during the fourth quarter of 2016 and $200 million issued during the third quarter of 2017.

Capital Resources

	December 31 2017	September 30 2017	June 30 2017	March 31 2017	December 31 2016
MCCSR Ratio	**281.9%**	274.2%	249.2%	258.0%	248.3%

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.

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.

Empire Life's risk-based regulatory capital ratio, as measured by MCCSR, of 281.9% as at December 31, 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 fourth quarter was primarily due to strong earnings for the quarter and a $100 million preferred share issue on November 1, 2017. The increase in capital since the fourth quarter 2016 was primarily due to Empire Life's issuance of $200 million principal amount of unsecured subordinated debentures on September 15, 2017, the issuance of $100 million preferred shares and strong earnings for the four quarters ending December 31, 2017.

(millions of dollars)	**December 31 2017**	September 30 2017	June 30 2017	March 31 2017	December 31 2016
Available regulatory capital					
Tier 1	**$ 1,409.3**	$ 1,310.5	$ 1,248.8	$ 1,248.2	$ 1,206.1
Tier 2	**931.5**	877.1	741.8	713.2	707.2
Total	**$ 2,340.8**	$ 2,187.6	$ 1,990.6	$ 1,961.4	$ 1,913.3
Required regulatory capital	**$ 830.5**	$ 797.9	$ 798.7	$ 760.1	$ 770.7

The increase in Tier 1 available regulatory capital in the fourth quarter of 2017 was primarily due to Empire Life's issuance of $100 million of preferred shares and to net income partly offset by an increase in the negative reserves which increase Tier 1 and decrease Tier 2 capital.

The increase in Tier 2 available regulatory capital for the fourth quarter of 2017 is primarily due to inclusion of a greater portion of Empire Life's subordinated debt as Tier 2 available regulatory capital and the increase in negative reserves. The amount of the subordinated debt that qualifies as Tier 2 is subject to the maximum allowed by regulatory guidelines and depends on the amount of Tier 1 available regulatory capital.

Regulatory capital requirements increased during the fourth quarter of 2017 from higher market risk and insurance company risk such as lapse risk due to a decrease in long-term interest rates and segregated fund guarantees as a result of normal business growth.

Effective January 1, 2018, MCCSR has been 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. Empire Life will report LICAT ratios beginning with the first quarter reporting period in 2018. Empire Life has a strong capital position under MCCSR and will continue to have a strong capital position under the LICAT framework.

Industry Dynamics and Management's Strategy

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

Based on general fund and segregated fund assets, Empire Life is among the 10 largest life insurance companies in Canada. Empire Life has approximately 7% market share of Segregated Funds, 1% market share for employee benefits and 1.8% market share for new life insurance premiums. To be priced competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized company, must find a way to continue to be cost competitive with the larger companies that have some natural economy of scale advantages. In order to improve its unit expenses, management's enterprise-wide strategic focus has been on achieving profitable growth in its selected markets and on expense management. Empire Life has focused exclusively on the Canadian marketplace and, within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with independent distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to broadly focused competitors, management believes these solid relationships will enable profitable growth.

The Wealth Management product line at Empire Life is comprised of segregated fund products, guaranteed interest products and mutual funds. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value-oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management will continue to improve competitiveness by focusing on long-term performance, providing low cost products to customers along with broadened distribution reach. Empire Life continued to achieve strong growth in assets under management from its segregated fund business as a result of net new sales and equity market appreciation. Empire Life is continuing to monitor and manage GMWB risk exposure and the competitive landscape for this product.The fourth quarter 2017 Empire Life launched a new version of its GMWB product which is more capital efficient and reduces the amount of risk to Empire Life while still offering a competitive guaranteed income solution to customers at lower fees.

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

Individual Insurance products are very long-term in nature and consequently can be subject to new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial policy liabilities exceeds the profit margin in the product pricing. At current reinsurance price levels in the Canadian market place, a company may reduce new business strain and improve profitability in the short term by opting to increase the amount of insurance risk reinsured to third parties. Mortality trends continue to be favourable for life insurance products. Rather than give up the future earnings that would emerge if the trend in mortality improvement witnessed in recent decades continues, Empire Life continues to utilize lower than average levels of reinsurance with the resultant negative impact on short-term earnings. Low long-term interest rates continue to have an unfavourable impact on this product line. In the past few years, industry prices for longer term life insurance products have increased. Empire Life has also increased prices for these products and has focused its growth efforts on shorter term products, such as 10 year renewable term life insurance. Because of the reasonable long-term returns of this product line, management continues to focus on steady growth, technology development and process improvement in order to continue to have a cost structure that allows us to compete while generating an acceptable long-term financial contribution. Empire Life is continuously reviewing its Individual Insurance product mix to improve profitability, reduce interest rate risk, reduce required regulatory capital, develop web-based products and processes, and improve the customer and advisor experience.

Risk Management

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

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

Empire Life's risk appetite defines the aggregate level of risk they are willing to take to achieve its business strategies. The risk appetite supports the pursuit of shareholder value but does not compromise Empire Life's ability to pay claims and fulfill policyholder commitments.

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

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

The Board of Directors oversees and monitors Empire Life's risk management framework, processes and practices and reviews and approves Empire Life's Enterprise Risk Management Framework and overall risk appetite. Senior management shares responsibility and accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency of contact across the management team. Empire Life has an Asset Management Committee with responsibility for overseeing the management of corporate policies established by both the Investment Committee and Risk and Capital Committee of the Board. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2017 annual report. Risk management policy development is centralized under the leadership of the Chief Risk Officer and applies to all business units. The Chief Risk Officer is a member of the Asset Management Committee and has Board reporting responsibility with respect to risk and capital management. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers and the risk management department. There is senior management representation and oversight on various interdisciplinary risk control committees. Empire Life formally establishes and documents its values and risk tolerances through several company-wide policies including a code of business conduct, corporate disclosure principles, enterprise risk management, capital management and whistleblower policies. Empire Life's strategic risk management policies (including those related to product design and pricing, investment policies and capital management) are also approved by its Board, or a Board committee.

Caution Related to Sensitivities

In the sections that follow, Empire Life 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 Empire Life'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 Empire Life'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.

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 fourth quarter and year of 2017, Empire Life experienced a hedge cost of $2.7 million and a $6.6 million after tax respectively on its hedging program primarily due to stable Canadian stock prices. This compares to hedge cost of $4.8 million and $27.8 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 December 31, 2017, Empire Life had $8.7 billion of segregated fund assets and liabilities. Of this amount, approximately $8.4 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	2017	2016
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**2.1%**	1.2%
75% maturity guarantee and a 100% death benefit guarantee	**48.1%**	49.7%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**6.6%**	6.1%
100% maturity and death benefit guarantees	**43.2%**	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 liability 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 December 31, 2017 and at December 31, 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 December 31, 2017 and December 31, 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:

	Increase		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
Sensitivity to segregated fund guarantees:					
December 31, 2017 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$(34.4)**	**$(160.2)**
December 31, 2016 Shareholders' net income	$ nil	$ nil	$ nil	$(9.7)	$(117.2)

Empire Life's equity market sensitivity for segregated fund guarantees in a 20% and 30% stock market decline has increased primarily as a result of growth in segregated funds and mix of assets. 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 December 31, 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):

	Increase		Decrease		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
Sensitivity excluding equity risk hedge					
December 31, 2017 Shareholders' net income	**$48.7**	**$24.3**	**$(24.3)**	**$(83.1)**	**$(235.8)**
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 may incur losses in positive scenarios.

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

	Increase		Decrease		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
Sensitivity including equity risk hedge					
December 31, 2017 Shareholders' net income	**$48.2**	**$23.9**	**$(22.4)**	**$(74.0)**	**$(209.6)**
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):

	Increase		Decrease		
Excluding equity risk hedge MCCSR	**20%**	**10%**	**10%**	**20%**	**30%**
Sensitivity to stock markets (percentage points)					
December 31, 2017 MCCSR ratio	**(0.9)**	**(0.3)**	**(19.4)**	**(42.6)**	**(58.8)**
December 31, 2016 MCCSR ratio	(0.7)	(0.2)	(12.1)	(35.3)	(40.1)

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

	Increase		Decrease		
Including equity risk hedge MCCSR	**20%**	**10%**	**10%**	**20%**	**30%**
Sensitivity to stock markets (percentage points)					
December 31, 2017 MCCSR ratio	**(5.1)**	**(2.4)**	**(17.7)**	**(38.7)**	**(50.1)**
December 31, 2016 MCCSR ratio	(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
(millions of dollars)	Fund Value	Amount at Risk	Fund Value	Amount at Risk	Fund Value	Amount at Risk	Liabilities	Required Capital
December 31, 2017	**$ 2,708.3**	**$ 688.5**	**$ 30.9**	**$ 0.7**	**$ 409.1**	**$ 3.2**	**$ nil**	**$ 174.3**
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 December 31, 2017, the aggregate amount at risk for all three categories of risk is $692.4 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 December 31, 2017 increased from the December 2016 levels for GMWB withdrawal benefit exposure primarily due to GMWB sales volume in 2017. 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 December 31, 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.

	Before the sale of AFS assets	After the sale of AFS assets
	50bps decrease	50bps decrease
Sensitivity to market interest rates:		
December 31, 2017 MCCSR ratio	**(23.4%)**	**(16.6%)**
December 31, 2016 MCCSR ratio	(19.5%)	(14.5%)

Operational Risk

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

(1) Legal and Regulatory Risk

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

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

(2) Model Risk

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

(3) Human Resources Risk

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

(4) Third-Party Risk

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

(5) Technology, Information Security and Business Continuity Risk

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

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

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

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

Business and Strategic Risk

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

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

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

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

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in Empire Life's Annual Information Form available at www.sedar.com. Additional disclosures of Empire Life's sensitivity to risks are included in notes 22 and 23 to the 2017 consolidated financial statements.

Outlook

The Canadian economy performed better than expected in 2017, GDP growth is estimated at 3% for the full year, the Canadian dollar appreciated from 1.34 to 1.277 per U.S. dollar and unemployment fell from 6.7% to 5.7%, the lowest it has been since the 1970's. Consumer spending continued at a strong pace for the year and business investment in machinery and equipment was also up over 2016. Although the uncertainty surrounding the North American Free Trade agreement ("NAFTA") and credit tightening in the housing market had the opposite effect on the Canadian economy, the strong U.S. economy and renewed growth in the European and Asian economies had an overall positive impact on Canada's economy.

The Bank of Canada reversed its interest rate reductions from 2015 and raised rates twice during the year with the overnight rate up from 0.5% to 1% in 2017 and another 0.25% increase in the first month of 2018. The Canadian Federal Bond yield curve flattened with the 5 year increasing from 1.11% to 1.86% in 2017 and the 30 year decreasing slightly from 2.31% to 2.26% in 2017. Corporate and provincial bond spreads also decrease slightly during 2017. Interest rates have overall been lower than typical levels for several years. The Individual insurance product lines generally perform better with rising long term interest rates.

The Global equity markets were very strong in 2017 with the MSCI up over 20%, for the year. The S&P 500 stock index was up 19.4% and the S&P/TSX composite index was up 6% for the year. Stock market conditions impact the in-force profit margins and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line.

Looking forward to 2018, the global economy is expected to continue its growth at a similar pace. The tax reductions in the U.S. will stimulate the U.S. economy with growth estimates at 2.5% up from 2.1% originally forecast. The Canadian economy is expected to continue to grow as well but at a slower pace than in 2017. The forecast is at approximately 2% compared to an estimate of 3% in 2017. The western provinces are expected to continue to grow at a pace of 2% to 3% depending on the price of agriculture and the price of resource products such as oil and gas and forestry. Provinces in central Canada are expected to experience continued growth barring negative consequences from the NAFTA negotiations. The Atlantic provinces are expected to grow at a more moderate pace of 1%. Short-term interest rates are expected to rise in the U.S. as well as in Canada even with the uncertainties surrounding NAFTA. Overall the Canadian economy is well positioned to support continued growth of all Empire Life's product lines.

The individual insurance market grew modestly in 2017 even with the challenge of the persistent low long-term interest rate environment that followed the financial crisis. Empire Life has decreased its emphasis on long-term life insurance products in favor of shorter term products, such as 10 year renewable term life insurance. Long-term interest rates, product mix and product pricing are expected to continue to be challenges for Empire Life's Individual Insurance product line in 2018. The segregated fund product line continued to grow in 2017, fees will likely be impacted by competition going forward. Empire Life will develop low cost efficient products delivered digitally to satisfy consumer needs. Within the employee benefits product line, although highly concentrated Empire Life will continue to penetrate its niche market to grow the business.

As noted under the Capital Resources section, OSFI published its - LICAT Guidelines on November 27, 2017.This new Guideline establishes a new risk based regulatory capital framework for life insurance companies and replaces the current MCCSR Guideline effective January 1, 2018. LICAT is intended to improve the quality of capital available and provide a better alignment of risk measures with the long-term economics of the insurance business. This new Guideline was developed in consultation with the Life Insurance Industry and OSFI. OSFI is also reviewing the overall approach for determining capital requirements for segregated fund guarantee risks. Changes to the capital required for products with guaranteed income may ultimately impact the industry's ability to offer these products at reasonable prices to the consumer. OSFI has indicated that the effective date for the Guideline for segregated fund guarantee is January 1, 2021 to incorporate the potential impact of IFRS 17. OSFI is continuing to review the application of Non-Viable Contingent Capital ("NVCC") for life insurance companies. If NVCC applied, new preferred shares and subordinated debentures issued after the transition date would have to be compliant with the new regime to qualify as capital.

The International Accounting Standards Board ("IASB") issued IFRS 17, Accounting Standards for Insurance Contracts, in May 2017. IFRS 17 will include fundamental changes from the CALM method (equivalent to IFRS 4 Insurance Contracts) that Empire Life currently applies for the valuation of insurance contracts and revenue recognition. The IASB has also granted a temporary exemption from the application of IFRS 9 Financial Instruments to allow insurance companies the ability to implement both IFRS 17 and IFRS 9 effective 2021. 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 global consistency under IFRS as opposed to the differing approaches in each country that exist today. 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 Empire Life's consolidated financial statements as well as developing a plan to implement the changes required to be ready to report under the new standards by January 1, 2021.

The Canadian Securities Administrators ("CSA") has increased disclosure requirements for mutual fund companies, including point of sale requirements and customer relationship model initiatives. Mutual fund fees continue to be an area of interest for Canadian securities regulators. The CSA commissioned independent third-party research that will assess the impact of commissions and embedded (trailer) fees on mutual fund flows. This research will support CSA policy decisions concerning Canada's current mutual fund fee structure. Empire Life continues to monitor these developments and assess the possible impact to the insurance industry at some future date.

The industry is also improving the oversight of MGAs and their advisors. Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. In 2013, the Canadian Life and Health Insurance Association ("CLHIA") developed a new Insurer-MGA Relationship guideline (effective January 1, 2015). The Guideline describes desired outcomes and related practices in five general areas, including, perform due diligence prior to entering into a contract with an MGA, clearly set out roles and responsibilities in the contract, commit to a culture of treating customers fairly, monitor the performance of the MGA and retain ultimate responsibility. The industry is also considering establishing a licensing regime for all distribution firms. The licensing of distribution firms would clarify the accountability for the distribution partners to adhere to the insurer's code of conduct and provide on-going monitoring of the advisors activities.

Government pension reform including the Federal Pooled Registration Pension Plan program and the proposed Ontario Registered Pension Plan are expected to reduce future demand for private sector retirement savings products, having an adverse impact on banks, mutual fund companies, life insurance companies and advisors. In 2016 changes were made to the tax rules that deal with the exemption status of certain life insurance policies effective on January 1, 2017. The exemption test is aimed at distinguishing between (and tax differently) policies that are designed as protection versus those that are designed primarily as investments. The new exempt test represents a significant change to the tax regime that existed over the past 30 years. These changes required all life insurance companies to review the design and the pricing of their life insurance product offerings. Empire Life either modified or withdrew certain product offerings to comply with the new tax rules.

MANAGEMENT REPORT

The accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements necessarily include amounts that are based on judgments, which are applied consistently and are considered appropriate in the circumstances.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the consolidated financial statements.

The Company and its subsidiaries maintain systems of internal control over financial reporting which are designed to provide reasonable assurance that assets are safeguarded, expenditures are made in accordance with authorizations of management and directors, transactions are properly recorded and that financial records are reliable for preparing the consolidated financial statements in accordance with Canadian generally accepted accounting principles. Under the supervision of management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out as at December 31, 2017. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2017.

The Board of Directors carries out its responsibility for the consolidated financial statements in this Annual Report principally through its Audit Committee and the Audit Committees of its subsidiaries. These Audit Committees meet periodically with management and with the internal and external auditors to discuss the scope and results of audit examinations with respect to internal controls and financial reporting of the Company and its subsidiaries. The Audit Committee of the insurance subsidiary also meets periodically with the Appointed Actuary.

The Appointed Actuary is appointed by the Board of Directors of the insurance subsidiary to conduct an annual valuation of policy liabilities, in accordance with accepted actuarial practices, and to report on whether the valuations are appropriate and whether their results are fairly presented in the subsidiary's financial statements. The Appointed Actuary uses the work of the external auditors in verifying data used for valuation purposes.

PricewaterhouseCoopers LLP has been appointed independent auditors. It is their responsibility to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial position and results of operations as shown in the annual consolidated financial statements. In carrying out their audit, the independent auditors also consider the work of the actuaries and their report on policy liabilities. The independent auditors have full and free access to, and meet periodically with, the Audit Committees to discuss their audits. The Independent Auditor's Report outlines the scope of their examination and their opinion.

Duncan N.R. Jackman
Chairman, President
and Chief Executive Officer

Scott Ewert
Vice-President
and Chief Financial Officer

March 6, 2018

Independent Auditor's Report

To the Shareholders of
E-L Financial Corporation Limited

We have audited the accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of E-L Financial Corporation Limited and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2018

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

	December 31 2017	December 31 2016
Assets		
Cash and cash equivalents (Note 8)	**$ 338,989**	$ 419,906
Investments - corporate (Note 4)	**4,853,200**	4,341,596
Investments - insurance (Note 5)	**8,265,212**	7,235,918
Investments in associates (Note 6)	**330,050**	309,644
Insurance receivable	**46,294**	53,097
Other assets (Note 9)	**124,005**	141,322
Segregated fund assets (Note 10)	**8,681,892**	8,082,033
Total assets	**$ 22,639,642**	$ 20,583,516
Liabilities		
Reinsurance liabilities (Note 14)	**650,801**	533,357
Insurance contract liabilities (Note 14)	**5,430,098**	5,065,962
Investment contract liabilities	**16,643**	13,903
Deferred tax liabilities (Note 18)	**273,243**	244,219
Other liabilities (Note 11)	**217,597**	227,982
Borrowings (Note 16)	**798,291**	498,603
Segregated fund liabilities (Note 10)	**8,681,892**	8,082,033
Total liabilities	**$ 16,068,565**	$ 14,666,059
Equity		
Capital stock (Note 15)	**$ 372,388**	$ 372,388
Retained earnings	**5,171,997**	4,538,540
Accumulated other comprehensive income (“AOCI”)	**8,564**	43,271
Total E-L Financial shareholders' equity	**5,552,949**	4,954,199
Non-controlling interests in subsidiaries	**974,907**	912,131
Participating policyholders' interests (“PAR”)	**43,221**	51,127
Total equity	**6,571,077**	5,917,457
Total liabilities and equity	**$ 22,639,642**	$ 20,583,516

Approved by the Board

Duncan N.R. Jackman, Director

James F. Billett, Director

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

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of Canadian dollars, except per share amounts)

	2017	2016
Revenue		
Gross premiums	**$ 964,589**	$ 1,002,252
Premiums ceded to reinsurers	**(130,375)**	(120,752)
Net premiums	**834,214**	881,500
Investment and other income (Note 7)	**655,628**	590,866
Share of income (loss) of associates (Note 6)	**35,840**	(12,084)
Fair value change in fair value through profit or loss investments	**799,351**	170,931
Realized gain on available for sale investments (Notes 4 and 5)	**47,545**	28,588
	2,372,578	1,659,801
Expenses		
Gross claims and benefits	**1,027,222**	898,751
Claims and benefits ceded to reinsurers	**42,822**	(70,139)
Net claims and benefits	**1,070,044**	828,612
Change in investment contracts provision	**243**	40
Commissions	**180,750**	195,159
Operating (Note 17)	**187,302**	174,302
Interest expense	**18,608**	9,297
Premium taxes	**19,583**	19,529
	1,476,530	1,226,939
Income before income taxes	**896,048**	432,862
Income tax expense (Note 18)	**142,974**	80,916
Net income	**753,074**	351,946
Less: Participating policyholders' loss	**(4,666)**	(3,439)
Non-controlling interests in net income	**89,638**	22,242
	84,972	18,803
E-L Financial shareholders' net income	**$ 668,102**	$ 333,143
Earnings per share attributable to E-L Financial shareholders (Note 19)		
Basic	**$ 166.17**	$ 80.88
Diluted	**$ 152.83**	$ 75.80

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

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

	2017	2016
Net income	**$ 753,074**	$ 351,946
Other comprehensive income (“OCI”) (loss) (“OCL”), net of taxes (Note 20)		
Items that may be reclassified subsequently to net income:		
Net unrealized fair value change on available for sale investments (“AFS”)	**(29,948)**	(20,205)
Share of OCL of associates	**(5,913)**	(3,418)
	(35,861)	(23,623)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	**(2,278)**	5,345
Share of (OCL) OCI of associates	**(579)**	2,769
	(2,857)	8,114
Total OCL	**(38,718)**	(15,509)
Comprehensive income	**714,356**	336,437
Less: Participating policyholders' comprehensive loss	**(7,906)**	(1,710)
Non-controlling interests in comprehensive income	**88,867**	22,186
	80,961	20,476
E-L Financial shareholders' comprehensive income	**$ 633,395**	$ 315,961

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

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands of Canadian dollars)

	E-L Financial shareholders' equity						
	Capital stock	**Retained earnings**	**AOCI**	**Total**	**NCI**	**PAR**	**Total equity**
At January 1, 2017	**$ 372,388**	**$4,538,540**	**$ 43,271**	**$4,954,199**	**$ 912,131**	**$ 51,127**	**$5,917,457**
Net income (loss)	**—**	**668,102**	**—**	**668,102**	**89,638**	**(4,666)**	**753,074**
OCL	**—**	**—**	**(34,707)**	**(34,707)**	**(771)**	**(3,240)**	**(38,718)**
Comprehensive income (loss)	**—**	**668,102**	**(34,707)**	**633,395**	**88,867**	**(7,906)**	**714,356**
Dividends (Note 15)	**—**	**(35,647)**	**—**	**(35,647)**	**(22,009)**	**—**	**(57,656)**
Acquisition of subsidiary shares	**—**	**1,002**	**—**	**1,002**	**(4,082)**	**—**	**(3,080)**
At December 31, 2017	**$ 372,388**	**$5,171,997**	**$ 8,564**	**$5,552,949**	**$ 974,907**	**$ 43,221**	**$6,571,077**

	E-L Financial shareholders' equity						
	Capital stock	Retained earnings	AOCI	Total	NCI	PAR	Total equity
At January 1, 2016	$ 372,388	$4,243,683	$ 60,453	$4,676,524	$ 766,367	$ 52,837	$5,495,728
Net income (loss)	—	333,143	—	333,143	22,242	(3,439)	351,946
(OCL) OCI	—	—	(17,182)	(17,182)	(56)	1,729	(15,509)
Comprehensive income (loss)	—	333,143	(17,182)	315,961	22,186	(1,710)	336,437
Dividends (Note 15)	—	(35,647)	—	(35,647)	(20,816)	—	(56,463)
Subsidiary preferred share issuance	—	(3,775)	—	(3,775)	149,500	—	145,725
Acquisition of subsidiary shares	—	1,136	—	1,136	(5,106)	—	(3,970)
At December 31, 2016	$ 372,388	$4,538,540	$ 43,271	$4,954,199	$ 912,131	$ 51,127	$5,917,457

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

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

	2017	2016
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**$ 753,074**	$ 351,946
Items not affecting cash resources:		
Change in insurance and investment contract liabilities	**479,102**	207,338
Realized gain on available for sale of investments	**(47,545)**	(28,588)
Fair value change in fair value through profit or loss investments	**(799,351)**	(170,931)
Deferred taxes	**36,373**	2,836
Share of (income) loss of associates (Note 6)	**(35,840)**	12,084
Amortization related to investments	**(76,494)**	(77,215)
Other items	**18,219**	50,483
	327,538	347,953
Net change in other assets and liabilities	**19,264**	(13,799)
	346,802	334,154
Financing		
Cash dividends to shareholders	**(35,647)**	(31,125)
Cash dividends by subsidiaries to non-controlling interests	**(22,009)**	(18,667)
Issue of preferred shares by subsidiary, net of costs	**—**	145,725
Purchases of subsidiary shares (Note 26)	**(3,079)**	(3,796)
Margin loan (Note 16)	**100,000**	—
Subordinated debt issue (Note 16)	**199,300**	199,124
Interest paid on borrowings (Note 16)	**(11,219)**	(8,610)
	227,346	282,651
Investing		
Purchases of investments	**(4,128,685)**	(2,881,023)
Proceeds from sale or maturity of investments	**3,454,335**	2,499,191
Net sales (purchases) of short-term investments	**19,523**	(116,548)
Net purchases of other assets	**(8,188)**	(10,979)
Dividends from associates	**7,950**	5,914
	(655,065)	(503,445)
(Decrease) increase in cash and cash equivalents	**(80,917)**	113,360
Cash and cash equivalents, beginning of the year	**419,906**	306,546
Cash and cash equivalents, end of the year	**$ 338,989**	$ 419,906

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

1. Business operations

E-L Financial Corporation Limited (the "Company") is an investment and insurance holding company, publicly traded on the Toronto Stock Exchange and incorporated under the laws of Ontario.

The head office, principal address and registered office of the Company is located at 165 University Avenue, Toronto, Ontario, M5H 3B8.

The consolidated financial statements were approved by the Company's Board of Directors on March 6, 2018.

2. Significant accounting policies

(a) Basis of preparation

The Company's consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in Part I of the Handbook of The Chartered Professional Accountants of Canada which represent International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

These consolidated financial statements have been prepared on a fair value measurement basis, with the exception of certain assets and liabilities. Insurance contract liabilities and reinsurance assets/liabilities are measured on a discounted basis in accordance with accepted actuarial practice. Investment contract liabilities, mortgages, policy contract loans and loans on policies are carried at amortized cost. Certain other assets and liabilities are measured on a historical cost basis, as explained throughout this note.

All figures included in the consolidated financial statements are presented in thousands of Canadian dollars, rounded to the nearest thousand, except per share amounts and where otherwise stated.

(b) Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. On an ongoing basis, management evaluates its judgments, estimates and critical assumptions in relation to assets, liabilities, revenues and expenses. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

The Company considers the following items to be particularly susceptible to changes in estimates and judgments:

Insurance-related liabilities

Liabilities for insurance contracts are determined using the Canadian Asset Liability Method ("CALM"), which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and are updated to reflect actual experience and market conditions. Changes in the assumptions and margins for adverse deviation can have a significant impact on the valuation of insurance related liabilities.

Additional information is included in Notes 2(k), 14, 22 and 23.

Fair value estimates

In measuring the fair value of financial instruments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate. Judgment is also required in the classification of fair value measurements within the levels of the fair value hierarchy, in particularly those items categorized within Level 3 of the hierarchy.

Additional information regarding the fair value of financial instruments is included in Notes 2(e)i, 4 and 5.

Impairment

Available for sale ("AFS") securities, investments in associate and loans and receivables are reviewed at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. Judgment is required in determining if there is objective evidence of impairment.

For AFS securities and loans and receivables, impairment losses are recognized if there is objective evidence of impairment as a result of an event that reduces the estimated future cash flows of the instrument and the impact can be reliably estimated. Objective evidence of impairment includes, but is not limited to, bankruptcy or default, delinquency by a debtor, and specific adverse conditions affecting an industry or a region. In addition, for equity securities, a significant or prolonged decline in the fair value of a security below its cost is objective evidence of impairment. For these purposes management considers a significant decline to be 20% or greater and a prolonged period to be 12 months or greater. The decision to record a write-down, its amount and the period in which it is recorded could change if management's assessment of those factors were different. Impairment write-downs on debt securities are not recorded when impairment is due to changes in market interest rates, if future contractual cash flows associated with the debt security are still expected to be recovered.

Investments in associates recognize an impairment loss if the investment in associates' recoverable amount is determined to be lower than the investment's carrying amount at the reporting date. Recoverable amount is equal to the higher of the investment's fair value less costs of disposal and value in use. Impairment losses are recognized in the consolidated statements of income. Previously recognized impairment losses are reversed if the investment's recoverable amount subsequently increases and there is a significant indication that the circumstances that led to the initial recognition of the impairment loss have improved or recovered completely.

Additional information regarding impairment of financial instruments is included in Notes 2(e)iv, 4, 5, 6 and 22.

Consolidation

There could be judgment involved in assessing control or significant influence of certain of the Company's interests in other entities. The Company has applied judgment to assess which party has power or influence over the relevant activities of these entities. When assessing decision making power, the Company has considered voting rights, contractual agreements, relative share holdings, and other facts and circumstances. The initial assessment of control or influence is reassessed when there are changes in facts and circumstances.

Additional information regarding the principles of consolidation is included in Note 2(c).

Pension and other employee future benefits

Pension and other employee post-employment benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made effect the pension and other employee future benefits expense included in net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in Other Comprehensive Income ("OCI").

Additional information regarding pension and other employee future benefits is included in Notes 2(j) and 13.

(c) Principles of consolidation

i) Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Inter-company transactions, balances and unrealized gains or losses on transactions between group companies are eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Company's accounting policies.

ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

iii) Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the income or loss of the investee after the date of acquisition.

The Company's share of post-acquisition income or loss is recognized in the consolidated statements of income, and its share of OCI is recognized in OCI.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. The Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as share of income (loss) of associates in the consolidated statements of income.

Income and losses resulting from transactions between the Company and its associate are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

(d) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Internal reports about these segments are regularly reviewed by the Company's Chief Executive Officer and by the Board of Directors to assess their performance and to allocate capital and resources.

(e) Financial instruments

i) Fair value of financial instruments

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset or liability quoted in an active market is generally the closing price. The investments in private companies that are not listed on a stock exchange are measured using the adjusted net asset method. This method estimates the fair values of the underlying assets and liabilities of the private companies and considers adjustments for characteristics such as a minority marketability discount and control block premiums. For financial instruments such as cash equivalents and short-term investments that have a short duration, the carrying value of these instruments is considered to approximate fair value.

Fair value measurements used in these consolidated financial statements have been classified by using a fair value hierarchy based upon the transparency of the inputs used in making the measurements. The three levels of the hierarchy are:

Level 1 - Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial instruments classified as level 1 generally include cash and exchange traded common and preferred shares and derivatives.

Level 2 - Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of financial instruments classified as level 2 generally include government bonds, certain corporate and private bonds, and short-term investments, certain common shares (real estate limited partnership units) and over the counter derivatives.

Level 3 - Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect our expectations about the assumptions market participants would use in pricing the asset or liability.

ii) Cash and cash equivalents and investments

Cash and cash equivalents and short-term investments are short term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition.

Short-term investments comprise financial assets with maturities of greater than three months and less than one year when acquired.

The Company’s financial assets are designated as fair value through profit or loss (“FVTPL”), AFS or loans and receivables based on management’s intentions or characteristics of the instrument. All transactions are recorded on a trade date basis. Transaction costs are expensed for FVTPL instruments and capitalized for all others when the transaction costs are directly attributable to the acquisition of the financial asset.

FVTPL instruments are carried at fair value in the consolidated statements of financial position with changes in the fair value recorded in the consolidated statements of income in the period in which they occur.

AFS common and preferred share instruments, short-term investments, bonds and debentures are carried at fair value in the consolidated statements of financial position. Changes in the fair value of AFS instruments are recorded in OCI in the consolidated statements of comprehensive income until realized, or required to be written down due to impairment, at which time, these gains and losses will be reclassified to the consolidated statements of income.

Loans and receivables include mortgage loans, loans on policies and policy contract loans. Loans and receivables are recorded at amortized cost, using the effective interest method, net of provisions for impairment losses, if any.

The Company designates the majority of its Investments - corporate as FVTPL. Empire Life Insurance Company (“Empire Life”) classifies most financial assets supporting insurance contract liabilities and investment contract liabilities as FVTPL. Most financial assets supporting capital and surplus are classified as AFS.

iii) Derivative financial instruments

The Company may use derivative financial instruments to partly manage exposure to foreign currency, interest rate, equity and other market risks associated with certain assets and liabilities. Derivative financial assets are designated as FVTPL which are recorded at fair value on the acquisition date and subsequently revalued at their fair value as at each reporting date. Derivative financial instruments with a positive fair value are recorded as assets while derivative financial instruments with a negative fair value are recorded as liabilities. Changes in fair value are recorded in fair value change in FVTPL assets, in the consolidated statements of income.

iv) Impairment

All investments other than FVTPL instruments are assessed for impairment at each reporting date. Impairment is recognized in the consolidated statements of income, when there is objective evidence that a loss event has occurred which has impaired the estimated future cash flows of an asset.

An AFS debt instrument would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through the consolidated statements of income. Impairment losses previously recorded through the consolidated statements of income are to be reversed through net income if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

For AFS equity investments objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties. The accounting for an impairment that is recognized in the consolidated statements of income is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in the consolidated statements of income cannot be subsequently reversed through net income (loss). Any subsequent increase in value is recorded in OCI in the consolidated statements of comprehensive income.

Mortgages and loans are individually evaluated for impairment in establishing the allowance for impairment. Objective evidence of impairment exists if there is no longer reasonable assurance of full collection of loan principal or loan interest related to a mortgage or policy contract loan. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the loan, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. If objective evidence of impairment is found, allowances for credit losses are established to adjust the carrying value of these assets to their net recoverable amount and the impairment loss is recorded in the consolidated statements of income to reduce the carrying value of the financial asset to its present value of estimated future cash flows. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed and the reversal is recognized in the consolidated statements of income.

v) Derecognition

A financial asset is derecognized, when the contractual rights to cash flows expire or the Company has transferred its economic rights to the asset and substantially all risks and rewards. In instances where substantially all risks and rewards have not been transferred or retained, the assets are derecognized if the asset is not controlled through rights to sell or pledge the asset.

vi) Other

Premium receivables have been classified as loans or receivables and are carried at amortized cost. Trade accounts receivables are presented as other assets. Accounts payable and other liabilities and insurance payables are carried at amortized cost. For these financial instruments, carrying value approximates fair value due to their short-term nature.

(f) Reinsurance

Empire Life enters into reinsurance agreements with reinsurers in order to limit its exposure to significant losses. Empire Life has a Reinsurance Risk Management policy which requires that such arrangements be placed with well-established, highly rated reinsurers. Reinsurance is measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance treaty. Amounts due to or from reinsurers with respect to premiums received or claims paid are included in reinsurance recoverable and reinsurance liabilities in the consolidated statements of financial position. Premiums for reinsurance ceded are presented as premiums ceded to reinsurers in the consolidated statements of income. Reinsurance recoveries on claims incurred are recorded as claims and benefits ceded to reinsurers in the consolidated statements of income. The reinsurers' share of insurance contract liabilities is recorded as other assets or other liabilities in the consolidated statement of financial position at the same time as the underlying insurance contract liability to which it relates.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that not all amounts due under the terms of the contract will be received. If a reinsurance asset is determined to be impaired, it would be written down to its recoverable amount and the impairment loss would be recorded in the consolidated statements of income.

Gains or losses on buying reinsurance are recognized in the consolidated statements of income immediately at the date of purchase and are not amortized.

(g) Property and equipment

Property and equipment is comprised of office properties (including land, building and leasehold improvements) and furniture and equipment. All classes of assets are carried at cost less accumulated amortization, except for land, which is not subject to amortization, and any impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Amortization is calculated to write down the cost of property and equipment to their residual values over their estimated useful lives.

Property and equipment is included in other assets in the consolidated statements of financial position.

(h) Intangible assets

Intangible assets include computer software, related licenses and software development costs, which are carried at cost less accumulated amortization and any impairment losses. Amortization of intangible assets is calculated using the straight-line method to allocate the costs over their estimated useful lives, which are generally between three and seven years. Amortization is included in operating expenses in the consolidated statements of income. For intangible assets under development, amortization begins when the asset is available for use. The Company does not have intangible assets with indefinite useful lives.

Intangible assets is included in other assets in the consolidated statements of financial position.

(i) Income taxes

Income tax comprises both current and deferred tax. Income tax is recognized in the consolidated statements of income except to the extent that it relates to items recognized directly in OCI or directly in equity, in which case the income tax is also recognized directly in OCI or equity, respectively.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been reflected in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and consolidated financial statement bases for assets and liabilities and for certain carry-forward items.

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of the enactment or substantive enactment.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

(j) Employee benefits

The Company provides employee pension benefits through either a defined benefit or a defined contribution pension plan. The Company discontinued new enrollments in the defined benefit component effective October 1, 2011 and introduced a defined contribution component effective January 1, 2012 for new enrollments and for any existing employees who chose to transfer from the defined benefit component. The Company also provides other post-employment benefits.

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit component is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using current interest rates of high-quality corporate bonds.

Defined benefit expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds as of prior-year end. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise, and remain in accumulated other comprehensive income (“AOCI”). Past-service costs are recognized immediately in net income.

The defined contribution component of the Plan is a component under which the Company pays fixed contributions. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

The Company also provides other post-employment benefits to their retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise and remain in accumulated OCI. These obligations are valued annually by independent qualified actuaries and are not funded.

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(k) Insurance and investment contracts

i) Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when Empire Life agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder and the insurance contract has commercial substance. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or service contracts, as appropriate. Products issued by Empire Life that transfer significant insurance risk have been classified as insurance contracts in accordance with IFRS 4 *Insurance Contracts*. Otherwise, products issued by Empire Life are classified as either investment contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or service contracts in accordance with IAS 18 *Revenue*. Empire Life defines significant insurance risk as the possibility of paying at least 2% more than the benefits payable if the insured event did not occur. When referring to multiple contract types, Empire Life uses the terminology policy liabilities.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts, however, can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are classified into three main categories: short-term insurance contracts, long-term insurance contracts and investment contracts.

Insurance contract liabilities are determined using accepted actuarial practices according to standards established by the Canadian Institute of Actuaries ("CIA") and the requirements of OSFI. Empire Life uses the CALM for valuation of insurance contracts, which satisfies the IFRS 4 *Insurance Contracts* requirements for eligibility for use under IFRS.

Short-term insurance contracts include both annuity products and group benefits.

The annuity products classified as short-term insurance contracts are guaranteed investment options that provide for a fixed rate of return over a fixed period. Contracts include certain guarantees that are initiated upon death of the annuitant. The liabilities are determined using CALM.

The group benefits classified as short-term insurance contracts include short-term disability, health and dental benefits. Benefits are typically paid within one year of being incurred. Liabilities for unpaid claims are estimated using statistical analysis and Empire Life's experience for claims incurred but not reported.

Long-term insurance contracts include insurance products, annuity products and group benefits. In all cases, liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and taxes on policies in force.

The insurance products so classified are life insurance and critical illness that provide for benefit payments related to death, survival or the occurrence of a critical illness. Terms extend over a long duration. The annuity products classified as long-term insurance contracts include both annuities that provide for income payments for the life of the annuitant and guarantees associated with Empire Life's segregated fund products. The group benefits classified as long-term insurance contracts are life benefits which are payable upon death of the insured and disability benefits that provide for income replacement in case of disability.

The determination of long-term insurance contract liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that insurance contract liabilities are adequate to pay future benefits. The resulting provisions for adverse deviation have the effect of increasing insurance contract liabilities and decreasing the income that otherwise would have been recognized at policy inception. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in gross claims and benefits in the consolidated statement of income in the year of the change.

Annually, the Appointed Actuary determines whether insurance contract liabilities (for both short-term and long-term categories) are sufficient to cover the obligations and deferred acquisition costs that relate to policies in force as at the date of the consolidated statement of financial position. A number of valuation methods are applied, including CALM, discounted cash flows and stochastic modeling. Aggregation levels and the level of prudence applied in assessing liability adequacy are consistent with requirements of the CIA. Any adjustment is recorded as a gross change in insurance contract liabilities and/or a change in insurance contract liabilities ceded in the consolidated statements of income.

Investment contracts include annuity products that do not involve the transfer of significant risk, either at inception or during the life of the contract. For Empire Life, products so classified are limited to term certain annuities that provide for income payments for a specified period of time.

Investment contract liabilities are recognized when contracts are entered into and deposits are received. These liabilities are initially recognized at fair value, and subsequently they are carried at amortized cost based on expected future cash flows using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability’s original effective interest rate. Any adjustment is immediately recognized in the consolidated statements of income. Deposits and withdrawals are recorded in gross claims and benefits on the consolidated statements of financial position.

ii) Premiums

Gross premiums for all types of insurance contracts are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund and investment contract products.

iii) Benefits and claims paid

Benefits are recorded as an expense when they are incurred. Annuity payments are expensed when due for payment. Health insurance claims are accounted for when there is sufficient evidence of their existence and a reasonable assessment can be made of the monetary amount involved. Benefits and claims paid include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

iv) Deferred acquisition costs

Distribution costs of segregated funds having a deferred sales charge are deferred and amortized over the term of the related deposits or the applicable period of such sales charge, as appropriate. These deferred costs form part of insurance contract liabilities on the consolidated statement of financial position. The costs deferred in the period and amortization of deferred costs form part of the change in insurance contract liabilities on the consolidated statements of income.

(l) Segregated funds

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by Empire Life for the benefit of these policyholders. Although the underlying assets are registered in Empire Life's name and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. Segregated fund assets are not available to pay liabilities of the general fund. The assets of these funds are carried at their period-end fair values. Empire Life records a segregated fund policy liability equal to the fair value of the assets and any guarantees are recorded as an insurance contract liability. Empire Life's consolidated statements of income includes fee income earned for management of the segregated funds under investment and other income, as well as expenses related to the acquisition, investment management, administration and death benefit and maturity benefit and withdrawal guarantees of these funds. See Note 10 for details on segregated fund assets and changes in segregated fund assets.

Empire Life provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within insurance contract liabilities. Sensitivity of Empire Life's liability for segregated fund guarantees to market fluctuations is disclosed in Note 22.

(m) Participating policyholders' interest

Certain life, disability and annuity policies issued by Empire Life are defined as participating policies by contractual provisions, and are eligible for periodic dividends. Empire Life maintains an account in respect of participating policies ("participating account"), separate from those maintained in respect of other policies, in the form and manner determined by the Office of the Superintendent of Financial Institutions under section 456-464 of the *Insurance Companies Act*. The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. Empire Life has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account. Dividends are paid annually, with a few older plans paying dividends every five years as per contractual provisions. Participating policyholder dividends are recognized as policy dividends expense in the consolidated statements of income.

At the end of the reporting period, all participating policy liabilities, both guaranteed and discretionary are held within insurance contract liabilities, policyholders' funds on deposit, and provision for profits to policyholders. All participating policy reinsurance ceded at the end of the reporting period is held within reinsurance recoverable or reinsurance liabilities. Net income (loss) attributable to participating policyholders is shown on the consolidated statements of income. Comprehensive income (loss) attributable to participating policyholders is shown on the consolidated statements of comprehensive income. The participating policyholders' portion of equity is reported separately in the Company's total equity section of the consolidated statements of financial position.

(n) Investment and other income

Other income includes fund management fees, policy administration and surrender charges, and is recognized on an accrual basis. Fee income earned for investment management and administration of the segregated and mutual funds, included in investment and other income, is generally calculated and recorded as revenue daily based on the funds' closing net asset values.

Interest income is recognized using the effective interest rate method. Fees that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the effective interest rate of the instrument.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Interest income and dividend income are included in investment and other income in the consolidated statements of income for all financial assets.

(o) Foreign currency translation

The Company uses the Canadian dollar as both its functional and presentational currency.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income.

Translation differences on FVTPL non-monetary items are reported as part of the fair value gain or loss. Translation differences on AFS non-monetary financial assets are recognized in OCI in the consolidated statements of comprehensive income. On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in OCI is recognized in the consolidated statements of income.

(p) Earnings per share ("EPS")

Basic EPS is determined as net income (loss) attributed to common shareholders of the Company less dividends on First Preferred shares, divided by the weighted average number of common shares outstanding for the period. Common Shares are determined based on the total common shares and Series A Preference shares less the Company's proportionate interest in its own common shares held indirectly through investments in associates.

Diluted EPS is determined as net income (loss) attributed to common shareholders of the Company less dividends on First Preferred shares, divided by the weighted average number of diluted common shares outstanding for the period. Diluted common shares reflect the potential dilutive effect of converting the First Preference shares into common shares.

(q) Comprehensive income

Comprehensive income consists of net income and OCI. OCI includes items that may be reclassified subsequently to net income: unrealized gains or losses on AFS financial assets, net of amounts reclassified to net income (loss) and the Company's share of OCI of its associates. OCI also includes items that will not be reclassified to net income: remeasurements of post-employment benefit liabilities. All OCI amounts are net of taxes.

(r) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed unless the possibility of an outflow of economic benefits is remote. Any change in estimate of a provision is recorded in the consolidated statements of income. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(s) Leases

The Company leases certain property and equipment. The Company does not have substantially all of the risks and rewards of ownership and these leases are therefore classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

(t) Subordinated debt

Subordinated debt is recorded at amortized cost using the effective interest rate method. Interest on subordinated debt is reported as interest expense in the consolidated statements of income.

(u) Accounting changes

i) New accounting pronouncements adopted in 2017

Amendments to IAS 12 Income Taxes

In January 2016, the IASB issued amendments to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Adoption of the amendment on January 1, 2017 did not have a significant impact on the consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. Adoption of the amendment on January 1, 2017 did not have a significant impact on the consolidated financial statements.

ii) New accounting pronouncements issued but not yet effective

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue which is effective on January 1, 2018. This will replace IAS 18 *Revenue* which covers contracts for goods and services and IAS 11 *Construction Contracts* which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Management has completed their analysis of IFRS 15 and has assessed that there are no material impacts to the Company and the consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and Measurement* with a new mixed measurement model having only two measurement categories of amortized cost and FVTPL for financial assets.

Under IFRS 9, all financial assets currently within the scope of IAS 39 will be measured at either amortized cost or FVTPL. Classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at FVTPL. A debt instrument is measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at FVTPL. For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognized in OCI unless it gives rise to an accounting mismatch in profit or loss.

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two different solutions for insurance companies relating to IFRS 9, both of which are optional:

- a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and
- the 'overlay approach'

The Company will apply the temporary exemption for periods beginning before January 1, 2021, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. To assess whether activities are 'predominantly connected with insurance' two criteria were satisfied:

- Carrying amount of liabilities arising from contracts within IFRS 17's scope is significant, compared to the total carrying amount of liabilities; and
- Comparison of total carrying amount of liabilities connected with insurance with the total carrying amount of all of its liabilities. Liabilities connected with insurance include segregated fund liabilities measured at FVTPL applying IAS 39, and liabilities that arise because the insurer issues or fulfills obligations arising from those insurance and segregated fund contracts. The second test is passed if the resulting percentage is either: greater than 90%; or if it is less than or equal to 90% but greater than 80% and the insurer is not engaged in a significant activity unconnected with insurance.

We have consider the total insurance liabilities, which include segregated fund liabilities, against our total liabilities and have concluded that the Company meets both criteria noted above. The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its consolidated financial statements.

IFRS 16 Leases

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

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required to be restated. The Company is evaluating the impact of IFRS 17 on its consolidated financial statements.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

3. Operating segments

In managing its investments, the Company distinguishes between E-L Corporate and its investment in Empire Life. The Company's E-L Corporate segment includes United Corporations Limited ("United"), the Company's closed-end investment subsidiary, investments in associates and investments - corporate. Empire Life underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products.

The following is an analysis of significant items of profit and loss by operating segment, operating segment assets and operating segment liabilities, reconciled to the Company's consolidated financial statements. The accounting policies applied by the operating segments are the same as those for the Company as a whole.

Year ended December 31, 2017	E-L Corporate	Empire Life	Total
Revenues			
Net premiums	$ —	$ 834,214	$ 834,214
Investment and other income	117,648	537,980	655,628
Share of income of associates	35,840	—	35,840
Fair value change in FVTPL investments	502,756	296,595	799,351
Realized gain on AFS	41,729	5,816	47,545
	697,973	1,674,605	2,372,578
Expenses			
Net claims and benefits	—	1,070,044	1,070,044
Change in investment contracts provision	—	243	243
Commissions	—	180,750	180,750
Operating expenses	28,061	159,241	187,302
Interest expense	444	18,164	18,608
Premium taxes	—	19,583	19,583
	28,505	1,448,025	1,476,530
Income before income taxes	669,468	226,580	896,048
Income tax expense	92,294	50,680	142,974
Non-controlling interests in subsidiaries and participating policyholders' interest	78,829	6,143	84,972
Segment shareholders' net income	$ 498,345	$ 169,757	$ 668,102

As at December 31, 2017	E-L Corporate	Empire Life	Total
Segment assets [1]	$ 5,245,095	$ 17,394,547	$ 22,639,642
Segment liabilities	$ 394,599	$ 15,673,966	$ 16,068,565

[1] Segment assets for E-L Corporate include investments in associate assets of $330,050.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

Year ended December 31, 2016	E-L Corporate	Empire Life	Total
Revenues			
Net premiums	$ —	$ 881,500	$ 881,500
Investment and other income	107,584	483,282	590,866
Share of loss of associates	(12,084)	—	(12,084)
Fair value change in FVTPL investments	138,944	31,987	170,931
Realized gain on AFS investments	16,849	11,739	28,588
	251,293	1,408,508	1,659,801
Expenses			
Net claims and benefits	—	828,612	828,612
Change in investment contracts provision	—	40	40
Commissions	—	195,159	195,159
Operating expenses	25,302	149,000	174,302
Interest expense	—	9,297	9,297
Premium taxes	—	19,529	19,529
	25,302	1,201,637	1,226,939
Income before income taxes	225,991	206,871	432,862
Income tax expense	31,211	49,705	80,916
Non-controlling interests in subsidiaries and participating policyholders' interest	13,136	5,667	18,803
Segment shareholders' net income	$ 181,644	$ 151,499	$ 333,143

As at December 31, 2016	E-L Corporate	Empire Life	Total
Segment assets (1)	$ 4,721,340	$ 15,862,176	$ 20,583,516
Segment liabilities	$ 253,941	$ 14,412,118	$ 14,666,059

(1) Segment assets for E-L Corporate include investments in associate assets of $309,644.

4. Investments – corporate

Invested assets

Investments – corporate includes the investments held at the corporate level of E-L Financial and the investment holdings of it's subsidiary, United.

The following table provides a comparison of carrying values by class of asset:

Carrying value	As at December 31, 2017			As at December 31, 2016		
Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Short-term investments						
Canadian federal government	$ —	$ —	$ —	$ 41,693	$ —	$ 41,693
Canadian corporate	21,166	—	21,166	23,865	—	23,865
Total short-term investments	21,166	—	21,166	65,558	—	65,558
Preferred shares - Canadian	1,058	—	1,058	1,058	—	1,058
Derivative asset	236	—	236	—	—	—
Common shares and units						
Canadian	760,978	—	760,978	684,820	—	684,820
U.S.	2,023,074	—	2,023,074	2,063,530	28,422	2,091,952
Europe	1,054,623	—	1,054,623	880,620	48,358	928,978
Other	992,065	—	992,065	562,900	6,330	569,230
Total common shares and units	4,830,740	—	4,830,740	4,191,870	83,110	4,274,980
Total	$ 4,853,200	$ —	$ 4,853,200	$ 4,258,486	$ 83,110	$ 4,341,596

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The Company's investment in common shares and units includes shares of public and private companies and units in pooled funds.

Investments – measured at fair value

The table below provides a comparison of the fair values by class of asset:

Fair value				As at December 31, 2017
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Short-term investments				
Canadian corporate	$ —	$ 21,166	$ —	$ 21,166
Preferred shares - Canadian	—	—	1,058	1,058
Derivative asset	—	236	—	236
Common shares and units				
Canadian	24,149	92,809	644,020	760,978
U.S.	1,785,071	109,370	128,633	2,023,074
Europe	924,415	53,134	77,074	1,054,623
Other	552,962	398,341	40,762	992,065
Total common shares and units	3,286,597	653,654	890,489	4,830,740
Total	$ 3,286,597	$ 675,056	$ 891,547	$ 4,853,200

Fair value				As at December 31, 2016
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Short-term investments				
Canadian federal government	$ —	$ 41,693	$ —	$ 41,693
Canadian corporate	—	23,865	—	23,865
Total short-term investments	—	65,558	—	65,558
Preferred shares - Canadian	—	—	1,058	1,058
Common shares and units				
Canadian	18,400	91,154	575,266	684,820
U.S.	1,859,111	96,755	136,086	2,091,952
Europe	817,388	46,622	64,968	928,978
Other	309,030	232,995	27,205	569,230
Total common shares and units	3,003,929	467,526	803,525	4,274,980
Total	$ 3,003,929	$ 533,084	$ 804,583	$ 4,341,596

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. There were no transfers of financial instruments between Level 1, Level 2 or Level 3 for the year ended December 31, 2017 or during the year ended December 31, 2016.

Included in Level 2 are the Company's investments in pooled funds and a limited partnership which at December 31, 2017 had a carrying value of $653,654 (2016 - $467,526). The Company invests in pooled funds and limited partnerships whose objectives range from achieving medium to long-term capital growth and whose investment strategies do not include the use of leverage. These investments are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives. The Company's investments are susceptible to market price risk arising from the underlying investments. The Company holds redeemable units that entitle the holder to a proportional share in the respective assets. The Company has the right to redeem its investments within a 30 to 90 day period depending on the fund or partnership.

Included in Level 3 are investments in common and preferred shares in private companies. The Company utilizes the adjusted net asset method to derive the fair value of investments in private companies by reference to the fair value of its assets and liabilities, along with assessing a minority marketability discount and control block premium, if any. The adjustments are unobservable inputs for fair value measurement. The adjusted net asset method has been determined most appropriate for an investment whose value is mainly derived from the holding of assets. The assets and liabilities of the private companies primarily include listed investments and deferred tax liabilities. The Company identified a range of possible values which market participants could apply to the private companies. This analysis resulted in a range of plus or minus 10% of the fair value of the underlying net assets with a best estimate adjustment of zero. Taking this into account, the Company applied no minority marketability discount or premium to the fair value estimate of the private companies. If the minority marketability discount was 10% or a premium of 10%, with all other variables remaining constant, net assets would have decreased or increased by approximately $77,342 (2016 - $69,797).

The fair value change in FVTPL investments for Level 3 investments for year ended December 31, 2017 was a fair value gain of $86,964 (2016 - $46,207). There were no purchases, sales, issues or settlements of Level 3 investments for the year ended December 31, 2017 or during the year ended December 31, 2016.

Impairment

Based on the impairment review as at December 31, 2017, a year to date impairment loss on AFS investments of $nil before tax (2016 - $540) has been recorded in net income. Impairment was assessed on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss.

Derivative financial instrument

On November 1, 2017, the Company entered into an interest rate swap with a $100,000 notional principal. The use of derivatives is measured in terms of notional principal amounts, which serve as the basis for calculating payments but is not the actual amount that is exchanged. At December 31, 2017 the interest rate swap had a fair value of $236.

The contract matures on November 1, 2022. The interest rate swap is valued based on the contract notional amount, calculating the difference between the fixed and floating interest rates at the end of a given period. The interest rate swap is classified as Level 2 as the interest rates between the two parties are observable and reliable.

For analysis of the Company’s risks arising from financial instruments, refer to Note 22 – Investment risk management.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

5. Investments – insurance

Empire Life invested assets

The following table provides a comparison of carrying values by class of asset:

Carrying Value	As at December 31, 2017			As at December 31, 2016		
Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Short-term investments						
Canadian federal government	$ 13,960	$ 44,937	$ 58,897	$ 4,983	$ 69,883	$ 74,866
Canadian provincial governments	—	33,883	33,883	—	—	—
Canadian municipal governments	—	—	—	3,963	—	3,963
Corporate	34,962	—	34,962	24,045	—	24,045
Total short-term investments	48,922	78,820	127,742	32,991	69,883	102,874
Bonds						
Federal government	120,161	392,076	512,237	81,516	288,200	369,716
Provincial governments	2,983,416	415,016	3,398,432	2,614,635	310,369	2,925,004
Municipal governments	98,191	83,547	181,738	78,743	72,819	151,562
Total Canadian government bonds	3,201,768	890,639	4,092,407	2,774,894	671,388	3,446,282
Energy	64,591	66,800	131,391	50,679	43,649	94,328
Materials	10,287	—	10,287	10,716	—	10,716
Industrials	57,934	60,443	118,377	54,162	33,343	87,505
Consumer discretionary	21,882	28,859	50,741	17,037	27,028	44,065
Consumer staples	87,811	77,108	164,919	78,747	65,110	143,857
Health care	82,202	22,352	104,554	69,543	22,084	91,627
Financial services	557,368	384,757	942,125	504,027	343,255	847,282
Communications	79,167	47,987	127,154	45,101	28,148	73,249
Utilities	349,863	67,884	417,747	317,114	42,408	359,522
Real estate	916	—	916	6,726	—	6,726
Infrastructure	281,085	31,905	312,990	278,675	37,338	316,013
Total Canadian corporate bonds	1,593,106	788,095	2,381,201	1,432,527	642,363	2,074,890
Total bonds	4,794,874	1,678,734	6,473,608	4,207,421	1,313,751	5,521,172
Preferred shares - Canadian	396,257	12,004	408,261	274,871	10,313	285,184
Common shares						
Canadian						
Common	687,095	56,414	743,509	582,582	66,969	649,551
Real estate limited partnership units	91,894	—	91,894	75,594	—	75,594
U.S.	39,655	—	39,655	181,600	—	181,600
Other	30,346	530	30,876	22,866	—	22,866
Total common shares	848,990	56,944	905,934	862,642	66,969	929,611
Derivative assets	1,399	—	1,399	3,855	—	3,855
Loans and receivables:						
Mortgages	—	—	221,973	—	—	264,309
Loans on policies	—	—	51,692	—	—	47,969
Policy contract loans	—	—	74,603	—	—	80,944
Total	$ 6,090,442	$ 1,826,502	$ 8,265,212	$ 5,381,780	$ 1,460,916	$ 7,235,918

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

Empire Life investments – measured at fair value

The table below provides a comparison of the fair values by class of asset:

Fair value	As at December 31, 2017			As at December 31, 2016		
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value
Short-term investments	$ —	$ 127,742	$ 127,742	$ —	$ 102,874	$ 102,874
Bonds	—	6,473,608	6,473,608	—	5,521,172	5,521,172
Preferred shares	408,261	—	408,261	285,184	—	285,184
Common shares	814,040	91,894	905,934	854,017	75,594	929,611
Derivative assets	1,398	1	1,399	3,265	590	3,855
Loans and receivables:						
Mortgages	—	224,982	224,982	—	269,171	269,171
Loans on policies	—	51,692	51,692	—	47,969	47,969
Policy contract loans	—	74,603	74,603	—	80,944	80,944
Total	$ 1,223,699	$ 7,044,522	$ 8,268,221	$ 1,142,466	$ 6,098,314	$ 7,240,780

The fair value of mortgages has been calculated by discounting cash flows of each mortgage at a discount rate appropriate to its remaining term to maturity. The discount rates are determined based on regular competitive rate surveys.

The fair values of loans on policies and policy contract loans approximates their carrying values, due to the life insurance contracts that secure them.

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers of financial instruments between Level 1, Level 2 or Level 3 for the year ended December 31, 2017 or during the year ended December 31, 2016.

Impairment

AFS investments

Based on the impairment review as at December 31, 2017, a year to date impairment loss on AFS investments of $825 before tax (2016 - $777) has been recorded in net income. Impairment was assessed on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss.

Loans and receivables

Assets classified as mortgages and policy contract loans have been reviewed for possible impairment. As a result of this review, mortgages with a recorded value of $6,935 (2016 - $6,649) have been reduced by an allowance for impairment of $2,984 (2016 - $3,152) and policy contract loans with a recorded value of $813 (2016 - $813) have been reduced by an allowance for impairment of $490 (2016 - $502).

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

Empire Life derivative financial instruments

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

	December 31, 2017			December 31, 2016		
	Notional Principal	Fair Value Assets	Fair Value Liabilities	Notional Principal	Fair Value Assets	Fair Value Liabilities
Exchange-traded						
Equity index futures	$ 43,970	$ 640	$ 168	$ 128,708	$ 1,471	$ 213
Equity options	430,124	758	—	325,348	1,794	—
Over-the-counter						
Foreign currency forwards	32,757	1	723	28,247	590	25
Total	$ 506,851	$ 1,399	$ 891	$ 482,303	$ 3,855	$ 238

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

For analysis of the risks arising from financial instruments, refer to Note 22 – Investment risk management.

6. Investments in associates

The Company has two investments in associates, all of which are held within the E-L Corporate segment.

Algoma Central Corporation ("Algoma") is incorporated in Canada and is listed on the Toronto Stock Exchange under the symbol "ALC". Algoma owns and operates the largest Canadian flag fleet of dry and liquid bulk carriers operating on the Great Lakes - St. Lawrence Waterway.

Economic Investment Trust Limited ("Economic") is a closed-end investment corporation incorporated in Canada and is listed on the Toronto Stock Exchange under the symbol "EVT". Economic is an investment vehicle for long-term growth through investments in common equities.

	2017			2016		
	Ownership	Carrying value	Fair value	Ownership	Carrying value	Fair value
Algoma [(1)]	36.7%	$ 181,869	$ 226,820	36.3%	$ 173,226	$ 173,226
Economic	24.0%	148,181	154,297	24.0%	136,418	142,905
Total		$ 330,050	$ 381,117		$ 309,644	$ 316,131

(1) On December 21, 2017, Algoma purchased 361,418 common shares for cancellation resulting in an increase in the Company's ownership.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The following table details the movement during the year:

	2017	2016
Balance, beginning of the year	$ 309,644	$ 328,389
Income recorded in the statements of income and comprehensive income:		
Share of income	35,840	19,687
Net impairment	—	(31,771)
	35,840	(12,084)
Share of other comprehensive loss	(7,484)	(747)
	28,356	(12,831)
Dividends received during the year	(7,950)	(5,914)
Balance, end of the year	$ 330,050	$ 309,644

The Company's associates are measured using the equity method. As at December 31, 2017, the fair value of the investments in associates was $381,117 (2016 - $316,131). Fair value is based on the close price for each investment multiplied by the corresponding number of common shares held.

Impairment

The Company is required to test the values of its associates for impairment by comparing their carrying values to their recoverable amount which is the higher of their fair value less costs of disposal and their values in use. Economic and Algoma have historically traded at discounts to their net asset values. In performing its impairment assessments, the Company regards the fair value less costs of disposal as the most objective evidence of the net recoverable amounts of Economic and Algoma, since the Company cannot unilaterally control the timing of realization of any benefit related to the difference between the traded price and their net asset values.

Based on an impairment review of the investments in associates, there was no impairment at December 31, 2017 (2016 - $31,771). The impairment loss in 2016 relates to the Company's investment in Algoma. The recoverable amount was based on quoted market prices, which are classified as Level 1 in the fair value measurement hierarchy.

Financial information

Summarized below are the assets, liabilities, revenue, net income and comprehensive income of the Company's associates.

	Algoma		**Economic**	
	2017	2016	2017	2016
Cash and cash equivalents	$ 68,860	$ 130,039	$ 5,773	$ 12,941
Other current assets	93,122	126,966	927,353	833,983
Non-current assets	938,308	779,008	—	—
	1,100,290	1,036,013	933,126	846,924
Current liabilities	129,210	94,058	1,150	2,225
Non-current liabilities	310,620	300,405	78,502	68,299
	439,830	394,463	79,652	70,524
Net assets	$ 660,460	$ 641,550	$ 853,474	$ 776,400

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

	Algoma		Economic	
	2017	2016	2017	2016
Revenue	$ 451,050	$ 391,406	$ 108,700	$ 48,818
Net income	$ 56,195	$ 33,315	$ 91,337	$ 39,837
Other comprehensive (loss) income	(21,485)	257	—	—
Total comprehensive income	$ 34,710	$ 33,572	$ 91,337	$ 39,837

At December 31, 2017 Algoma has commitments of $209,995 (2016 - $262,465) mainly relating to the purchase of new vessels.

The Company received the following dividends during the year from the associates:

	Algoma		Economic		Total	
	2017	2016	2017	2016	2017	2016
Dividends received	$ 4,526	$ 3,959	$ 3,424	$ 1,955	$ 7,950	$ 5,914

7. Investment and other income

Investment and other income is comprised of the following:

	2017	2016
Interest income on:		
Available for sale	$ 50,406	$ 32,636
Fair value through profit or loss investments	170,467	166,666
Loans and receivables	18,940	20,498
Fee income	256,628	228,274
Dividend income	153,380	137,842
Other	5,807	4,950
Total	$ 655,628	$ 590,866

	2017	2016
Interest income received	$ 163,826	$ 140,211
Dividend income received	147,458	131,363
Total	$ 311,284	$ 271,574

8. Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid instruments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition. Cash and cash equivalents are measured at fair value under Level 1 or Level 2 of the fair value hierarchy. Components of cash and cash equivalents for purposes of the consolidated statements of cash flows are as follows:

	2017	2016
Cash	$ 46,766	$ 33,433
Cash equivalents	292,223	386,473
Total	$ 338,989	$ 419,906

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

Cash and cash equivalents	Level 1	Level 2	Level 3	Total fair value
December 31, 2017	$ 46,766	$ 292,223	$ —	$ 338,989
December 31, 2016	$ 33,433	$ 386,473	$ —	$ 419,906

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

9. Other assets

Other assets are comprised of the following:

	2017	2016
Accrued investment income	$ 45,692	$ 43,271
Income taxes receivable	—	5,798
Property and equipment	29,851	31,998
Intangible assets	18,310	14,341
Other	30,152	45,914
Total	$ 124,005	$ 141,322

The amount of other assets that the Company expects to receive within the next 12 months is $75,844 (2016 - $94,983).

10. Segregated funds

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

	2017	2016
Cash	$ 14,820	$ 19,777
Short-term investments	657,405	385,771
Bonds	1,535,675	1,668,044
Common and preferred shares	6,488,017	5,990,431
Other assets	25,758	54,212
	8,721,675	8,118,235
Less segregated funds held within general fund investments	(39,783)	(36,202)
Total	$ 8,681,892	$ 8,082,033

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

			2017			2016
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash	$ 14,820	$ —	$ 14,820	$ 19,777	$ —	$ 19,777
Short-term investments	—	657,405	657,405	—	385,771	385,771
Bonds	—	1,535,675	1,535,675	—	1,668,044	1,668,044
Common and preferred shares	6,485,267	2,750	6,488,017	5,989,979	452	5,990,431
Total	$ 6,500,087	$ 2,195,830	$ 8,695,917	$ 6,009,756	$ 2,054,267	$ 8,064,023

There were no transfers between Level 1 and Level 2 and there were no Level 3 investments during the year ended December 31, 2017 or during the year ended December 31, 2016.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

c) The following table presents the change in segregated funds:

	2017	2016
Segregated funds - beginning of the year	$ 8,082,033	$ 7,367,823
Additions to segregated funds:		
Amount received from policyholders	1,415,827	1,349,159
Interest	54,684	67,562
Dividends	171,200	125,173
Other income	26,209	29,340
Net realized gains on sale of investments	445,782	277,602
Net unrealized increase in fair value of investments	14,698	286,056
	2,128,400	2,134,892
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,277,474	1,194,885
Management fees and other operating costs	247,486	224,700
	1,524,960	1,419,585
Net change in segregated funds held within general fund investments	(3,581)	(1,097)
Segregated funds - end of the year	$ 8,681,892	$ 8,082,033

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

Segregated fund products issued by Empire Life contain death, maturity and withdrawal benefit guarantees. Market price fluctuations impact Empire Life's estimated liability for those guarantees.

11. Other liabilities

Other liabilities are comprised of the following:

	2017	2016
Accounts payable	$ 56,963	$ 47,637
Employee benefit liabilities (Note 13)	27,330	21,004
Income and other taxes payable	20,574	32,536
Dividends payable	8,912	8,912
Insurance payables	81,472	97,135
Other	22,346	20,758
Total	$ 217,597	$ 227,982

Of the above total, $27,330 (2016 - $21,004) is expected to be settled more than one year after the statement of financial position date.

12. Guarantees and other contingencies

The Company's by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against liabilities arising from their service to the Company. The broad general nature of these indemnifications does not permit a reasonable estimate of the maximum potential amount of any liability.

In connection with its operations, the Company is from time to time named as a defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions.

The Company's subsidiary, Empire Life, operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on the results and financial position of the subsidiary. In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

The Company has agreed to indemnify the purchaser of The Dominion of Canada General Insurance Company for losses arising out of breaches of representations, warranties and covenants following closing of the sale on November 1, 2013. The indemnities survive for periods ranging from 21 months to 8 years, and in some limited cases with no term limitations. The Company has not recorded any liabilities with respect to these indemnities and while it is not possible to estimate the outcome of any such matters, the Company does not believe it will incur any material loss. The nature of the indemnifications does not permit a reasonable estimate of the maximum potential amount of any liability.

13. Employee benefit plans

Empire Life sponsors pension and other post-employment benefit plans for eligible employees. The Empire Life Insurance Company Staff Pension Plan (“the Plan”) consists of a defined benefit component and a defined contribution component. Empire Life discontinued enrollments in the defined benefit component effective October 1, 2011. Empire Life has supplemental arrangements that provide defined pension benefits in excess of statutory limits. In addition to pension benefits, Empire Life also provides for post-employment health and dental care coverage and other future benefits to qualifying employees and retirees.

The defined benefit component of the Plan is a final average salary pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members’ age, length of service and their salary in the final years leading up to retirement. Pensions generally do not receive inflationary increases once in payment. In the past, however, Empire Life has provided ad-hoc pension increases on its defined benefit staff pension plan. Increases take place at the discretion of Empire Life’s Board of Directors. The pension benefit payments are from trustee-administered funds.

Empire Life’s staff pension benefit plan is governed by the *Pension Benefits Act of the Province of Ontario*, as amended, which requires that the plan sponsor fund the defined benefits determined under the plan. Empire Life’s supplemental employee retirement benefit plan is governed by provisions of the plan, which requires that the plan sponsor fund the defined benefits determined under the plan. The amount of funds contributed to these defined benefit pension plans by Empire Life is determined by an actuarial valuation of the Plans.

Under the defined contribution component, contributions are made in accordance with the provisions of the Plan documents.

A pension committee, composed of selected senior members of Empire Life’s management and Empire Life, oversees the Pension Plan of the Company. The Pension Committee reports quarterly to the Human Resources Committee of Empire Life’s Board of Directors. The Audit Committee of the Board of Directors approves the audited annual financial statements of the Pension Plan.

The other post-employment benefit plan provides for health, dental care, and other future defined benefits to qualifying employees and retirees. It is unfunded and Empire Life meets the benefit payment obligation as it falls due.

In the absence of an active market for post-employment benefit obligations, the actuarially determined values provide a reasonable approximation of their fair value. Plan assets are carried at fair value.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The following tables present financial information for Empire Life's defined benefit plans.

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
	2017	2016	2017	2016
Present value of obligations	$ (239,832)	$ (229,194)	$ (9,779)	$ (9,805)
Fair value of plan assets	222,281	217,995	—	—
Post-employment benefit liability	$ (17,551)	$ (11,199)	$ (9,779)	$ (9,805)

The post-employment benefit liability, net of the cumulative impact of the asset ceiling, is included in the consolidated statement of financial position in other liabilities.

The movement in the present value of the Plans' defined benefit obligations over the year is as follows:

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
Present Value of Defined Benefit Obligation	2017	2016	2017	2016
Opening defined benefit obligation	$ 229,194	$ 219,249	$ 9,805	$ 9,759
Current service cost	6,306	6,621	—	13
Interest expense	8,984	9,047	362	370
Decrease in net income before tax	15,290	15,668	362	383
Remeasurements				
Loss from changes in demographic assumptions	2,583	—	—	—
Loss from changes in financial assumptions	7,829	942	309	156
Actuarial (gain) loss from member experience	(1,741)	743	(259)	(100)
Decrease in OCI before tax	8,671	1,685	50	56
Plan transfers/curtailments	—	(59)	—	—
Employee contributions	1,652	1,793	—	—
Benefits paid	(14,975)	(9,142)	(438)	(393)
Closing defined benefit obligation	$ 239,832	$ 229,194	$ 9,779	$ 9,805

The movement in the fair value of the Plan's assets over the year is as follows:

	Pension Benefit Plans	
Fair Value of Defined Benefit Assets	2017	2016
Fair value at beginning of year	$ 217,995	$ 205,413
Interest income	8,617	8,561
Administrative expense	(848)	(799)
Increase in net income before tax	7,769	7,762
Remeasurements		
Return on plan assets, excluding amounts included in interest income	5,085	8,726
Plan transfers/curtailments	(24)	(35)
Employer contributions	4,779	3,478
Employee contributions	1,652	1,793
Benefits paid	(14,975)	(9,142)
Fair value of Plan assets at end of year	$ 222,281	$ 217,995

The actual return on Plan assets net of administrative expense, for the year ended December 31, 2017 was a gain of $12,854 (2016 - $16,488).

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The following table summarizes income, expense and remeasurement activity for Empire Life's defined benefit plans for the years ended:

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
	2017	2016	2017	2016
Operating expense				
Current service cost	$ 6,306	$ 6,621	$ —	$ 13
Interest expense	8,984	9,047	362	370
Interest income on plan assets	(8,617)	(8,561)	—	—
Administrative expense	848	799	—	—
Decrease in net income before tax	$ 7,521	$ 7,906	$ 362	$ 383
Remeasurements				
Return on plan assets, excluding amounts included in interest income	$ (5,085)	$ (8,726)	$ —	$ —
Loss from changes in demographic assumptions	2,583	—	—	—
Loss from changes in financial assumptions	7,829	942	309	156
Actuarial (gain) loss from member experience	(1,741)	743	(259)	(100)
Decrease (increase) in OCI before tax	$ 3,586	$ (7,041)	$ 50	$ 56

Defined benefit plan expense is recognized in operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include $1,283 (2016 - $957) of employer contribution related to the defined contribution component of the Plan.

Expected contributions (including both employer and employee amounts) to Empire Life's defined benefit pension plans for the year ended December 31, 2017 are approximately $5,057 (2016 - $4,786).

The Plan invests primarily in Empire Life segregated and mutual funds. The fair value of the underlying assets of the funds and other investments are included in the following table:

	Pension Assets			
	2017		2016	
Equity				
Canadian	88,405	39%	88,367	41%
Foreign	37,872	17%	37,737	17%
Total Equity	126,277	56%	126,104	58%
Debt				
Government of Canada	19,009	9%	11,317	5%
Provincial governments	14,749	7%	15,033	7%
Municipal governments	445	—%	502	—%
Canadian corporations	32,507	15%	34,675	16%
Total Debt	66,710	31%	61,527	28%
Cash, cash equivalent, accruals	5,736	3%	7,062	3%
Mutual Funds	12,368	6%	11,956	5%
Other	11,190	4%	11,346	6%
Total fair value of assets	$ 222,281	100%	$ 217,995	100%

Fair value is determined based on Level 1 inputs for equities and Level 2 inputs for debt.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
	2017	2016	2017	2016
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	3.6%	4.0%	3.5%	3.8%
Discount rate - net interest	4.0%	4.2%	3.8%	4.0%
Inflation assumption	2.0%	2.0%	n/a	n/a
Rate of compensation increase	3.0%	3.5%	n/a	n/a
Average increase to industrial wage	3.0%	3.0%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	n/a	n/a	7.0%	7.3%
Cost trend rate declines to	n/a	n/a	4.5%	4.5%
Year ultimate health care cost trend rate is reached	n/a	n/a	2026	2026

Assumptions (in number of years) relating to future mortality to determine the defined benefit obligation and the net benefit cost for the defined benefit pension plans are as follows:

	2017	2016
Males aged 65 at measurement date	21.72	21.64
Females aged 65 at measurement date	24.45	24.08
Males aged 40 at measurement date	23.61	22.98
Females aged 40 at measurement date	26.15	25.27

The following table provides the sensitivity of the defined benefit pension and other post-employment benefit obligations to changes in significant actuarial assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the Post-employment benefit liability recognized within the consolidated statement of financial position.

		Impact on Pension Benefits		Impact on Other Post-Employment Benefits	
As at December 31, 2017	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	1%	$ (30,401)	$ 43,022	$ (981)	$ 1,180
Rate of compensation increase	1%	12,622	(10,724)	n/a	n/a
Health care cost increase	1%	n/a	n/a	1,187	(995)
Claim rate	10%	n/a	n/a	923	(924)
Life expectancy	1 year	$ 6,222	$ (6,146)	$ 493	$ (481)

		Impact on Pension Benefits		Impact on Other Post-Employment Benefits	
As at December 31, 2016	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	1%	$ (27,912)	$ 37,539	$ (974)	$ 1,175
Rate of compensation increase	1%	12,942	(11,339)	n/a	n/a
Health care cost increase	1%	n/a	n/a	1,149	(965)
Claim rate	10%	n/a	n/a	914	(914)
Life expectancy	1 year	$ 5,645	$ (5,775)	$ 453	$ (442)

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The weighted average duration, in number of years, of the defined benefit obligations:

	2017	2016
Staff pension plan	15	14
Supplemental employee retirement plan	11	10
Other post-employment benefits	11	11

Risks

Through its defined benefit pension plan and the other post-employment benefit plan, Empire Life is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The Plan obligations are calculated using a discount rate set with reference to corporate bond yields; if Plan assets underperform this yield, this will create a deficit. The pension plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while producing volatility and risk in the short-term.

The following tables summarize the potential impact on OCI of a change in global equity markets regarding assets in Empire Life's pension plan. Empire Life uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. Empire Life has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity.

Shareholders' OCI	10% Increase	10% Decrease	20% Increase	20% Decrease
2017	$ 10,164	$ (10,164)	$ 20,328	$ (20,328)
2016	$ 9,882	$ (9,882)	$ 19,764	$ (19,764)

The following tables summarize the potential impact on OCI as a result of change in interest rates on assets in Empire Life's pension plan.

	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
Shareholders' OCI				
2017	$ (1,574)	$ 1,827	$ (2,901)	$ 3,910
2016	$ (1,531)	$ 1,762	$ (2,830)	$ 3,754

Changes in bond yields

A decrease in corporate bond yields will increase Plan obligations, although this will be partially offset by an increase in the value of the Plans' bond holdings.

Life expectancy

The majority of the Plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plans' liabilities.

In case of the funded plans, the Pension Committee ensures that the investment positions are managed in accordance with the investment philosophy outlined in the investment policy approved by the Human Resources Committee of the Board. The fundamental philosophy is to achieve acceptably high investment return over the long term without jeopardizing the level of security of the members' benefits and without introducing too much volatility into the Company's future expense. The Company's objective is to match assets to the pension obligations by investing in equities as well as fixed interest securities. Empire Life monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Plan has not changed the processes used to manage its risks from previous periods. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The Plan invests primarily in Canadian bonds and equities through its' ownership of units in Empire Life segregated and mutual funds. Empire Life believes that equities offer the best returns over the long term with an acceptable level of risk.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The last triennial valuation on the Staff Pension Plan was completed in August 2017, as at December 31, 2016. The next triennial valuation will be completed in 2020, as at December 31, 2019.

14. Insurance contract liabilities and reinsurance liabilities

Nature and composition of Empire's insurance contract liabilities and related reinsurance insurance contract liabilities include life, health and annuity contracts on a participating and non-participating basis.

Changes in actuarial assumptions are made based on emerging and evolving experience with respect to major factors affecting estimates of future cash flows and consideration of economic forecasts of investment returns, industry studies and requirements of the CIA and OSFI.

Insurance contract liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, expenses, and taxes on policies in force. Insurance contract liabilities are determined using accepted actuarial practice according to standards established by the CIA and the requirements of OSFI.

Empire Life reinsures excess risks with Canadian regulated reinsurance companies. The reinsurance assets (liabilities) are determined based on both the premiums expected to be paid under reinsurance agreements over the duration of the insurance contracts that they support and the insurance claims expected to be received by Empire Life when an insured event occurs under those insurance contracts. The liability position of some of the reinsurance is because of the excess of future premiums payable over the expected benefit of reinsurance. The change in reinsurance liability is primarily related to Empire Life's revised mortality assumptions, which reduce the present value of insurance claims expected to be recovered from the reinsurance companies. Empire Life enters into reinsurance agreements only with reinsurance companies that have an independent credit rating of "A-" or better from A.M. Best.

Reinsurance transactions do not relieve the original insurer of its primary obligation to policyholders.

Empire Life is active in most life insurance and annuity product lines across Canada and does not operate in foreign markets.

Empire Life's insurance contract liabilities are comprised of:

	2017	2016
Insurance contract liabilities	$5,364,865	$5,003,450
Policyholder funds on deposit	33,886	32,957
Provision for profits to policyholders	31,347	29,555
	$5,430,098	$5,065,962

The change in insurance contract liabilities on a gross and net basis is as follows:

	2017			2016		
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance, beginning of year	$ 5,003,450	$ 533,357	$ 5,536,807	$ 4,798,683	$ 530,826	$ 5,329,509
Changes in methods and assumptions						
- mortality/morbidity experience	(199,360)	186,179	(13,181)	(15,843)	12,543	(3,300)
- lapse/premium assumptions	12,889	5,985	18,874	31,764	(6,356)	25,408
- investment return assumptions	39,148	(3,045)	36,103	32,906	(3,523)	29,383
- model enhancements and other	(35,576)	(3,724)	(39,300)	(44,247)	44	(44,203)
Normal changes						
- new business	44,643	(107)	44,536	79,275	(10,939)	68,336
- in-force business	499,671	(67,844)	431,827	120,912	10,762	131,674
Balance, end of year	$ 5,364,865	$ 650,801	$ 6,015,666	$ 5,003,450	$ 533,357	$ 5,536,807

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

Changes in methods and assumptions summarized in the above tables are further explained as follows:

Improvements for mortality experience for 2017 are primarily related to the individual life business, along with a smaller benefit from Group Long-Term Disability ("Group LTD") business, offset by a small deterioration in mortality for immediate annuities.

Improvements for mortality experience for 2016 are primarily related to the individual life business, which was offset by a small deterioration in mortality for immediate annuities.

The 2017 lapse/premium assumption change is primarily related to the updated premium projections and related policyholder lapse rates for universal life policies.

The lapse rate assumption update for 2016 was primarily related to an increase of lapse experience on renewable term 10 business. The remainder was related to regular experience updates for term to 100 and 20-pay life policies.

The primary change in the net investment assumptions for 2017 is related to a refinement to the projection of equity assets backing the non-participating liability segment valuation at 2017 year-end, to reflect a reduced reliance on these assets in the future, with a corresponding increased reliance on fixed income instruments. This assumption change results in lower overall future yields and greater policy liabilities. The update in investment return assumptions for 2016 was primarily due to regular updates to reinvestment rates and credit spreads for the CALM valuation model for future investment assumptions.

The investment return assumption for 2016 was primarily due to regular updates to reinvestment rates and credit spreads for the CALM valuation as well as enhancements to the modeling of preferred shares cash flows for deferred and immediate annuity business.

Model enhancements and other changes for 2017 are primarily related to enhancements to the modeling of reinsurance treaties and terms for individual life insurance.

Model enhancements and other changes for 2016 related to enhancements to the modeling of reinsurance treaties and terms for individual life insurance and updates to Group LTD termination rate experience study. In addition, maintenance expense unit costs for individual life business increased slightly as a result of changes in expense allocations related to sales and inforce business.

Empire Life expects to pay $5,284,855 (2016 - $4,933,196) of insurance contract liabilities and $645,503 (2016 - $531,976) of reinsurance liabilities more than one year after the consolidated statements of financial position date. The remaining balance is expected to be settled within one year.

For additional analysis of the Company's insurance risk please see Note 23 - Insurance risk management.

15. Capital stock

	Authorized	Issued and outstanding	2017	2016
Preferred shares				
Series A Preference shares (1)	402,733	258	$ 1	$ 1
First Preference shares, Series 1 (2a)	unlimited	4,000,000	100,000	100,000
First Preference shares, Series 2 (2b)	unlimited	4,000,000	100,000	100,000
First Preference shares, Series 3 (2c)	unlimited	4,000,000	100,000	100,000
Common shares	unlimited	4,019,409	72,387	72,387
Total			$ 372,388	$ 372,388

1. The Series A Preference shares are convertible, at the shareholder's option, in perpetuity into common shares on a share for share basis and are entitled, when and if declared, to a non-cumulative dividend of $0.50 per share per annum. The Series A Preference shares and common shares are each entitled to one vote per share.

2. The First Preference shares of each series rank pari passu with every other series of First Preference shares and in priority to the common shares and the Series A Preference shares of the Company with respect to the payment of dividends and the distribution of assets on the dissolution, liquidation or winding up of the Company. As of December 31, 2017 there were three series of First Preference shares outstanding; the First Preference shares, Series 1, the First Preference shares, Series 2 and the First Preference shares, Series 3. The First Preference shares are non-voting unless there has been a specified default in the payment of dividends or to approve of modifications attending to the series of shares.

(a) The First Preference shares, Series 1 are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.325 per share per annum. On and after October 17, 2013, the Company may redeem for cash the First Preference shares, Series 1 in whole or in part, at the Company's option at $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

On and after October 17, 2009, the Company may convert all or any part of the outstanding First Preference shares, Series 1 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

(b) The First Preference shares, Series 2 are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.1875 per share per annum. On and after October 17, 2015, the Company may redeem for cash the First Preference shares, Series 2 in whole or in part, at the Company's option at $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

On and after October 17, 2011, the Company may convert all or any part of the outstanding First Preference shares, Series 2 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

(c) The First Preference shares, Series 3, are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.375 per share per annum. On and after April 17, 2017, the Company could redeem for cash the First Preference shares, Series 3 in whole or in part, at the Company's option for: $26.00 per share if redeemed on or after April 17, 2017 and prior to April 17, 2018; $25.75 per share if redeemed on or after April 17, 2018 and prior to April 17, 2019; $25.50 per share if redeemed on or after April 17, 2019 and prior to April 17, 2020; $25.25 per share if redeemed on or after April 17, 2020 and prior to April 17, 2021; and $25.00 per share if redeemed on or after April 17, 2021, in each case together with all declared and unpaid dividends to but excluding the date of redemption.

On and after April 17, 2017, the Company may convert all or any part of the outstanding First Preference shares, Series 3 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

Dividends declared during the year were as follows:

		2017		2016
First Preference shares, Series 1, $1.325 per share	$	5,300	$	5,300
First Preference shares, Series 2, $1.1875 per share		4,750		4,750
First Preference shares, Series 3, $1.375 per share		5,500		5,500
Common shares, $5.00 per share		20,097		20,097
Total	$	35,647	$	35,647

When calculated on the basis of the Common Shares outstanding less the Company's proportionate interest in its own common shares held indirectly through its associate, the total common dividend is $19,635 (2016 - $19,635).

The following dividends were declared by the Board of Directors at their meeting on March 6, 2018, with a record and payable date of March 29, 2018 and April 17, 2018, respectively:

- First Preference shares, Series 1, $0.33125 per share;
- First Preference shares, Series 2, $0.296875 per share;
- First Preference shares, Series 3, $0.34375 per share;
- Series A Preference shares, $0.125 per share; and
- Common shares, $1.25 per share.

16. Borrowings

Subordinated debt

On September 15, 2017, Empire Life issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of March 15, 2028. The interest rate from September 15, 2017 until March 15, 2023 is 3.664%, and the rate from March 15, 2023 until March 15, 2028 is equal to the 3-month Canadian Deposit Offering Rate plus 1.53%. Interest is payable semi-annually at September 15 and March 15 until March 15, 2023, quarterly thereafter with the first such payment on June 15, 2023. Empire Life may call for redemption of the debentures on or after March 15, 2023 subject to the approval of OSFI. The holders have no right of redemption. The fair value of these debentures is $201,482 as of December 31, 2017 (as of December 31, 2016 $nil), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

On December 16, 2016, Empire Life issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of December 16, 2026. The interest rate from December 16, 2016 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 Deposit Offering Rate plus 1.95%. Interest is payable semi-annually at December 16 and June 16 until December 16, 2021, quarterly thereafter with the first such payment on March 16, 2022. Empire Life may call for redemption of the debentures on or after December 16, 2021 subject to the approval of OSFI. The holders have no right of redemption. The fair value of these debentures is $201,126 as of December 31, 2017 (as of December 31, 2016 $199,870), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

On May 31, 2013, Empire Life issued $300,000 principal amount of unsecured subordinated debentures with a maturity date of May 31, 2023. The interest rate from May 31, 2013 until May 31, 2018 is 2.870%, and the rate from May 31, 2018 until May 31, 2023 is equal to the 3-month Canadian Deposit Offering Rate plus 1.05%. Interest is payable semi-annually at May 31 and November 30 until May 31, 2018, quarterly thereafter with the first such payment on August 31, 2018. Empire Life may call for redemption of the debentures on or after May 31, 2018 subject to the approval of OSFI. The holders have no right of redemption. The fair value of these debentures is $301,050 as of December 31, 2017 (as of December 31, 2016 $301,062), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The debentures are subordinated in right of payment to all policy contract liabilities of Empire Life and all other senior indebtedness of Empire Life.

Margin loan

On November 1, 2017 the Company drew on a margin loan to purchase $100,000 Series 3 Preferred Shares from Empire Life. As at December 31, 2017, the margin loan is pledged with $143,851 of investments from the Investment - corporate portfolio as collateral under this loan. Interest on the loan accrues at the three month Canadian Dollar Offered Rate ("CDOR") plus 40 basis points. The margin loan had a balance of $100,000 at December 31, 2017.

17. Operating expenses

Operating expenses include the following:

	2017	2016
Salary and benefits expense	$ 94,363	$ 87,319
Rent, leasing and maintenance	12,588	12,450
Professional services	16,929	16,446
Amortization of assets	9,118	6,209
Other	54,304	51,878
Total	$ 187,302	$ 174,302

18. Income taxes

Income taxes are assessed on net income before income taxes. The effective tax rate varies from the combined statutory rate as follows:

	2017	2016
Income taxes at statutory rate	$ 237,838	$ 115,102
Variance as a result of:		
Tax-paid dividends	(14,985)	(13,452)
Non-taxable portion of gains	(76,861)	(18,867)
Net refundable dividend taxes	—	1,681
Other	(3,018)	(3,548)
Income tax expense	$ 142,974	$ 80,916

The current enacted corporate tax rates as they impact the Company in 2017 stand at 26.5% (2016 - 26.6%).

The Company's income tax expense includes provisions for current and deferred taxes as follows:

	2017	2016
Current	$ 106,601	$ 78,080
Deferred	36,373	2,836
Income tax expense	$ 142,974	$ 80,916

In certain instances the tax basis of assets and liabilities differs from the carrying amount. These differences which will give rise to deferred income taxes are reflected in the consolidated statements of financial position as follows:

	2017	2016
Deferred tax liabilities		
Investments	$ (266,798)	$ (243,079)
Insurance contract liabilities	(10,296)	(7,041)
Losses recoverable in future years	—	3,698
Post-employment benefit plans	7,258	5,180
Other	(3,407)	(2,977)
Total	$ (273,243)	$ (244,219)

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

Of the above total, $276,785 (2016 - $243,699) is expected to be paid more than one year after the reporting date.

Change in deferred tax liabilities is comprised of the following items:

	2017	2016
Investments	$ 23,719	$ (3,757)
Insurance contract liabilities	3,255	(1,444)
Losses recoverable in future years	3,698	(851)
Post-employment benefit plans	(2,078)	1,159
Other	430	6,763
Net change	$ 29,024	$ 1,870

Net change is reported in:

	2017	2016
Consolidated statements of income	$ 36,373	$ 2,836
Other comprehensive loss	(7,349)	(966)
Net change	$ 29,024	$ 1,870

During 2017, the Company and its subsidiaries paid income tax installments and assessments totaling $103,555 (2016 - $40,040) and received income tax refunds totaling $1,544 (2016 - $5,061).

19. Earnings per share

Earnings per share has been calculated by dividing consolidated net income (loss) attributed to common equity shareholders of the Company for the year, less dividends on First Preference shares, by the amount equal to the total number of Common Shares outstanding of 4,019,667 less 92,754 in reciprocal holdings, which is the Company's proportionate interest in its own common shares held indirectly through its associate, Economic.

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per common share computations:

	2017	2016
Basic earnings per common share:		
Net income available to shareholders	$ 668,102	$ 333,143
Less: Dividends on First Preference shares	(15,550)	(15,550)
Net income after dividends on First Preference shares	$ 652,552	$ 317,593
Weighted average number of Common Shares outstanding (1)	3,926,913	3,926,913
Basic earnings per common share from net income	$ 166.17	$ 80.88
Diluted earnings per common share:		
Net income available to shareholders	$ 668,102	$ 333,143
Weighted average number of Common Shares outstanding (1)	3,926,913	3,926,913
Dilutive effect of the conversion of First Preference shares into common shares	444,640	467,966
Weighted average number of diluted Common Shares outstanding (1)	4,371,553	4,394,879
Diluted earnings per common share from net income	$ 152.83	$ 75.80

(1) Net of reciprocal holdings

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

20. Other comprehensive loss

The following table summarizes the changes in the components of OCL, net of tax:

	2017	2016
Items that may be reclassified subsequently to net income:		
Net unrealized fair value change on available for sale investments		
Unrealized fair value change on AFS investments	$ 10,174	$ 2,964
Less: Realized gain on AFS investments reclassified to net income	(40,122)	(23,169)
	(29,948)	(20,205)
Share of OCL of associates	(5,913)	(3,418)
	(35,861)	(23,623)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	(2,278)	5,345
Share of employee future benefits of associates	(579)	2,769
	(2,857)	8,114
OCL, net of tax	$ (38,718)	$ (15,509)

OCL is presented net of income taxes.

The following tax amounts are included in each component of OCL:

	2017	2016
Items that may be reclassified subsequently to net income:		
Net unrealized fair value change on available for sale investments		
Unrealized fair value change on AFS investments	$ 3,699	$ 1,781
Less: Realized gain on AFS investments reclassified to net income	(7,425)	(5,419)
	(3,726)	(3,638)
Share of OCL of associates	(903)	(522)
	(4,629)	(4,160)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	(828)	1,946
Share of employee future benefits of associates	(89)	424
	(917)	2,370
Total income taxes recognized in OCL	$ (5,546)	$ (1,790)

21. Commitments

The Company has entered into various operating leases as lessee for office space and certain computer and other equipment. Operating lease payments recognized as an expense in 2017 were $2,772 (2016 - $2,538). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
2017	$ —	$ 2,387
2018	2,222	2,278
2019	2,086	2,188
2020	1,105	1,053
2021	927	5,594
2022 (and thereafter)	4,841	—
Total commitments	$ 11,181	$ 13,500

In the normal course of business, investment commitments are outstanding which are not reflected in the consolidated financial statements.

Investments - corporate

In December 2017, the Company subscribed for units in a Canadian Limited Partnership. The aggregate capital commitment is U.S. $40,000,000. As of December 31, 2017 no draws have been made on the commitment.

Investments - Empire Life

In January 2016, Empire Life made a $20,000 commitment to purchase additional units in a real estate limited partnership. Draws on this commitment are payable on demand up to and including July 31, 2018. In February and March 2017, there were capital calls of $1,094 and $6,288 respectively in this real estate limited partnership. At December 31, 2017, there remained $2,285 (2016 - $9,667) of outstanding capital calls to purchase units in a real estate limited partnership.

22. Investment risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. The Company is exposed to financial risks arising from its investing activities. For investment risks, the Company is exposed to credit risk, liquidity risk and various market risks including interest rate risk, equity risk and foreign currency risk.

The disclosures in Notes 4, 5 and 6 provide the breakdown of investments by type and by geographic region based on the underlying risk. The fair values of these investments are inherently volatile and frequently change in value as a result of factors beyond the Company's control, including general economic and capital market conditions.

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

E-L Corporate

E-L Corporate owns investments in equities and fixed income securities directly and indirectly through pooled funds and other investment companies.

In addition to the investments in equities and fixed income securities, the E-L Corporate segment includes the net assets of United, a closed-end investment subsidiary and significant investments in Economic, also a closed-end investment company and Algoma, a shipping company, which are accounted for as investments in associates.

The Company maintains a strategy of long-term growth through investments in common equities. The externally managed portfolios of equities and fixed income securities have mandates in which the manager's performance is evaluated. Their performance is reviewed by management on a monthly basis, evaluating performance over a period of time relative to their mandate. On a quarterly basis, the Board of Directors reviews the E-L Corporate investment portfolio, including investment performance benchmarked against the relevant indices, exposure by geographic distribution, investment concentration and significant movements in the investment portfolios during the period.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

Empire Life

The investments held by Empire Life consist of equity and fixed income securities, mortgages and loans. Declines in investment values could significantly reduce Empire Life's net income, shareholder's equity and the adequacy of their regulatory capital. Empire Life has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. Investing activities are subject to the Insurance Companies Act (Canada) and to Investment Guidelines established by Empire Life's Investment Committee of the Board of Directors. Empire Life's Investment Guidelines define objectives and eligible investments and impose constraints to limit concentration and other portfolio risks. Investment portfolio managers report quarterly to the Investment Committee on portfolio content, performance and outlook. Management monitors and reports to the Investment Committee each quarter regarding compliance with the investment guidelines.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes a financial loss to another party.

The gross credit risk exposure for the Company related to its financial instruments is as follows:

	2017	2016
Cash and cash equivalents	$ 338,989	$ 419,906
Short-term investments	148,908	168,432
Bonds	6,473,608	5,521,172
Preferred shares	409,319	286,242
Derivative assets	1,635	3,855
Mortgages	221,973	264,309
Reinsurance	85,638	95,473
Loans on policies	51,692	47,969
Policy contract loans	74,603	80,944
Accrued investment income	45,692	43,271
Insurance receivable	46,294	53,097
Total	$ 7,898,351	$ 6,984,670

This credit risk is derived primarily from Empire Life's investments in bonds, preferred shares, cash and cash equivalents. Empire Life manages this risk by applying its investment guidelines and product design and pricing risk management policy established by Empire Life's Investment Committee and Risk and Capital Committee. The investment guidelines establish minimum credit ratings for issuers of bonds and preferred share investments, and provide for concentration limits by issuer. Empire Life's management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time.

Mortgages, loans on policies, policy contract loans and commercial loans are fully or partially secured.

The Company has made provisions in its consolidated statements of financial position for credit losses. Provisions have been made partly through reduction in the value of the assets and partly through a provision in insurance contract liabilities.

E-L Corporate has a securities lending agreement with its custodian, RBC Investor Services Trust ("RBC IS"), whereby RBC IS lends securities to borrowers for a fee, which is shared with the Company. RBC IS receives fixed income and equities as collateral from borrowers. In the event that the loaned securities are not returned to the Company by the borrower, RBC IS is responsible to restore the securities or pay to the Company the market value of the loaned securities. If the collateral is not adequate to pay the market value to the Company, RBC IS indemnifies the Company for the difference. The Company has recourse to the Royal Bank of Canada should RBC IS fail to discharge is obligations to the Company. During March 2017, Empire Life entered into a securities lending agreement with its custodian. At December 31, 2017 the Company had loaned securities with a fair value of $2,781,692 (2016 - $1,007,250) and received approximately $2,868,850 (2016 - $1,058,642) in collateral.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

There was no significant exposure to credit risk to other receivable balances because of their short-term nature.

Concentration of credit risk

The following table discloses the holdings of fixed income securities in the ten issuers, excluding the federal governments, to which the operating segments had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds:

	E-L Corporate		Empire Life	
	2017	2016	2017	2016
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the operating segments had the greatest exposure	$ 21,166	$ 23,865	$ 4,192,708	$ 3,534,308
Percentage of the segment's total cash and investments	0.4%	0.5%	49.0%	46.5%
Exposure to the largest single issuer of corporate bonds	nil	nil	$ 173,269	$ 154,112
Percentage of the segment's total cash and investments	0.0%	0.0%	2.0%	2.0%

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

a) Investments in bonds and debentures

	2017		2016	
Empire Life	Fair value	%	Fair value	%
AAA	$ 529,856	8%	$ 380,423	7%
AA	659,816	10%	591,132	11%
A	4,301,025	67%	3,689,809	66%
BBB (and lower ratings)	982,911	15%	859,808	16%
Total	$ 6,473,608	100%	$ 5,521,172	100%

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

b) Preferred shares

Empire Life's preferred share investments are all issued by Canadian companies with 1% (2016 – 1%) of these investments rated as P1 as at December 31, 2017 and the remaining 99% (2016 – 99%) rated as P2.

c) Mortgages

Empire Life's mortgages in the province of Ontario represent the largest concentration with $221,973 or 100% (2016 – $264,309 or 100%) of the total mortgage portfolio.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

E-L Corporate:

The majority of the Corporate Investment's obligations relate to its ability to pay annual dividend commitments of $35,647 (2016 - $35,647) and to meet ongoing operating expenses as they fall due. In most years, the Company is able to fund these obligations by its cash flow from net investment income earned on its investment portfolio. In addition to this, the Company maintains sufficient liquidity through holding short term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary to fund new investment opportunities and to meet any operating cash flow deficiencies.The Company also uses a margin loan facility to fund certain investment opportunities or provide short term liquidity as required.

Composition of E-L Corporate's liquidity:

	2017	2016
Cash and cash equivalents	$ 44,751	$ 51,033
Short-term investments	21,166	65,558
Total	$ 65,917	$ 116,591

Empire Life:

The majority of Empire Life's obligations relate to its policy liabilities the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, morbidity). The remaining obligations of Empire Life relate to its subordinated debt (refer to Note 16 - subordinated debt) and ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

The actuarial and other policy liability amounts are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

The expected maturity profile of Empire Life's significant undiscounted financial liabilities and contractual commitments as at December 31 are shown in the following tables:

2017	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 86,298	$ 250,921	$ 528,013	$ 18,998,295	$ 19,863,527
Investment contract liabilities	2,018	8,553	5,980	5,397	21,948
Subordinated debt	21,374	80,950	553,155	205,180	860,659
Preferred shares	13,496	175,389	91,857	—	280,742
Accounts payable and other liabilities	222,242	11,013	26,590	—	259,845
Total liabilities	345,428	526,826	1,205,595	19,208,872	21,286,721
Operating lease commitments	2,779	6,248	3,979	—	13,006
Total	$ 348,207	$ 533,074	$ 1,209,574	$ 19,208,872	$ 21,299,727

2016	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 72,467	$ 218,061	$ 531,530	$ 18,003,489	$ 18,825,547
Investment contract liabilities	1,784	7,864	4,794	3,986	18,428
Subordinated debt	15,376	46,884	530,518	—	592,778
Preferred shares	8,596	160,087	—	—	168,683
Accounts payable and other liabilities	220,540	7,191	20,505	—	248,236
Total liabilities	318,763	440,087	1,087,347	18,007,475	19,853,672
Operating lease commitments	2,934	8,220	4,297	520	15,971
Total	$ 321,697	$ 448,307	$ 1,091,644	$ 18,007,995	$ 19,869,643

The Asset-Liability Management Committee, which meets regularly, monitors the matched position of Empire Life's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match, to the extent possible, the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Empire Life maintains a portion of its investments in short term investments and cash equivalents to meet its short term funding requirements. As of December 31, 2017, 4.9% (2016 - 6.2%) of cash and investments were held in these shorter duration investments.

The following table provides bonds by contractual maturity (using the earliest contractual maturity date):

	2017		2016	
	Fair value	%	Fair value	%
1 year or less	$ 340,940	5%	$ 59,872	1%
1 - 5 years	596,228	9%	586,444	11%
5 - 10 years	731,086	11%	637,529	12%
Over 10 years	4,805,354	75%	4,237,327	76%
Total	$ 6,473,608	100%	$ 5,521,172	100%

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. For the Company, the most significant market risks are interest rate risk, equity risk and foreign currency risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can result from many factors including general market volatility, or specific social, political or economic events. Changing interest rates have a direct impact on the fair value of the E-L Corporate and Empire Life's fixed income investments, which total $5.2

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

billion at December 31, 2017 (2016 - $5.2 billion) on a consolidated basis. Rising interest rates will lead to declines in the fair value of these investments and falling interest rates will lead to increases in the fair value of these investments.

Empire Life

Empire Life has interest rate risk in its investments and in its products. Certain of Empire Life's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, Empire Life may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited to customers; thereby adversely affecting Empire Life's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls, and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased surrenders. Fluctuations in interest rates may cause losses to Empire Life due to the need to reinvest or divest during periods of changing interest rates, which may force Empire Life to sell investment assets at a loss. In addition, an interest rate sensitivity mismatch between assets and the liabilities that they are designated to support could have an adverse effect on Empire Life's financial position and operating results.

The following tables summarize the estimated immediate financial impact on shareholder's net income and OCI of a result of an immediate change in interest rates:

2017	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
Shareholders' net income	$ 12,715	$ (14,167)	$ 24,144	$ (29,979)
Shareholders' OCI	$ (41,093)	$ 48,554	$ (74,726)	$ 104,567

2016	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
Shareholders' net income	$ 8,383	$ (9,362)	$ 15,902	$ (19,835)
Shareholders' OCI	$ (33,211)	$ 39,036	$ (60,598)	$ 83,897

b) Equity risk

The Company maintains a strategy of long-term growth through investments in common equities as management believe that over long periods of time, common equities, as an asset class, will outperform fixed income instruments or balanced funds. The Company regularly reviews its portfolio and, while expecting and tolerating the volatility associated with such investments, attempts to mitigate its exposure to this risk through diversification.

Empire Life manages market price risk exposure mainly through investment limits.The Investment Committee of Empire Life meets quarterly to review the composition and performance of managed assets.

E-L Corporate

The following table summarizes the potential impact on E-L Corporate of a change in global equity markets. E-L Corporate used a 10% increase or decrease in equity markets as such a change is considered to be a reasonably possible change in equity markets based on historic results and is a useful comparator as it is commonly used. E-L Corporate used a 20% increase or decrease in its equity market sensitivity to illustrate that changes in equity markets in excess of 10% may result in both linear and non-linear impacts, and a 20% change in equity markets is a commonly used additional sensitivity factor.

The calculations below assume that all other variables are held constant and that all of E-L Corporate's equities move according to a one-to-one correlation with the equity markets.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

	2017		2016	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Corporate Investments:				
Investments - corporate				
10% fluctuation	$ 349,011	$ nil	$ 298,977	$ 7,210
20% fluctuation	$ 698,022	$ nil	$ 597,954	$ 14,420
Investments in associates				
10% fluctuation	$ 14,755	$ nil	$ 13,735	nil
20% fluctuation	$ 29,510	$ nil	$ 27,470	nil

Empire Life

Empire Life has risks related to global equity markets in its investments and in its products. The risk of fluctuation of the market value of Empire Life's segregated funds is generally assumed by the policyholders. Market value variations of such assets will result in variations in the income of Empire Life to the extent fees are determined in relation to the value of such funds. A significant and steady decline of the securities markets may result in net losses on such products which could adversely affect Empire Life. Additionally, certain of Empire Life's segregated fund products contain guarantees upon death, maturity, or withdrawal, where the guarantee may be triggered by the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on Empire Life's financial position, Minimum Continuing Capital and Surplus Requirements ("MCCSR") position, and results of operations. Empire Life has reinsured a portion of its segregated fund death benefit guarantee. During the fourth quarter of 2014, Empire Life initiated a semistatic 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 following table summarizes the estimated potential impact on Empire Life of a change in global equity markets. Empire Life uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. Empire Life has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. The amounts in the following table include the effect of Empire Life's general fund equity risk economic hedging program. For segregated fund guarantees the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased.

The amounts shown below represent the impact on shareholders' net income, including segregated fund guarantees.

	2017		2016	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Empire Life (1)				
10% increase	$ 23,713	$ 2,262	$ 17,541	$ 2,321
10% decrease	$ (22,197)	$ (2,262)	$ (15,549)	$ (2,321)
20% increase	$ 47,869	$ 4,525	$ 35,757	$ 4,643
20% decrease	$ (73,504)	$ (4,525)	$ (35,294)	$ (4,643)

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

(1) Includes the estimated impact on fee income net of trailer commissions after tax for a three month period.

Concentration of common equity holdings

E-L Corporate's largest exposure to common equities relates to its investment in associates of $330,050 (2016 – $309,644) which represents 6% (2016 – 7%) of E-L Corporate's total assets.

The following table identifies the concentration of common equity holdings within investments - insurance:

Empire Life	2017	2016
Exposure to the ten largest common share holdings	$ 382,479	$ 330,213
As a percentage of the segment's total cash and investments	5%	5%
Exposure to the largest single issuer of common shares	$ 91,894	$ 75,594
As a percentage of the segment's total cash and investments	1%	1%

c) Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and create an adverse effect on earnings and equity when measured in the Company's functional currency.

The Company's exposure to foreign currency is limited to its investments in common shares and units. The U.S. dollar represents the largest currency exposure. In addition, the Company has exposure to several currencies worldwide, reflecting the global diversity of its non-Canadian portion of its investments. These investments are managed by third party investment managers, with decisions regarding exposure to currency risk being part of the investment manager's strategy.

A 10% fluctuation in the U.S. dollar would have the following impact:

E-L Corporate: Approximately $149,336 (2016 – $149,558) on shareholders' net income and $6,154 (2016 – $6,072) on other comprehensive income.

Empire Life: Approximately $nil (2016 – $11,006) on shareholders' net income and $nil (2016 – $nil) on other comprehensive income.

23. Insurance risk management

The objective of Empire Life's risk management process is to ensure that the operations of Empire Life encompassing risk are consistent with Empire Life's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. The Company is exposed to insurance risks through its insurance subsidiary.

The Company and Empire Life have created Risk Management Policies. Oversight and management of the policies falls under the authority of senior management, Risk Management Committees, where applicable, and the Board of Empire Life.

Empire Life provides a broad range of life insurance, health insurance and wealth management products, employee benefit plans, and financial services that are concentrated by segment as follows:

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net premium income	$ 135.5	$ 175.8	$ 330.6	$ 338.9	$ 368.1	$ 366.8	$ —	$ —	$ 834.2	$ 881.5
Fee and other income	246.0	217.5	10.2	9.8	0.3	1.0	0.3	0.1	256.8	228.4
Total	$ 381.5	$ 393.3	$ 340.8	$ 348.7	$ 368.4	$ 367.8	$ 0.3	$ 0.1	$1,091.0	$1,109.9

Insurance risk is the risk that actual experience related to claims, benefit payments, expenses, cost of embedded product options and cost of guarantees associated with insurance risks, does not emerge as expected. Empire Life is exposed to various insurance risks as a result of the business it writes, including:

mortality, policyholder behaviour (termination or lapse), expenses, morbidity, longevity, product design and pricing risk, underwriting and claims risk and reinsurance risk.

Empire Life regularly evaluates its exposure to foreseeable risks through stress testing techniques including Dynamic Capital Adequacy Testing ("DCAT") analysis.

The principal risk Empire Life faces under insurance contracts is the risk that experience on claims, policy lapses and operating expenses will not emerge as expected. To the extent that emerging experience is more favourable than assumed in the valuation, income will emerge. If emerging experience is less favourable, losses will result. Therefore, the objective of Empire Life is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

The computation of insurance liabilities and related reinsurance recoverable requires "best estimate" assumptions covering the remaining life of the policies. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market trends and other published information. These assumptions are made for mortality, morbidity, longevity, lapse, expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviations from best estimates is calculated separately for each variable and included in policy liabilities. These margins are intended to allow for possible deterioration in experience and to provide greater confidence that policy liabilities are adequate to pay future benefits. The effect of these margins is to increase policy liabilities over the best estimate assumptions.

The margins for adverse deviation used by Empire Life are within the target range established by the CIA. A correspondingly larger margin is included in the insurance contract liabilities if an assumption is susceptible to change or if there is more uncertainty about the best estimate assumption. Each margin is reviewed annually for continued appropriateness.

Policy liability assumptions are reviewed and updated at least annually by Empire Life's Appointed Actuary. The impact of changes in those assumptions is reflected in earnings in the year of the change. Details related to the changes in assumptions are also discussed with the Audit Committee of the Board. The methods for arriving at the most important of these assumptions are outlined below. Also included are measures of Empire Life's estimated net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities, based on a starting point and business mix as of December 31, 2017. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

Mortality

Empire Life carries out annual internal studies of its own mortality experience. The valuation mortality assumptions are based on a combination of this experience and recent CIA industry experience. An increase in the rate of mortality will lead to a larger number of claims (and claims could occur sooner than anticipated), which for life insurance, will increase expenditures and reduce profits for the shareholders.

For non-participating insurance business, a 2% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $13,200 (2016 - $9,600).

For annuity business, lower mortality is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $3,600 (2016 - $4,000).

Policyholder behaviour (termination or lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of Empire Life's own internal termination studies (conducted annually) and recent CIA industry experience. Separate policy termination assumptions are used for permanent cash-value business, for renewable term insurance, term insurance to age 100 and for universal life insurance. In setting policy termination rates for renewable term insurance, it is assumed that extra lapses will occur at each renewal point and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

Acquisition costs may not be recovered fully if lapses in the early policy years exceed those in the actuarial assumptions. An increase in policy termination rates early in the life of the policy would tend to reduce profits for shareholders. An increase in policy termination rates later in the life of the policy would tend to increase profits for shareholders if the product is lapse supported (such as term insurance to age 100), but decrease shareholder profits for other types of policies.

For non-participating insurance and annuity business a 10% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing shareholders' net income by approximately $133,300 (2016 - $117,500). For products where fewer terminations would be financially adverse to Empire Life, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to Empire Life, the change is applied as an increase to the lapse assumption.

Expenses

Policy liabilities provide for the future expense of administering policies in force, renewal commissions, general expenses and taxes. Expenses associated with policy acquisition and issue are specifically excluded. The future expense assumption is derived from internal cost studies and includes an assumption for inflation.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

For non-participating insurance business and annuity business combined, a 5% increase in the maintenance expense assumption would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $4,600 (2016 - $5,900).

Morbidity

Empire Life carries out annual internal studies of its own morbidity experience where morbidity refers to both the rates of accident or sickness and the rates of recovery from the accident or sickness. The valuation assumptions are based on a combination of internal experience and recent CIA industry experience.

For individual critical illness business, the incidence rates (or rates of accident or sickness) are the key assumption related to morbidity. An increase in incidence rates would result in an increase in the number of claims which increases expenditures and reduces shareholders' profits. For group long-term disability business the termination rates (or rates of recovery) are the key assumption related to morbidity. A decrease in termination rates would result in disability claims persisting longer which increases expenditures.

For non-participating insurance business where the morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $6,500 (2016 - $6,500).

Product design and pricing risk

Empire Life is subject to the risk of financial loss resulting from transacting insurance business where the costs and liabilities assumed in respect of a product exceed the expectations reflected in the pricing of the product. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through dividends and experience rating refunds or through the fact that Empire Life can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, Empire Life assumes the entire risk and thus must carry out a full valuation of the commitments in this regard.

Empire Life manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described as follows. Empire Life has established policy liabilities in accordance with standards set forth by the CIA. Experience studies (both company-specific and industry level) are factored into ongoing valuation, renewal and new business processes so that policy liabilities, as well as product design and pricing, take into account emerging experience. Empire Life has established an active capital management process that includes a Capital Management Policy and capital management levels that exceed regulatory minimums. As prescribed by regulatory authorities, the Appointed Actuary conducts DCAT and reports annually to the Audit Committee on Empire Life's financial condition, outlining the impact on capital levels should future experience be adverse. Empire Life has also developed a Product Design and Pricing Risk Management Policy for each of its major product lines. This policy, which is established by management and approved by the Risk and Capital Committee of the Board, defines Empire Life's product design and pricing risk management philosophy. The policy sets out product design and pricing approval authorities, product concentration limits, and required product development monitoring processes and controls.

Underwriting and claims risk

Empire Life is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Many of Empire Life's individual insurance and group disability products provide benefits over the policyholder's lifetime. Actual claims experience may differ from the mortality and morbidity assumptions used to calculate the related premiums. Catastrophic events such as earthquakes, acts of terrorism or an influenza pandemic in Canada could result in adverse claims experience.

In addition to the risk management controls described above under Product Design and Pricing Risk, Empire Life also manages underwriting and claims risk through its Underwriting and Liability Risk Management Policy for each of its major product lines. This policy is established by management and approved by the Risk and Capital Committee of the Board. Together, these policies define Empire Life's underwriting and claims management philosophy. These policies also set out product line insurance risk tolerances, underwriting criteria, underwriting and liability concentration limits, claims approval requirements, underwriting and claims processes and controls, approval authorities and limits, and ongoing risk monitoring requirements. Empire Life uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines and the Board approves changes to these retention limits.

Reinsurance risk

Empire Life is subject to the risk of financial loss due to inadequate reinsurance coverage or a default of a reinsurer. Amounts reinsured per life vary according to the type of protection and the product. Empire Life also maintains a catastrophe reinsurance program, which provides protection in the event that multiple insured lives perish in a common accident or catastrophic event. Although Empire Life relies on reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience, reinsurance does not release it from its primary commitments to its policyholders and it is exposed to the credit risk associated with the amounts ceded to reinsurers. The availability and cost of reinsurance are subject to prevailing reinsurance market conditions, both in terms of price and availability, which can also affect earnings.

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. Management reports annually to the Risk and Capital Committee of the Board on reinsurance activities. Most of Empire Life's individual life reinsurance (with the exception of its renewable term products) is on an excess basis (with a $500 retention limit), meaning Empire Life retains 100% of the risk up to $500 in face amount. With Empire Life's renewable term products, however, all amounts over $100 are reinsured at an 80% level, meaning that Empire Life retains only 20% of the risk on coverage over $100, to a maximum retention of $500. In addition Empire Life also retains a maximum of $100 on individual accidental death policies. Retention amounts are lower for group business but are in addition to those noted for individual business. A portion of Empire Life's segregated fund death benefit exposure is reinsured. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

As a result of this reinsurance strategy, Empire Life utilizes lower than average levels of reinsurance, compared to Canadian competitors, and absorbs the resultant negative impact on short-term earnings due to additional sales strain. Empire Life does not have any assumed reinsurance business.

24. Capital management

The Company's capital management process is designed to protect capital and build shareholder value over the long-term. Effective capital management includes maintaining sufficient liquidity to be able to pay dividends to the Company's preferred shareholders, satisfy issuer credit ratings requirements, as well as providing flexibility to pursue strategic opportunities. Total capital on a consolidated basis at December 31, 2017, consisted of the Company's shareholders' equity of $5,552,949 (2016 - $4,954,199), non-controlling interests in subsidiaries of $974,907 (2016 - $912,131) and participating policyholders' interests of $43,221 (2016 - $51,127).

Empire Life manages its regulatory capital in order to meet the regulatory capital adequacy requirements of the Insurance Companies Act, Canada as established by OSFI. Under the guidelines established by OSFI, Empire Life's regulatory capital consists of two tiers. Empire Life's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, subordinated debt, and negative reserves on insurance contract liabilities. OSFI's supervisory target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at December 31, 2017 and December 31, 2016, Empire Life exceeded both of these requirements.

25. Related party transactions

The Company has investments in related parties which includes investments in associates of $330,050 (2016 - $309,644) and investments in other related parties within investments - corporate of $853,707 (2016 - $770,786). The ultimate controlling party of the Company and these related parties, is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

In addition the Company has an investment in a private company of $37,840 (2016 - $33,797) where one of the key management personnel is also a director of the Company.

The Company received administrative service fees of $485 (2016 - $423) from related parties during the year.

Compensation of key management personnel

Key management personnel are comprised of the directors of the Company and their remuneration is as follows:

	2017	2016
Salaries and other short-term benefits	$ 1,423	$ 1,298
Post-employment benefits	163	137
Total	$ 1,586	$ 1,435

26. Subsidiaries

The principal subsidiaries are:

i) E-L Financial Services Limited (100.0% owned), whose operating subsidiary is Empire Life (99.3% owned). Empire underwrites life and health insurance policies and provides segregated funds, and annuity products.

(all dollar figures in thousands of dollars, except per share amounts and where otherwise stated)

Empire Life's (wholly-owned) mutual fund subsidiary, Empire Life Investments Inc. is a registered Investment Funds Manager.

ii) United (51.9% owned) which is a closed-end investment company traded on the Toronto Stock Exchange under the symbol "UNC". United is an investment vehicle for long-term growth through investments in common equities. United has a reporting date of March 31, therefore, certain adjustments have been made for the purpose of inclusion in the Company's consolidated financial statements.

The following table summarizes the statements of financial position for the operating subsidiaries:

	Empire Life		United	
	2017	2016	2017	2016
NCI percentage	0.7%	0.8%	48.1%	48.2%
Cash and cash equivalents	$ 294,238	$ 368,873	$ 19,551	$ 19,156
Investments	8,265,212	7,235,918	1,741,035	1,589,654
Segregated funds	8,681,892	8,082,033	—	—
Other	153,205	175,352	8,466	7,904
Total assets	17,394,547	15,862,176	1,769,052	1,616,714
Insurance and investment contract liabilities	(5,430,098)	(5,065,962)	—	—
Reinsurance liabilities	(650,801)	(533,357)	—	—
Deferred tax	(13,766)	(8,989)	(68,619)	(63,337)
Subordinated debt	(698,291)	(498,603)	—	—
Segregated funds	(8,681,892)	(8,082,033)	—	—
Other	(199,118)	(223,174)	(7,038)	(933)
Total liabilities	(15,673,966)	(14,412,118)	(75,657)	(64,270)
Net assets	1,720,581	1,450,058	1,693,395	1,552,444
Participating policyholders' interests	(43,221)	(51,127)	—	—
Preferred shareholders' interest	(149,500)	(149,500)	(7,747)	(7,747)
Net assets available to common shareholders	$ 1,527,860	$ 1,249,431	$ 1,685,648	$ 1,544,697
NCI - common shareholders	$ 9,809	$ 8,843	$ 807,851	$ 746,041
NCI - preferred shareholders	149,500	149,500	7,747	7,747
Total NCI	$ 159,309	$ 158,343	$ 815,598	$ 753,788

The following table summarizes the statements of income and comprehensive income:

	Empire Life		United	
For the year ended	2017	2016	2017	2016
Revenue	$ 1,674,605	$ 1,408,508	$ 212,045	$ 54,730
Net income	175,900	157,166	172,153	36,443
Other comprehensive income	4,253	3,134	—	—
Total comprehensive income	$ 180,153	$ 160,300	$ 172,153	$ 36,443
Total comprehensive income allocated to NCI	$ 10,838	$ 9,131	$ 82,965	$ 17,769
Dividends declared to NCI	$ 8,596	$ 7,884	$ 13,413	$ 12,932

The following table summarizes the cash flows:

	Empire Life		United	
Summarized cash flows	2017	2016	2017	2016
Cash flows from operating activities	$ 297,402	$ 292,262	$ 8,518	$ 10,075
Cash flows from investing activities	$ (651,670)	$ (453,663)	$ 19,327	$ 15,564
Cash flows from financing activities	$ 279,633	$ 330,504	$ (27,450)	$ (26,353)

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

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

Empire Life is registered under the *Insurance Companies Act*, Canada and is regulated by the OSFI. Any dividends paid by Empire Life must comply with regulatory requirements.

Shareholders' entitlement to $3,736 (2016 - $4,357) of shareholders' equity is contingent upon future payment of dividends to participating Empire Life policyholders.

Glossary of Terms

Accumulated Other Comprehensive Income ("AOCI")
A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, unrealized foreign currency translation gains and losses and the Company's share of AOCI from its associates. These items have been recognized in comprehensive income, but excluded from net income.

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

Available For Sale ("AFS") Financial Assets
Non-derivative financial assets that are designated as available for sale or that are not classified as loans and receivables, held to maturity investments, or held for trading.

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

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

Canadian Life and Health Insurance Association ("CLHIA")
The CLHIA is an organization representing life insurance and health insurance providers in Canada. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

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

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

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

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

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

Fair Value Through Profit or Loss ("FVTPL")
Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option.

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

International Financial Reporting Standards ("IFRS")
Refers to the international accounting standards that were adopted in Canada, effective January 1, 2011; these are now Canadian Generally Accepted Accounting Principles.

Life Insurance Capital Adequacy Test ("LICAT")
The LICAT measures the capital adequacy of an insurer and is one of several indicators used by OSFI to assess an insurer's financial condition. The LICAT Ratio is the ratio of eligible capital to the base solvency buffer, each as calculated under OSFI's published guidelines.

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

Minimum Continuing Capital and Surplus Requirements ("MCCSR")
The ratio of the available regulatory capital of a life insurance company to its required regulatory capital, each as calculated under the Office of the Superintendent of Financial Institutions' ("OSFI") published guidelines.

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

Office of the Superintendent of Financial Institutions Canada ("OSFI")
The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

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

Return on Common Shareholders' Equity ("ROE")
A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

(all dollar figures in thousands of dollars, except per share amounts)

Summary of Consolidated Results (unaudited)

	2017	2016	2015	2014	2013
Premium income	$ 834,214	$ 881,500	$ 835,216	$ 867,493	$ 821,544
Share of (loss) income from investments in associates	35,840	(12,084)	24,829	25,519	59,178
Fair value change in fair value through profit or loss investments	799,351	170,931	486,047	942,271	294,558
Realized gain on available for sale investments	47,545	28,588	58,554	28,204	10,339
Investment and other income	655,628	590,866	585,118	527,750	459,277
Total revenues	2,372,578	1,659,801	1,989,764	2,391,237	1,644,896
Policy benefits	1,070,044	828,612	793,794	1,413,408	422,196
Operating expenditures including commissions and premium taxes	406,486	398,327	387,340	395,911	358,839
Income taxes	142,974	80,916	123,543	91,066	114,515
	753,074	351,946	685,087	490,852	749,346
Policyholders' and non-controlling interest portion of income	84,972	18,803	150,478	96,322	152,793
Shareholders' net income before undernoted items	668,102	333,143	534,609	394,530	596,553
Shareholders' net income from discontinued operations, including gain on sale	—	—	—	—	311,126
Shareholders' net income	$ 668,102	$ 333,143	$ 534,609	$ 394,530	$ 907,679
Net income per Common share - basic	$ 166.17	$ 80.88	$ 132.18	$ 96.51	$ 227.18
Assets					
Cash and cash equivalents	$ 338,989	$ 419,906	$ 306,546	$ 316,811	$ 319,749
Investments in associates	330,050	309,644	328,389	301,228	288,884
Investments - corporate	4,853,200	4,341,596	4,145,707	3,790,503	3,381,417
Investments - insurance operations	8,265,212	7,235,918	6,659,265	6,430,296	5,803,051
Insurance receivable	46,294	53,097	25,099	25,213	20,849
Other assets	124,005	141,322	134,364	100,059	117,034
	13,957,750	12,501,483	11,599,370	10,964,110	9,930,984
Segregated funds	8,681,892	8,082,033	7,367,823	6,948,475	5,954,508
	$22,639,642	$20,583,516	$18,967,193	$17,912,585	$15,885,492
Liabilities					
Insurance contract liabilities	$ 5,430,098	$ 5,065,962	$ 4,858,233	$ 4,769,707	$ 4,214,272
Other liabilities	1,956,575	1,518,064	1,245,409	1,139,421	1,153,833
Policyholders' and non-controlling interest	1,018,128	963,258	819,204	888,754	809,999
	8,404,801	7,547,284	6,922,846	6,797,882	6,178,104
Capital stock	372,388	372,388	372,388	372,388	372,388
Retained earnings	5,171,997	4,538,540	4,243,683	3,721,910	3,342,064
Accumulated other comprehensive income	8,564	43,271	60,453	71,930	38,428
	5,552,949	4,954,199	4,676,524	4,166,228	3,752,880
	13,957,750	12,501,483	11,599,370	10,964,110	9,930,984
Segregated funds	8,681,892	8,082,033	7,367,823	6,948,475	5,954,508
	$22,639,642	$20,583,516	$18,967,193	$17,912,585	$15,885,492

(all dollar figures in thousands of dollars, except per share amounts)

Summary of Empire Life (unaudited)

	2017	2016	2015	2014	2013
Premium income	$ 834,214	$ 881,500	$ 835,216	$ 867,493	$ 821,544
Fair value change in fair value through profit or loss investments	239,407	11,873	(85,677)	538,036	(349,037)
Realized gain on fair value through profit or loss investments	57,188	20,114	42,233	74,469	45,445
Realized gain (loss) on available for sale investments	5,816	11,739	19,128	12,621	(2,488)
Investment and other income	537,980	483,282	476,028	433,397	390,748
Total revenues	1,674,605	1,408,508	1,286,928	1,926,016	906,212
Policy benefits	1,027,222	898,751	794,220	1,415,690	422,196
Operating expenditures including commissions and premium taxes	416,961	298,890	358,758	368,549	340,695
Income and capital taxes	54,522	53,701	31,492	34,401	33,285
	175,900	157,166	102,458	107,376	110,036
Profits allocated to policyholders	(4,666)	(3,439)	(6,119)	8,670	(3,243)
Profits allocated to non-policyholders	10,809	9,106	21,173	19,248	23,060
Net contribution to E-L	$ 169,757	$ 151,499	$ 87,404	$ 79,458	$ 90,219

	2017	2016	2015	2014	2013
Premium income by line of business					
Wealth Management	$ 135,542	$ 175,832	$ 143,991	$ 186,106	$ 159,284
Employee Benefits	330,563	338,908	325,223	318,942	306,583
Individual Insurance	368,109	366,760	366,002	362,445	355,677
Total premiums	$ 834,214	$ 881,500	$ 835,216	$ 867,493	$ 821,544
Assets including segregated funds	$17,394,547	$15,862,176	$14,363,544	$13,728,541	$12,080,410

(all dollar figures in thousands of dollars, except per share amounts)

Summary of Financial Progress Since the Company's Inception

(Unaudited)

Year ending December	Total Assets	Net Premiums	Total Revenues	Shareholders' Equity	Net Income (Loss)	Net Income (Loss) Per Share
1969	$ 161,787	$ 41,256	$ 49,966	$ 21,447	$ 2,032	$ 0.58
1970	178,204	48,024	57,637	24,656	2,607	0.75
1971	192,863	52,386	62,985	27,007	2,504	0.72
1972	212,319	57,570	69,404	30,824	4,352	1.25
1973	234,926	67,732	81,221	34,707	4,278	1.22
1974	257,732	76,487	92,117	37,155	2,118	0.60
1975	282,000	88,314	105,793	39,741	2,990	0.85
1976	323,131	111,484	131,560	45,824	6,375	1.82
1977	376,428	134,419	158,446	55,047	9,970	2.86
1978	450,606	150,607	179,995	70,323	7,252	2.08
1979	487,206	147,330	181,869	82,604	13,084	3.26
1980	536,926	164,708	204,357	97,422	11,300	2.81
1981	585,110	195,967	242,631	92,162	(1,860)	(0.46)
1982	630,645	218,042	273,265	100,691	8,662	2.15
1983	706,425	219,067	281,979	129,134	28,464	7.08
1984	777,270	230,445	300,345	150,766	26,954	6.71
1985	1,118,141	356,232	441,180	140,111	(9,671)	(2.41)
1986	1,400,171	435,795	537,969	154,593	18,436	4.59
1987	1,545,769	480,742	602,617	187,455	21,846	5.44
1988	1,666,086	477,787	610,928	222,944	36,097	8.98
1989	1,832,250	547,353	696,924	256,575	40,258	10.01
1990	1,928,160	568,217	727,841	255,463	7,208	1.80
1991	2,341,396	667,477	820,109	276,464	31,725	7.89
1992	2,783,297	737,292	933,083	322,706	18,700	4.65
1993	2,944,319	706,822	914,718	362,925	41,619	10.36
1994	3,029,425	637,915	812,062	402,734	41,055	10.21
1995	3,052,601	723,330	900,179	443,953	43,555	10.83
1996	3,598,443	766,606	964,533	498,320	57,814	14.38
1997	5,130,087	805,187	1,135,463	667,634	166,386	41.39
1998	5,522,285	822,513	1,109,457	951,114	57,165	14.22
1999	5,756,343	875,594	1,185,846	1,001,548	52,599	13.09
2000	6,253,408	918,065	1,267,189	1,139,691	73,389	18.26
2001	6,385,555	966,826	1,306,988	1,250,974	77,480	19.27
2002	6,433,194	1,107,295	1,380,163	1,267,385	51,512	12.81
2003	7,308,559	1,358,119	1,652,951	1,375,394	46,870	11.66

This chart is drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

1985 - The Canadian Indemnity Company was acquired

1986 - Montreal Life Insurance Company was acquired

1991 - Canadian operations of SAFECO Corporation were acquired

1997 - Colonia Life Insurance Company was acquired - Investment in National Trustco Inc. was sold

1998 - E-L Financial's Corporate Investments were recorded at market value versus cost basis

(all dollar figures in thousands of dollars, except per share amounts)

Summary of Financial Progress Since the Company's Inception

(Unaudited)

Year ending December	Total Assets	Net Premiums	Total Revenues	Shareholders' Equity	Shareholders' Comprehensive Income (Loss)	Comprehensive Income (Loss) Per Share
2004	$ 8,279,929	$ 1,543,086	$ 1,893,119	$ 1,582,143	$ 129,886	$ 31.91
2005	9,830,984	1,600,708	2,201,191	1,815,670	293,703	86.68
2006	11,206,412	1,628,870	2,320,794	2,197,721	372,520	109.97
2007	12,835,288	1,630,208	2,162,946	2,500,446	81,860	21.58
2008	10,912,997	1,709,435	1,600,148	2,015,202	(470,235)	(144.42)
2009	12,902,041	1,925,902	2,153,506	2,250,943	249,876	72.28
2010	13,974,077	2,008,040	2,725,184	2,433,377	195,293	55.94
2011	14,599,583	1,972,790	2,805,547	2,519,393	(57,752)	(17.24)
2012	16,662,339	2,022,797	3,010,100	2,981,573	481,774	118.96
2013	15,885,492	821,544	1,644,896	3,752,880	871,577	217.99
2014	17,911,247	867,493	2,391,237	4,166,228	428,032	105.04
2015	18,967,193	835,216	1,989,764	4,676,524	523,132	129.26
2016	20,583,516	881,500	1,659,801	4,954,199	315,961	76.50
2017	22,639,642	834,214	2,372,578	5,552,949	633,395	157.33

This chart is drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

2005 - Changes in fair value of E-L Financial's Corporate Investments are recognized in income in the period in which the change occurs

2007 - All investments are carried at fair value except for those which do not have a quoted price in an active market. The change in fair value of certain investments are reflected in net income ('held for trading' investments) with the remainder in other comprehensive income ('available for sale' investments). Comprehensive income consists of net income and other comprehensive income.

2011 - Conversion to International Financial Reporting Standards ("IFRS")

2012 - United Corporation Limited became a subsidiary of E-L Financial Corporation Limited

2013 - The Dominion of Canada General Insurance Company was sold

HEAD OFFICE	Tenth Floor, 165 University Avenue, Toronto, Ontario, M5H 3B8
	Tel: 416-947-2578
	Fax: 416-362-2592
TRANSFER AGENT AND REGISTRAR	Computershare Investor Services Inc.
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STOCK EXCHANGE LISTINGS

Common Shares	ELF
First Preference Shares, Series 1	ELF.PR.F
First Preference Shares, Series 2	ELF.PR.G
First Preference Shares, Series 3	ELF.PR.H

REPORTING PROCEDURE FOR ACCOUNTING MATTERS

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

Mr. James Billett
E-L Financial Corporation Limited
165 University Avenue, 10th Floor
Toronto, Ontario
M5H 3B8
Email: jfbillett@rogers.com
Phone: 416-284-6440

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