

The Empire Life Insurance Company Management's Discussion and Analysis

For the year ended December 31, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of February 24, 2021

This document provides Management's Discussion and Analysis (MD&A) of the operating results and financial condition of The Empire Life Insurance Company (Empire Life or the Company) for the years ended December 31, 2020 and 2019. This MD&A should be read in conjunction with the Company's December 31, 2020 consolidated financial statements, which form part of The Empire Life Insurance Company 2020 Annual Report dated February 24, 2021. Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Some variances may not reconcile and analysis of components may not sum to the analysis for the grouped components due to rounding.

MD&A contains forward-looking information and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of the Annual Information Form which is available at www.sedar.com. No assurance can be given that results, performance or achievement expressed in or implied by any of the forward-looking information will occur, or, if they do, that any benefits may be derived from them. Actual results may differ materially from those expressed or implied by forward-looking information. See the Forward-Looking Statements and Information section in this report.

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), which are generally accepted accounting principles as set out in the Handbook of the Chartered Professional Accountants of Canada. This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information under IFRS. See the Non-IFRS Measures section in this report. Note that certain comparative amounts have been reclassified and restated to conform with the presentation adopted in the current period.

Financial Analysis Overview

(in millions of dollars except per share amounts)	Fourth quarter		Year to date	
	2020	2019	2020	2019
Common shareholders' net income	\$ 72	\$ 76	\$ 140	\$ 174
Earnings per share - basic and diluted	\$ 73.53	\$ 77.25	\$ 141.80	\$ 176.58
Return on common shareholders' equity (quarterly annualized) ¹	17.8%	18.7%	8.5%	11.1%

Empire Life reported fourth quarter common shareholders' net income of \$72 million for 2020, compared to \$76 million for 2019. Full year common shareholders' net income was \$140 million compared to \$174 million in 2019. The decrease in earnings from 2019 was due, in part, to a large one-time gain recognized in 2019 related to a reinsurance recapture initiative. In 2020, earnings from the Wealth Management line were lower due to reserve strengthening and assumption updates in the Wealth Management line due to poor market returns early in the year, partially offset by increased earnings from the Individual Insurance line primarily as a result of asset trading gains from continued improvements in the Company's matching of assets and liabilities.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a breakdown of the sources of earnings for the fourth quarter and year.

Sources of Earnings ¹ (in millions of dollars)	Fourth quarter		Year to date	
	2020	2019	2020	2019
Expected profit on in-force business	\$ 55	\$ 47	\$ 215	\$ 190
Impact of new business	(1)	(7)	(16)	(28)
Experience gains (losses)	61	5	(81)	(6)
Management actions and changes in assumptions	(22)	48	13	37
Earnings on operations before income taxes	92	94	130	194
Earnings on surplus	8	16	70	54
Income before income tax	101	110	200	247
Income taxes	25	30	47	60
Shareholders' net income	76	79	153	187
Dividends on preferred shares	(3)	(3)	(13)	(13)
Common shareholders' net income	\$ 72	\$ 76	\$ 140	\$ 174

The expected profit on in-force business for the fourth quarter and for the year increased by 16% and 13% respectively, due to higher levels of business inforce at the start of the year for all three business lines.

The improvement in impact of new business for the fourth quarter and the year was primarily driven by favourable new business profits at issue in the Individual Insurance line, combined with lower strain in the Employee Benefits line. For the year, the impact of new business improved over 2019 partially due to the Employee Benefits line where several new specialty partners were added in 2019 causing significant new business strain in that period. The Individual Insurance line also contributed to improved impact of new business as sales of term products, which generally contribute a positive impact of new business value were strong in the fourth quarter. The impact of new business in the Individual Insurance line is positive when the present value of future profits from new business exceeds the sum of the margins in the initial policy liabilities plus the expenses incurred at the point of sale.

The improvement in experience gains for the fourth quarter of 2020 is primarily attributable to the Wealth Management line as strong equity returns contributed to a partial reversal of provisions recorded for segregated fund benefit guarantees earlier in 2020. For the year, the increase in experience losses was primarily driven by the overall strengthening of policy liabilities supporting segregated fund benefit guarantees.

The effect of management actions and changes in assumptions in the fourth quarter of 2020 was lower than 2019 primarily due to unfavourable assumption updates in the Wealth Management line in 2020 and the favourable impact of a reinsurance recapture initiative in 2019, partially offset by favourable assumption updates in the Individual Insurance line. For the year, the effect of management actions and changes in assumptions was lower than 2019 primarily due to overall assumption updates which were less favourable than 2019, and due to the positive effect of a reinsurance recapture initiative which was recorded in 2019. This was partially offset by improved asset trading gains in the Individual Insurance line in 2020.

Earnings on surplus were lower in the fourth quarter of 2020 primarily due to lower realized gains on Available for Sale (AFS) assets. For the year, earnings on surplus were higher primarily due to realized gains on AFS bonds recorded earlier in the year and lower realized and unrealized losses on Fair Value through Profit and Loss (FVTPL) assets in this segment.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Financial Information

Income Statement Financial Information (in millions of dollars)	For the years ended December 31		
	2020	2019	2018
Revenue			
Net premium income	\$ 860	\$ 910	\$ 874
Fee income	251	262	264
Investment income	329	326	308
Realized gain on FVTPL investments	155	105	12
Realized gain on AFS investments including impairment write downs	29	22	(1)
Fair value change in FVTPL investments	357	490	(318)
Total revenue	1,982	2,115	1,138
Expenses			
Benefits and expenses	\$ 1,758	\$ 1,843	\$ 931
Income and other taxes	67	81	60
Total expenses	1,825	1,924	991
Net income (loss) after tax	157	191	148
Participating policyholders' portion	4	3	(3)
Shareholders' net income	\$ 153	\$ 187	\$ 151
Dividends on preferred shares	13	13	13
Common shareholders' net income	\$ 140	\$ 174	\$ 137
Return on common shareholders' equity	8.5%	11.1%	9.4%

Revenue variability was driven primarily by the impact of market interest rate and equity movements on the change in fair value through profit or loss investments. The impact of these movements on net income is significantly reduced due to corresponding changes in insurance contract liabilities (included in Benefits and expenses in the above table).

Balance Sheet Financial Information (in millions of dollars)	As at December 31		
	2020	2019	2018
Assets			
Total cash and investments	\$ 10,045	\$ 9,293	\$ 8,278
Other assets	214	169	168
Segregated fund assets	8,457	8,499	7,823
Total assets	\$ 18,716	\$ 17,961	\$ 16,270
Liabilities			
Insurance contract liabilities	\$ 7,145	\$ 6,074	\$ 5,176
Reinsurance liabilities	385	698	789
Subordinated debt	399	399	399
Other liabilities	382	351	300
Segregated fund policy liabilities	8,457	8,499	7,823
Total liabilities	16,769	16,021	14,487
Total equity	1,947	1,940	1,783
Total liabilities and equity	\$ 18,716	\$ 17,961	\$ 16,270

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Financial Information (in millions of dollars)	As at December 31		
	2020	2019	2018
Assets under management¹			
General fund assets ¹	\$ 10,259	\$ 9,462	\$ 8,447
Segregated fund assets ¹	8,457	8,499	7,823
Mutual fund assets ¹	120	139	145
Subordinated debt	399	399	399
Preferred shares	250	250	250
Available regulatory capital			
Tier 1	\$ 1,623	\$ 1,616	\$ 1,476
Tier 2	677	669	653
Total	2,300	2,285	2,129
Surplus allowance and eligible deposits	\$ 1,156	\$ 1,109	\$ 887
Base solvency buffer	\$ 2,541	\$ 2,191	\$ 2,029
LICAT total ratio	136%	155%	149%
LICAT core ratio	96%	109%	103%

	For the years ended December 31		
	2020	2019	2018
Cash dividends per share			
Preferred shares series 1	\$ 1.4375	\$ 1.4375	\$ 1.4375
Preferred shares series 3	\$ 1.2250	\$ 1.2250	\$ 1.2250
Common shares	\$ 179.6529	\$ 69.7632	\$ 40.6060

Improvements to core and total capital were primarily driven by strong net income and strong growth in the Surplus allowance. The Surplus allowance reflects the value of conservative margins in the insurance contract liabilities. The Base solvency buffer increased due to overall growth in inforce business, as well as an increase related to the changes in the Company's reinsurance program.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended December 31 and year for 2020 and 2019. A discussion of results is provided in the Product Line section of the MD&A.

For the three months ended December 31 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue										
Net premiums	\$ 21	\$ 35	\$ 94	\$ 94	\$ 108	\$ 101	\$ —	\$ —	\$ 223	\$ 231
Investment income	9	9	1	1	59	57	16	17	85	84
Fair value change in FVTPL investments	11	(6)	1	—	70	(194)	—	—	81	(200)
Realized gain (loss) on FVTPL investments	3	1	—	—	16	60	(5)	(2)	14	59
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	4	—	2	10	6	10
Fee income	63	63	3	3	—	—	—	—	66	66
Total revenue	107	102	99	97	257	24	12	25	475	249
Expenses										
Net benefits and claims	45	51	65	69	40	37	—	—	150	156
Net change in insurance and investment contract liabilities	(7)	4	3	2	97	(147)	—	—	93	(141)
Policy dividends	—	—	—	—	11	8	—	—	11	8
Operating, commission and interest expenses	36	37	27	23	41	34	4	4	108	99
Income and other taxes	8	2	3	3	19	27	2	8	33	40
Total expenses	82	94	98	97	208	(42)	6	12	394	162
Net income (loss) after tax	\$ 25	\$ 8	\$ 1	\$ —	\$ 49	\$ 67	\$ 6	\$ 13	\$ 81	\$ 87
Participating policyholders' portion									5	8
Dividends on preferred shares									3	3
Common shareholders' net income									\$ 72	\$ 76

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue										
Net premiums	\$ 95	\$ 159	\$ 357	\$ 360	\$ 409	\$ 390	\$ —	\$ —	\$ 860	\$ 910
Investment income	38	40	4	5	222	215	65	65	329	326
Fair value change in FVTPL investments	31	18	5	4	321	473	—	(5)	357	490
Realized gain (loss) on FVTPL investments	4	1	4	—	154	111	(7)	(7)	155	105
Realized gain (loss) on AFS investments including impairment write downs	(1)	—	(1)	—	3	1	28	21	29	22
Fee income	238	249	13	13	—	—	—	—	251	282
Total revenue	405	467	382	382	1,109	1,190	86	76	1,982	2,115
Expenses										
Net benefits and claims	174	206	235	256	169	156	—	—	578	618
Net change in insurance and investment contract liabilities	138	18	21	18	600	773	—	—	759	808
Policy dividends	—	—	—	—	35	31	—	—	35	31
Operating, commission and interest expenses	135	144	97	91	136	134	16	16	385	386
Income and other taxes	(13)	24	14	11	50	31	17	16	67	81
Total expenses	434	393	368	375	990	1,125	33	32	1,825	1,924
Net income (loss) after tax	\$ (29)	\$ 74	\$ 14	\$ 7	\$ 119	\$ 65	\$ 53	\$ 43	\$ 157	\$ 191
Participating policyholders' portion									4	3
Dividends on preferred shares									13	13
Common shareholders' net income									\$ 140	\$ 174

Total Revenue

Net premiums for the fourth quarter and the year were lower relative to the same periods in 2019 primarily due to lower sales of fixed annuity products in the Wealth Management line partially offset by higher net premiums in the Individual Insurance line from strong sales of the Company's term life products.

Investment income for the fourth quarter and the year was generally consistent with the amounts recorded in the same periods in 2019.

Assets classified as FVTPL experienced a gain in the fourth quarter relative to the same quarter in 2019 primarily due to gains on equity instruments backing insurance contract liabilities in the Individual Insurance line. For the year, gains on assets valued as FVTPL were lower than 2019 primarily due to lower gains from bonds supporting insurance contract liabilities in the Individual Insurance line, partially offset by higher gains from preferred shares held in the Wealth Management line.

Fee income for the fourth quarter was consistent with the same period in 2019. For the year, fee income declined by 11% compared to 2019 as volatile asset returns in the late first and second quarter resulted in lower average assets under management over the year.

Total Expenses

A substantial portion of the Net benefits and expenses changes are driven by the impact that market interest rate movements have on the net change in insurance contract liabilities. Net benefits and claims were lower for the fourth quarter and the year by 4% and 6%, respectively driven primarily by fixed annuities in the Wealth Management line and lower health benefit claims in the Employee Benefits line, partially offset by higher claims in the Individual

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Insurance Line. Net benefits and claims variability is dependent on claims incurred. Generally, claims rise year over year due to growth of the insurance blocks. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released may be larger or smaller than the claims incurred depending on whether claims experience has been more or less than what was estimated in the insurance contract liabilities. Claims experience is a combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities.

Operating expenses, commissions and interest expenses increased for the fourth quarter and for the year compared to 2019 primarily due to higher commissions incurred in the Individual Insurance line as a result of higher sales.

Product Line Results - Wealth Management

(in millions of dollars)	Fourth quarter		Year to date	
	2020	2019	2020	2019
Fixed Annuities				
Assets under management ¹	\$ 950	\$ 958	\$ 950	\$ 958
Gross sales ¹	21	35	95	159
Net sales ¹	(9)	—	(19)	13
Segregated Funds				
Assets under management ¹	8,439	8,480	8,439	8,480
Gross sales ¹	234	243	759	856
Net sales ¹	(58)	(83)	(236)	(329)
Fee income	62	62	235	246
Mutual Funds				
Assets under management ¹	120	139	120	139
Gross sales ¹	1	2	8	8
Net sales ¹	(8)	(7)	(23)	(28)
Fee income	1	—	2	2
Net income after tax	\$ 25	\$ 8	\$ (29)	\$ 74

Fixed annuity assets under management decreased by 1% during the last 12 months. Gross sales in the fourth quarter and for the year were 40% lower as customers shifted away from fixed income products.

Segregated fund assets under management at the end of the period were unchanged from their levels at the beginning of the year. Gross sales in the fourth quarter of 2020 were 4% lower than the same period in 2019. For the year, gross sales were 11% lower than 2019 levels, reflecting the challenging sales environment experienced in 2020 and the effects of turbulent equity markets in the first half of the year. On October 23, 2019, Empire Life launched six new Multi-Strategy GIF segregated funds to offer customers a mix of investment management styles and greater diversification. The Company also launched a new Short Term High Income GIF and reopened the Global Dividend Growth GIF.

Segregated fund fee income for the fourth quarter was consistent with the same period in 2019. For the year, fee income from segregated funds was 4% lower than 2019 primarily due to lower average assets relative to 2019.

Mutual fund assets under management decreased during the last 12 months due to lower mutual fund sales. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Product Line Results - Employee Benefits

(in millions of dollars)	Fourth quarter		Year to date	
	2020	2019	2020	2019
Selected financial information				
Annualized premium sales ¹	\$ 24	\$ 21	\$ 85	\$ 104
Net premiums	93	93	357	360
Net income (loss) after tax	\$ 1	\$ —	\$ 14	\$ 7

For the fourth quarter, annualized premium sales for Employee Benefits increased by 12% relative to 2019, primarily related to strong sales in core group benefit products and specialty arrangements, partially offset by lower block transfers from strategic partners. For the year, annualized premium sales were 18% lower than 2019, primarily due to lower overall sales in the core group benefit products, partially offset by an overall increase in sales from the strategic distribution partner arrangements early in the year. Over the last several years, Empire Life has entered into a number of strategic arrangements to expand market share in this space.

Net premiums for the fourth quarter and year decreased by less than 1% compared to the same periods in 2019, primarily due to premium rebates offered to customers in the spring to reflect lower health claims experience as a result of COVID-19 regional lockdowns and limited capacity offered by many health care providers. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Net income increased in 2020 and relative to 2019 primarily due to experience gains on dental and extended health care benefits.

Product Line Results - Individual Insurance

(in millions of dollars)	Fourth quarter		Year to date	
	2020	2019	2020	2019
Shareholders'				
Shareholders' annualized premium sales ¹	\$ 9	\$ 5	\$ 25	\$ 21
Shareholders' net premiums	73	69	280	274
Net income (loss) after tax	43	62	115	67
Policyholders'				
Policyholders' annualized premium sales ¹	4	5	13	18
Policyholders' net premiums	35	32	128	116
Net income (loss) after tax	5	4	4	(1)
Net income (loss) after tax	\$ 49	\$ 66	\$ 119	\$ 65

Shareholders' annualized premium sales increased for the fourth quarter and the year compared to 2019 primarily due to increased sales of the Company's term life products. Policyholders' annualized premium sales declined compared to the fourth quarter of the prior year and were 25% lower for the full year as COVID-19 lockdowns and restrictions made underwriting of sales more challenging. Shareholders' total net premiums increased by 6% in the quarter and 2% for the year, primarily from stronger sales of term life products over the period. Policyholders' net premiums were 9% and 10% higher for the fourth quarter and full year respectively compared to 2019, primarily due to the effect of strong sales of the Company's participating life products in the last half of 2019.

Shareholders' net income was lower for the fourth quarter, primarily due to the impact of a reinsurance recapture initiative and the impact of a mortality table update on insurance contract liabilities recorded in the fourth quarter 2019 results. For the year, Shareholders' net income increased, primarily due to improved mortality experience, reduced losses on interest rate movements and improved matching of assets and liabilities, which offset the lower gain from the update of policy liability assumptions described in the following table and subsequent paragraphs.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in millions of dollars)	Year	
	2020	2019
Components of pre-tax income increase from update of policy liability assumptions		
Lapse/premium assumptions	\$ (98)	\$ (27)
Net investment assumptions	(49)	(120)
Mortality experience	(45)	12
Mortality table update	76	155
Reinsurance recapture	19	107
Deferred tax liability	117	—
Other	12	(69)
Total gain (loss) from update of policy liability assumptions (excludes policyholders' portion)	\$ 32	\$ 57

In 2020 the lapse/premium assumption change is related to updates of assumed lapse rates on renewable term, non-par whole life and universal life policies. The refinements to the lapse/premium assumptions for 2019 were primarily related to the adjustment of the lapse assumption on renewable term products.

The primary driver of the net investment assumptions change for 2020 is a decrease to the initial reinvestment rate (IRR) used in the valuation of liabilities. The primary drivers of the net investment assumptions change for 2019 were decreases to the initial reinvestment rate (IRR) and ultimate reinvestment rate (URR) used in the valuation of liabilities. Updates were also made to the equity investment return assumption, the planned level of equities matching policy liabilities, and to the maturity assumptions for preferred shares. However, these items had a less significant impact when compared with the IRR and URR updates.

Updates to the mortality experience in 2020 are primarily related to revised projected assumptions related to renewable term business and to the partial recognition of the change described in the next paragraph.

In 2019 the individual insurance mortality tables were replaced by more recent industry tables. The updated tables provide a more appropriate mortality projection, specifically at older ages. Actual/expected ratios were updated based on a combination of Company and industry experience. Partial credit was taken for this change in 2019 with the remainder being recognized in 2020.

In 2019, the Company enacted significant changes to its reinsurance programs. Specifically, the reinsurers of the Company's individual life policies were notified that in 2020 the Company would increase its individual life retention from \$500 to \$1,500 and the recapture provisions of all eligible reinsurance treaties would be enacted. The recapture resulted in a substantial net liability decrease on both the universal life and non-participating blocks of business as the present value of future reinsurance premiums was greater than the estimated future claims. An additional amount was recognized in 2020 as provisions from the actuarial liabilities were released.

Actuarial standards allow for a wide range of practice with respect to capitalization of the preferred tax treatment of dividends on Canadian equities that are supporting actuarial liabilities. In 2020, the Company updated its projections to be more consistent with industry practice, which resulted in a significant reduction in insurance contract liabilities.

Results - Capital and Surplus

(in millions of dollars)	Fourth quarter		Year to date	
	2020	2019	2020	2019
Net income (loss) after tax				
Net income (loss) after tax shareholders' portion	\$ 7	\$ 10	\$ 54	\$ 39
Net income (loss) after tax policyholders' portion	—	4	—	5
Net income (loss) after tax	\$ 6	\$ 13	\$ 54	\$ 44

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Net income from the shareholders' portion of Capital & Surplus was lower than the fourth quarter of 2019, primarily due to lower realized gains on AFS assets in this portfolio. For the year, shareholders' net income was higher than 2019 primarily due to higher realized gains on AFS assets, partially offset by realized losses on FVTPL assets. Policyholders net income was lower than the comparable periods in 2019 primarily due to lower realized gains on AFS assets.

On February 17, 2021, the Company completed an offering of \$200 million aggregate principal 3.625% Limited Recourse Capital Notes Series 1 (Notes). In connection with the issuance of the Notes, the Company issued Non-Cumulative 5-Year Fixed Rate Reset Preferred Shares, Series 5 (Preferred Shares Series 5) to be held by a trustee for a newly formed trust. In case of non-payment of interest on or principal of the Notes when due, the recourse of each Note holder will be limited to that holder's proportionate share of the Limited Recourse Trust's assets, which will consist of the Preferred Shares Series 5 except in limited circumstances. The purpose of the sale of the Notes is to enlarge the Company's Tier 1 capital base with a view to optimizing Empire Life's capital structure within the parameters prescribed by the Superintendent of Financial Institutions for regulatory capital requirements.

Shareholder Dividends

The declaration and payment of common shareholder dividends and the amounts thereof are at the discretion of the Board of Directors.

Common shareholder dividends are reviewed on a quarterly basis and will depend upon various factors, including the results of operations, the economic environment and the financial condition of Empire Life, taking into account regulatory restrictions on the payment of shareholder dividends as well as any other factors deemed relevant by the Board of Directors.

The Board of Directors declared a dividend of \$10.635322 per common share on February 24, 2021 to all common shareholders of record March 11, 2021, payable April 1, 2021.

The following table provides details of the amounts and dates for Empire Life's per share common and preferred share dividends.

	Amount of Dividend per share	Payable Date	Record Date
Common shares	\$ 10.635322	April 1, 2021	March 11, 2021
Non-Cumulative Rate Reset Preferred Shares, Series 1 (TSX: EML.PR.A)	\$ 0.359375	April 17, 2021	March 18, 2021
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.306250	April 17, 2021	March 18, 2021

Empire Life advises that the above referenced dividends are eligible dividends for the purposes of the Income Tax Act, Canada and any similar provincial tax legislation.

Total Cash Flow

(in millions of dollars)	Year to date	
	2020	2019
Cash flow provided from (used for)		
Operating activities	\$ 273	\$ 368
Investing activities	(20)	(337)
Financing activities	(205)	(96)
Net change in cash and cash equivalents	\$ 49	\$ (65)

The net change in cash and cash equivalents was an increase of \$49 million, made up of the following items:

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Lower cash provided from operating activities in 2020 relative to 2019 was primarily due to higher cash outflows related to changes in working capital levels.
- Cash used for investing activities declined in 2020 relative to 2019.
- An increase in cash used for financing activities in 2020 due to higher common share dividends and a special common share dividend of \$90 million in April 2020.

For an analysis of liquidity for Empire Life, see note 10(e) and note 27(b) to the 2020 consolidated financial statements.

Financial Instruments

Empire Life buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of the Company. Empire Life's investment strategy also includes the use of publicly-listed common stocks or exchange-traded funds (ETFs) to support the liabilities under its insurance policies. Cash flows arising from these financial instruments are intended to match the liquidity requirements of Empire Life's policies, within the limits prescribed by the Company. Empire Life is subject to market risk on these financial instruments.

Empire Life is also subject to credit risk on these financial instruments which could result in a financial loss should the other party fail to discharge an obligation. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, short-term investments and mortgages. Empire Life manages market risk exposure mainly through investment limits and oversight of its in-house investment managers and external investment firms by the Chief Investment Officer, Asset Management Committee and Investment Committee of the Board. The Investment Committee actively monitors the portfolio size and asset mix. Empire Life has a semi-static hedging program as part of its approach to managing this risk. Empire Life manages credit risk by applying its investment guidelines established by the Investment Committee of the Board of Directors. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management reviews credit quality relative to investment purchases and also monitors the credit quality of invested assets over time. Management reports regularly to the Investment Committee of Empire Life's Board on the credit risk to which the portfolio is exposed.

Empire Life manages credit risk with respect to derivatives by applying limits and credit rating restrictions established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed. Additional information regarding financial instruments is included in notes 2(d), 3, 10(c), and 27 to the audited consolidated financial statements for the year ended December 31, 2020.

Sources of Capital

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth. The securities outstanding are summarized in the following table.

(in millions of dollars)	As at	
	December 31, 2020	December 31, 2019
Subordinated debentures	\$ 400	\$ 400
Equity		
Preferred shares	\$ 250	\$ 250
Common shares	\$ 1	\$ 1
Total Equity	\$ 251	\$ 251

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Details of the Company's outstanding preferred shares and subordinated debt are as follows:

Preferred Shares				As at	
(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	December 31, 2020	December 31, 2019
Preferred shares	January 2016	April 17, 2021	5.75%	\$ 150	\$ 150
Preferred shares	November 2017	January 17, 2023	4.90%	\$ 100	\$ 100

				As at	
(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	December 31, 2020	December 31, 2019
Subordinated debentures ^(a)	December 2016	December 16, 2021	3.383%	\$ 200	\$ 200
Subordinated debentures ^(b)	September 2017	March 15, 2023	3.664%	\$ 200	\$ 200

^(a) Series 2016-1 Subordinated 3.383% Unsecured Debentures due 2026. From December 16, 2021, interest is payable at 1.95% over the 3-month Canadian Deposit Offering Rate (CDOR).

^(b) Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

Empire Life's debentures and preferred shares are rated by DBRS Limited (DBRS) and A.M. Best Company, Inc. (A.M. Best). Empire Life's DBRS issuer rating is "A", its subordinated debt rating is "A (low)", its financial strength rating is "A" and its Preferred Share rating is Pfd-2. All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life's position as a consistently performing life insurer with a proven track record of generating stable earnings while maintaining a conservative risk profile.

A.M. Best ratings of Empire Life are "A Excellent" financial strength rating, "a" long-term issuer credit rating, "bbb+" Subordinated Debt rating, and "bbb" Preferred Share rating. All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's balance sheet strength, which A.M. Best categorizes as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Regulatory Capital

The Life Insurance Capital Adequacy Test (LICAT) is intended measure a life insurer's solvency position by recognizing the long-term economics of the life insurance business. The Company continues to have a strong capital position under the LICAT framework. Empire Life is required to maintain a minimum Core Ratio of 55% and a Total Ratio of 90%. The Office of the Superintendent of Financial Institutions (OSFI) has established supervisory target levels of 70% for Core and 100% for Total capital.

LICAT		Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
(in millions of dollars)		2020	2020	2020	2020	2019
Available capital						
Tier 1	(A)	\$ 1,623	\$ 1,544	\$ 1,527	\$ 1,435	\$ 1,616
Tier 2	(B)	677	703	710	671	669
Total	(C)	\$ 2,300	\$ 2,247	\$ 2,237	\$ 2,106	\$ 2,285
Surplus allowance and eligible deposits	(D)	1,156	1,111	1,094	1,029	1,109
Base solvency buffer	(E)	2,541	2,542	2,510	2,371	2,191
LICAT total ratio	((C+D)/E * 100)	136%	132%	133%	132%	155%
LICAT core ratio	((C+70%D)/E * 100)	96%	91%	91%	91%	109%

Other Comprehensive Income

(in millions of dollars)	Fourth quarter		Year to date	
	2020	2019	2020	2019
OCI, attributable to shareholders	\$ 4	\$ (16)	\$ 40	\$ 48
OCI, attributable to policyholders	(3)	(4)	—	1
Total other comprehensive income	\$ 1	\$ (20)	\$ 40	\$ 49

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other comprehensive income (OCI) increased in the fourth quarter, primarily due to unrealized fair value gains on AFS investments compared to a unrealized fair value losses on these assets, partially offset by a gain on re-measurement of post-employment benefit liabilities in the fourth quarter of 2019. For the year, OCI was lower relative to 2019, primarily due to a higher loss from the re-measurement of post-employment liabilities partially offset by unrealized fair value gains on AFS assets in 2020 relative to 2019.

Re-measurement of defined benefit pension plans does not immediately impact LICAT as each quarter's remeasurement gain or loss is amortized over 12 quarters for LICAT purposes.

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, product pricing, 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 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 2% 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 its 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. In 2019, the Company acquired a minority interest in The Gryphin Advantage Inc. as part of its continuing commitment to ensuring consumers have the availability of independent advice in the marketplace.

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 broadening distribution reach. Empire Life continues 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.

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 provisions 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

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the Company 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. The Company is exposed to a number of risks as a result of its business activities. The goal of the Company's risk management process is to ensure that the operations that expose it to risk are consistent with its 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 it deploys to support business activities and strategic objectives;
- The need to protect its brand; and
- The need to maintain (or improve) its external financial strength rating.

Empire Life's risk appetite defines the aggregate level of risk the Company is willing to take to achieve its business strategies. The risk appetite supports the pursuit of shareholder value but does not compromise the Company's ability to pay claims and fulfil 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, the Company accepts capital market risk provided it is managed within specific risk tolerances and limits. The Company 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;
- The Company 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;
- The Company accepts insurance risks provided they are properly priced and managed in order to deliver value to its customers and shareholders;
- The Company 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 future activities;
- Management is active in industry committees and, through a network of oversight functions, monitors the landscape so that the Company is appropriately positioned to manage regulatory, tax, accounting and actuarial changes;
- The Company 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
- The Company expects ethical conduct by all of its employees and it 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 the Company'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

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

team. The Company 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, with specific focus on market, credit and liquidity risk including asset/liability management as well as capital management. The Product Management Review Committee is responsible for overseeing management of corporate policy established by the Risk and Capital Committee of the Board, with specific focus on insurance. Activities not delegated to one of these two committees remain under the oversight of senior management. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2020 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 Product Management Review 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. The Company 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. The Company's strategic risk management policies (including those related to product design and pricing, investment 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. Given the nature of these calculations, Empire Life cannot provide assurance that actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

Significant Developments

Commencing in the first quarter of 2020, the spread of the COVID-19 pandemic, given its severity and scale, continues to affect Empire Life's business, some of our clients and also continues to pose risks to the Canadian economy. The Company continues to adjust operations as government restrictions and measures evolve. As the impacts of the COVID-19 pandemic continue to materialize, management is monitoring the effects of the disruption on the Company's business strategies and initiatives and the effects on its financial results.

The COVID-19 pandemic has and may continue to result in disruptions to clients and the way in which business is conducted, including prolonged duration of employees working from home. To date, Empire Life has taken proactive measures through business continuity plans, carefully planning the return to premise for some employees, and management teams have increased their efforts to preserve the well-being of employees and our ability to serve clients. Processes supporting ongoing systems availability, stability and security are operating effectively and the Company continues to monitor the threat landscape.

The duration and impacts of the COVID-19 outbreak cannot currently be determined. If the COVID-19 pandemic is prolonged, or further diseases emerge that give rise to similar effects, there may be further negative effects on the Canadian economy as well as increased volatility in equity and fixed income markets. Unexpected developments in financial markets, regulatory environments, or consumer behaviour and confidence may also have adverse impacts on the Company's financial results and condition, and business.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the Company from future regulatory (LICAT) ration declines that might result from adverse stock market price changes. The hedging program may employ derivatives positions including put options and futures. The extent of derivatives 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 LICAT purposes and policy liabilities on the statement of financial position related to segregated fund guarantees. Therefore, a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. During the fourth quarter and for the year, Empire Life experienced a loss of \$5 million and \$3 million after tax respectively on its hedging program, primarily as Canadian equity markets experienced positive returns in the fourth quarter and for the year. This compares to a hedging program loss of \$2 million and \$11 million respectively for the comparable periods in 2019, primarily due to a rise in Canadian stock prices.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2020, Empire Life had \$8.5 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.2 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

	Dec 31 2020	Dec 31 2019
Percentage of Segregated Fund Liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	6%	4%
75% maturity guarantee and a 100% death benefit guarantee	44%	46%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	7%	7%
Guaranteed minimum withdrawal benefit (GMWB)	43%	43%

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 ignore all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, policy-based guarantees generally 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 are issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies are 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. The liabilities are the greater of: (i) the average of the amounts determined by averaging the results from adverse economic scenarios; and (ii) zero.

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, 2020 and December 31, 2019, the sensitivity of Empire Life shareholders' net income and LICAT Total ratio resulting from stock market increases and decreases is provided in the following table.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sensitivity to equity risk: Impact on net income (in millions of dollars after tax)	Increase			Decrease		
	20 %	10 %	10 %	20 %	30 %	
As at December 31, 2020						
Segregated fund guarantees	\$ 108	\$ 104	\$ (13)	\$ (86)	\$ (220)	
Other equity risk	37	18	(16)	(29)	(78)	
Equity hedge	(8)	(4)	5	12	20	
Total	\$ 136	\$ 117	\$ (23)	\$ (103)	\$ (278)	

As at December 31, 2019

Segregated fund guarantees	\$ —	\$ —	\$ (10)	\$ (76)	\$ (229)
Other equity risk	33	15	(12)	(20)	(65)
Equity hedge	(2)	(1)	4	16	38
Total	\$ 31	\$ 14	\$ (18)	\$ (80)	\$ (256)

Sensitivity to equity risk: Impact on LICAT	Increase			Decrease		
	20 %	10 %	10 %	20 %	30 %	
As at December 31, 2020						
Segregated fund guarantees	6 %	5 %	(1)%	(8)%	(16)%	
Other equity risk	— %	— %	— %	— %	(1)%	
Equity hedge	(1)%	— %	— %	1 %	1 %	
Total	6 %	5 %	— %	(7)%	(16)%	

As at December 31, 2019

Segregated fund guarantees	3 %	— %	(6)%	(16)%	(22)%
Other equity risk	(1)%	(1)%	— %	1 %	1 %
Equity hedge	(3)%	(2)%	1 %	3 %	3 %
Total	(1)%	(2)%	(4)%	(12)%	(18)%

In early 2020, Empire Life significantly increased the segregated fund guarantee liability because of market declines. This liability was further strengthened during the fourth quarter assumption update process, which offset most of the reduction in liability that arose from strong fourth quarter equity returns. These changes caused a significant increase in the potential positive net income impacts of a 10% and 20% increase in stock markets at the end of 2020 relative to the end of 2019.

These changes also caused an increase in the potential positive LICAT ratio impacts of favourable equity shocks and a decrease in the potential negative LICAT ratio impacts of unfavourable equity shocks.

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees, and the resulting policy liabilities and LICAT base solvency buffer for Empire Life's segregated funds is provided in the following table.

Segregated Funds (in millions of dollars)	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Policy Liabilities	LICAT Capital
	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Fund Value	Amount At Risk		
December 31, 2020	\$ 2,687	\$ 931	\$ 52	\$ 2	\$ 654	\$ 12	\$ 147	\$ 682
December 31, 2019	\$ 2,701	\$ 882	\$ 51	\$ 2	\$ 650	\$ 6	\$ —	\$ 465

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2020, the aggregate amount at risk for all three categories of risk was \$946 million. At December 31, 2019, the aggregate amount at risk for these three categories of risk was \$890 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 policy 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.

In addition, Empire Life considers the sensitivity of its LICAT ratio 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, 2020 and December 31, 2019, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR).

Sensitivity to Market Interest Rates LICAT	Impact of 50 bps Decrease
December 31, 2020 LICAT total ratio	3%
December 31, 2019 LICAT total ratio	1%

Operational Risk

Operational risk is broadly defined as the risk of loss resulting from human error, decisions, actions or failure to act, inadequate or failed internal processes and systems, or from external events that affect business operations. Operational risk is naturally present in all of Empire Life's business activities and is also embedded in the practices used to manage other risks. If not managed effectively, operational risk can impact Empire Life's ability to manage other risks. The following is a further description of some operational risks and their associated risk management strategies.

(1) *Legal and Regulatory Compliance Risk*

Empire Life is governed by the Insurance Companies Act 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 regulatory compliance 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. The General Counsel reports regularly to the Audit Committee of the Board on litigation activity.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

(2) *Model Risk*

Empire Life uses models to support many business functions including investment analysis, product development and pricing, valuation of policy liabilities, financial 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 business decisions. 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. The Chief Risk Officer reports regularly to the Risk and Capital Committee of the Board on model use and related oversight activities.

(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, and is unable to maintain and effectively deploy resources with the in-depth knowledge and necessary skills needed to support business activities, 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 service providers and has outsourced certain business functions or processes to third parties. Should these third parties fail to deliver systems and/or 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 contracting guidelines as well as 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 and Information Security 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, criminal activity, fraud or the loss of certain software licensing agreements could have a material adverse impact on Empire Life.

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 Vice-President, Enterprise Services and Security, who reports at least annually to the Risk and Capital Committee of the Board. This program consists of a number of standards, procedures and guidelines focused on management of cybersecurity risk and maintenance of the security and integrity of the data entrusted to Empire Life. 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. The Chief Privacy Officer reports regularly to the Conduct Review Committee of the Board on privacy and data security risks and emerging trends.

(6) *Business Continuity Risk*

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Empire Life has an enterprise-wide business continuity and disaster recovery program overseen by the Business Continuity Planning Team and senior management. 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 of key business functions occur as a result of an event, including pandemic, impacting the availability of trained employees, physical locations to conduct operations and/or access to technology. 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 services and failover capability designed to minimize downtime and accelerate system recovery. The Business Continuity Planning Team Chair reports at least annually to the Risk and Capital Committee of the Board on business continuity preparedness and operational resiliency.

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. As a long-term oriented underwriter and investor, Empire Life may be adversely affected if it does not adequately prepare for the direct or indirect negative impacts of environmental events and developments, including those related to impacts of climate changes and the transition to a lower-carbon economy. These events and developments may include increased frequency and severity of natural or human-made environmental disasters, longer-term shifts in climate patterns, emerging regulatory and public policy developments and the impacts on Empire Life's operations, invested assets, suppliers and customers.

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 note 27 to the 2020 consolidated financial statements.

Disclosure Controls and Procedures

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Empire Life's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Empire Life 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 Empire Life's disclosure controls and procedures as of December 31, 2020. Based on that evaluation, management concluded that Empire Life's disclosure controls and procedures were effective as at December 31, 2020.

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 Empire Life's internal control over financial reporting was carried out as at December 31, 2020. Based on that evaluation, management concluded that Empire Life's internal control over financial reporting was effective as at December 31, 2020. No changes were made in Empire Life's internal control over financial reporting during the year ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, Empire Life's internal control over financial reporting.

Critical Accounting Estimates

Empire Life's significant accounting policies are described in note 2 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions about matters that are inherently uncertain. The most critical of these accounting estimates for Empire Life are the valuation of policy liabilities, financial instrument classification, pension and other employee future benefits and the determination of allowances for impaired investments.

Policy 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 sensitivities to risks related to policy liabilities are included in note 27 to the consolidated financial statements.

Financial Instrument Classification

Management judgment is used to classify financial instruments as fair value through profit or loss, available for sale or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in net income or other comprehensive income. Additional information regarding financial instrument classification is included in notes 2(d), 3(a), 3(b), and 10(c).

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. Additional information regarding pension and other employee future benefits is included in notes 2(k), and 12.

Provision for Impaired Investments

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Empire Life 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.

Outlook

The path and implications of COVID-19 on Canadian and international business operations, supply chains, travel, consumer confidence and business forecasts, and domestic and international securities markets, remains uncertain and is expected to continue into 2021. The progression of the virus, potential treatments and therapies, the availability of vaccines and actions taken by governments, businesses and individuals could vary by region and country and will impact economic recoveries. Empire Life continues to adjust operations as government restrictions and measures evolve. Our business continuity processes have been successful in ensuring that key business functions and normal operations continue through these unprecedented times. Processes supporting ongoing systems availability, stability and security are operating effectively and we continue to monitor the threat landscape. The majority of employees continue to work from home. Return to office activities have been carefully planned but remain appropriately flexible in response to government restrictions. Management remains focused on preserving the well-being of all employees and our ability to serve our customers.

The effects of the COVID-19 pandemic took a toll on the Canadian economy in 2020 as GDP contracted by an estimated 5.5% for the full year and, the Canadian dollar strengthened slightly to 1.29 (annual average) per U.S. dollar. Amid the backdrop of regional lockdowns and other restrictions, annual unemployment in Canada rose to 9.5%, the highest level in 25 years. The lingering effects of the pandemic will continue to weigh on 2021 and potentially beyond. The recovery of the Canadian and global economy will depend on the effectiveness of vaccine rollouts and limiting the effects of future waves of infections.

In response to the contracting economy, the Bank of Canada decreased the overnight rate to 0.25% in 2020 with the Bank of Canada indicating that the overnight rate is expected to remain low in the near-term. The Canadian Federal Bond yield curve shifted down with the 5-year rate decreasing from 1.68% to 0.39% in 2020 and the 30-year rate decreasing from 1.76% to 1.21% in 2020. While corporate and provincial bond spreads widened significantly in the first and second quarters and the effects of the pandemic took hold, spreads narrowed in the latter half of the year and ended 2020 near their opening levels. Interest rates have generally been lower than historic averages for several years.

Despite an uneven quarterly performance, global equity markets performed well in 2020 with the MSCI up over 16% for the year. The S&P 500 stock index was up 16.3% and the S&P/TSX composite index was up 2.2% 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 2021, the global economy is expected to have moderate growth. The Canadian economy is expected to rebound in 2021 and 2022 with forecast GDP of 4.0% and 4.8% respectively. The ability of economies to recover and grow in line with projections is highly dependent on the ability of governments to contain further spread of COVID-19 infection and achieve sufficient immunity through vaccinations to ease the containment measures currently in place. Other threats to economic growth include the impact of the energy policy on the regional economies of the

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

western provinces. Short-term interest rates may continue to stay at their historic low levels in the near-term. Overall, the Canadian economy is well-positioned to support continued growth of all Empire Life's product lines.

The individual insurance market continues to grow modestly even with the challenge of the persistent low long-term interest rate environment that followed the financial crisis and has remained low in the current COVID-19 pandemic. 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. The segregated fund product line saw a decline in net sales while experiencing uneven market returns in 2020; fees will likely be impacted by competition going forward. Empire Life will continue to 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. Across all business lines, Empire Life is focused on growth and diversification of distribution as well digital enablement and adoption, all while maintaining personalized service.

As noted under the Regulatory Capital section, OSFI implemented its LICAT Guidelines on January 1, 2018. This Guideline established a new risk-based regulatory capital framework for life insurance companies and replaced the previous Minimum Continuing Capital and Surplus Requirements Guideline. 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 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 guarantees will be implemented at the same time as 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 the final standard for IFRS 17 Insurance Contracts in June 2020. IFRS 17 includes 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 concurrently. 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. Preparing for the adoption of IFRS 17 and IFRS 9 is a significant initiative for Empire Life and for the industry. Empire Life is currently assessing the impact that IFRS 17 and IFRS 9 will have on the Company's consolidated financial statements and has developed a plan to implement the changes required to be ready to report under the new standards when they take effect on January 1, 2023.

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 Managing General Agents (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

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

distribution partners to adhere to the insurer's code of conduct and provide on-going monitoring of the advisors activities.

The cost of managing regulation is a concern. The insurance industry is facing more aggressive consumer and financial solvency regulation than in the past and must also absorb the cost of implementing IFRS 17. The regulation load is increasing operating costs without offsetting revenue gains. Empire Life must continue to grow its business to absorb these rising costs.

Quarterly Results

The following table summarizes various financial results on a quarterly basis for the most recent eight quarters:

	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
(in millions of dollars, except per share amounts)	2020	2020	2020	2020	2019	2019	2019	2019
Revenue	\$ 475	\$ 401	\$ 1,105	\$ 2	\$ 249	\$ 475	\$ 603	\$ 788
Common shareholder's net income	\$ 72	\$ 51	\$ 48	\$ (32)	\$ 76	\$ 35	\$ 20	\$ 43
Earnings per share - basic and diluted	\$ 73.53	\$ 51.91	\$ 48.42	\$ (32.05)	\$ 77.25	\$ 35.29	\$ 20.45	\$ 43.59

Forward-Looking Statements and Information

Certain statements in this MD&A about Empire Life'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 risk including equity risk, hedging risk, interest rate risk, foreign exchange rate risk; liquidity risk; credit risk including counterparty risk; insurance risk including mortality risk, policyholder behaviour risk, expense risk, morbidity risk, product design and pricing risk, underwriting and claims risk, reinsurance risk; operational risk, including legal and regulatory compliance risk, model risk, human resources risk, third-party risk, technology and information security risk, and business continuity risk; and business risk and strategic, including risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to litigation, risk with respect to reputation, risk with respect to risk management policies, risk with respect to intellectual property, risk with respect to significant ownership of common shares. Please see the section titled "Risk Factors" in Empire Life's Annual Information Form available at www.sedar.com for more details on these risks.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements and information include that the general economy remains stable; assumptions on interest rates, mortality rates and policy liabilities; and capital markets continue to provide access to capital. These factors are not intended to represent a complete list of the factors that could affect Empire Life; 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.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. When relying on Empire Life'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. Empire Life 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-IFRS Measures

Empire Life uses non-IFRS measures including return on common shareholders' equity, source of earnings, assets under management, annualized premium sales, gross and net sales for mutual funds, segregated funds and fixed annuities to provide investors with supplemental measures of its operating performance and to highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Empire Life's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating the Company's underlying financial results.

Return on common shareholders' equity is a profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

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

Annualized premium sales is used as a method of measuring sales volume. It is equal to the premium expected to be received in the first 12 months for all new individual insurance and employee benefit policies sold during the period. Mutual fund gross and net sales and segregated fund gross and net sales are also used as measures of sales volume.

Assets under management is a non-IFRS measure of the assets managed by Empire Life, which includes general fund assets, mutual fund assets and segregated fund assets. It represents the total assets of Empire Life and the assets its customers invest in.

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

Reconciliation of Assets Under Management

As at	December 31, 2020	December 31, 2019
(in millions of dollars)		
Assets Under Management		
General fund assets	\$ 10,259	\$ 9,462
Segregated fund assets	8,457	8,499
Total assets per financial statements	18,716	17,961
Mutual fund assets	120	139
Assets under management	\$ 18,836	\$ 18,100

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

As at	December 31, 2020	December 31, 2019
(in millions of dollars)		
DB plan assets		
Segregated fund assets	\$ 208	\$ 203
Mutual fund assets	16	14

¹ See Non-IFRS Measures

This page has been left blank intentionally.

Empire Life Management's Discussion and Analysis 2020

The Empire Life Insurance Company (Empire Life) is a proud Canadian company that has been in business since 1923. We offer individual and group life and health insurance, investment and retirement products, including mutual funds through our wholly-owned subsidiary Empire Life Investments Inc.

Empire Life is among the top 10 life insurance companies in Canada¹ and is rated A (Excellent) by A.M. Best Company². Our mission is to make it simple, fast and easy for Canadians to build wealth, generate income, and achieve financial security.

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

¹ Based on total assets as reported in December 31, 2019 OSFI filings.

² As at June 24, 2020. For the latest rating, access www.ambest.com.

Transfer Agent and Registrar

AST Trust Company (Canada)
1 Toronto Street, Suite 1200
Toronto, Ontario, M5C 2V6
Phone 416-682-3860
Toll Free 800-387-0825
www.astfinancial.com/ca-en

Stock Exchange Listing

Preferred Shares, Series 1 EML.PR.A

Reporting Procedure for Accounting and Auditing Matters

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

Mr. John Brierley
The Empire Life Insurance Company
259 King Street East
Kingston, ON, K7L 3A8
Email: johnbrierley12@gmail.com
Phone: 705-250-3133

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

© Registered trademark of **The Empire Life Insurance Company**.

™ Trademark of The Empire Life Insurance Company.

Policies are issued by The Empire Life Insurance Company.

Insurance & Investments - Simple. Fast. Easy®
www.empire.ca info@empire.ca



A-0004-ENG-02/21