

The Empire Life Insurance Company

**Condensed Interim Consolidated Financial Statements (unaudited)
for the nine months ended September 30, 2023**



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Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

| As at | Notes | Sep 30, 2023 | Dec 31, 2022 restated | Jan 1, 2022 restated |
|---|-------|----------------------|--------------------------|-------------------------|
| Assets | | | | |
| Cash and cash equivalents | 3 | \$ 286,349 | \$ 175,523 | \$ 193,218 |
| Investments | 3 | 7,927,029 | 8,160,299 | 9,839,335 |
| Accrued investment income | | 59,683 | 48,645 | 40,789 |
| Current tax asset | | 27,461 | 46,644 | 15,241 |
| Other assets | | 21,332 | 32,725 | 16,765 |
| Reinsurance contracts held assets | 6 | 302,935 | 310,044 | 283,299 |
| Property and equipment | | 13,928 | 13,642 | 14,889 |
| Deferred tax asset | | 106,509 | 89,623 | 93,123 |
| Investment in associates | | 34,696 | 29,816 | 22,504 |
| Intangible assets | | 62,380 | 60,571 | 28,511 |
| Goodwill | | 24,465 | 24,465 | — |
| Segregated fund assets | 5 | 8,355,965 | 8,565,675 | 9,257,298 |
| Total assets | | \$ 17,222,732 | \$ 17,557,672 | \$ 19,804,972 |
| Liabilities | | | | |
| Insurance contract liabilities, excluding segregated fund account balances | 6 | \$ 5,956,138 | \$ 6,145,378 | \$ 7,598,470 |
| Reinsurance contracts held liabilities | 6 | 241,286 | 217,056 | 338,922 |
| Investment contract liabilities, excluding segregated fund account balances | | 422,003 | 334,664 | 322,208 |
| Accounts payable and other liabilities | | 82,248 | 110,308 | 104,615 |
| Subordinated debt | 7 | 398,811 | 399,129 | 398,858 |
| Total liabilities, excluding those for account of segregated fund holders | | 7,100,486 | 7,206,535 | 8,763,073 |
| Insurance contract liabilities for account of segregated fund holders | 6 | 8,070,081 | 8,278,948 | 8,947,820 |
| Investment contract liabilities for account of segregated fund holders | | 285,884 | 286,727 | 309,478 |
| Insurance and investment contract liabilities for account of segregated fund holders | | 8,355,965 | 8,565,675 | 9,257,298 |
| Total liabilities | | 15,456,451 | 15,772,210 | 18,020,371 |
| Equity | | | | |
| Preferred shares | 10 | 100,000 | 100,000 | 100,000 |
| Common shares | 10 | 985 | 985 | 985 |
| Other equity instruments | 10 | 196,664 | 196,664 | 196,664 |
| Contributed surplus | | 19,387 | 19,387 | 19,387 |
| Retained earnings | | 1,407,263 | 1,417,584 | 1,435,391 |
| Accumulated other comprehensive income | | 16,176 | 26,787 | 2,245 |
| Total shareholders' equity | | 1,740,475 | 1,761,407 | 1,754,672 |
| Participating account | | 25,806 | 24,055 | 29,929 |
| Total equity | | 1,766,281 | 1,785,462 | 1,784,601 |
| Total liabilities and equity | | \$ 17,222,732 | \$ 17,557,672 | \$ 19,804,972 |



Duncan N. R. Jackman

Chairman of the Board



Mark Sylvia

President and Chief Executive Officer

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

Interim Consolidated Statements of Operations

(unaudited, in thousands of Canadian dollars except per share amounts)

| | Notes | For the three months ended | | For the nine months ended | |
|--|-------|----------------------------|--------------------------|---------------------------|--------------------------|
| | | Sep 30, 2023 | Sep 30, 2022 restated | Sep 30, 2023 | Sep 30, 2022 restated |
| Net insurance service result | | | | | |
| Insurance revenue | 6 | \$ 337,393 | \$ 310,246 | \$ 990,851 | 932,081 |
| Insurance service expenses | 6 | (258,417) | (234,087) | (806,230) | (771,549) |
| Insurance service results | | 78,976 | 76,159 | 184,621 | 160,532 |
| Net recovery (expense) from reinsurance contracts held | 6 | (19,214) | (23,521) | (50,752) | (25,947) |
| Net insurance service result | | 59,762 | 52,638 | 133,869 | 134,585 |
| Net investment and insurance finance result | | | | | |
| Investment income (loss), excluding segregated funds | | | | | |
| Investment income | 3 | (547,332) | 51,682 | (146,598) | (1,664,191) |
| Change in investment contracts | 3 | 171 | 2,046 | (9,009) | 14,696 |
| Net investment result, excluding segregated funds | 3 | (547,161) | 53,728 | (155,607) | (1,649,495) |
| Insurance finance income (expense), excluding segregated funds | | | | | |
| Insurance contracts issued | 3 | 478,605 | (45,899) | 139,054 | 1,533,863 |
| Reinsurance contracts held | 3 | 22,155 | 151 | 10,775 | 73,902 |
| Net insurance finance result, excluding segregated funds | | 500,760 | (45,748) | 149,829 | 1,607,765 |
| Segregated funds net investment and insurance finance result | | | | | |
| Investment income (loss) on investments for account of segregated fund holders | 3 | (156,423) | (10,698) | 197,022 | (871,652) |
| Insurance finance and investment income (expense) | 3 | 156,423 | 10,698 | (197,022) | 871,652 |
| Segregated funds net investment and insurance finance result | | — | — | — | — |
| Net investment and insurance finance result | | (46,401) | 7,980 | (5,778) | (41,730) |
| Other income and expenses | | | | | |
| Fee and other income | | 7,673 | 7,815 | 21,257 | 16,568 |
| Non-insurance operating expenses | | (26,217) | (16,819) | (68,248) | (44,146) |
| Interest expenses | | (5,707) | (4,738) | (18,189) | (14,158) |
| Total other income and expenses | | (24,251) | (13,742) | (65,180) | (41,736) |
| Net income (loss) before taxes | | (10,890) | 46,876 | 62,911 | 51,119 |
| Income taxes | | 4,324 | (9,705) | (10,662) | (4,942) |
| Net income (loss) after taxes | | (6,566) | 37,171 | 52,249 | 46,177 |
| Less: net income (loss) attributable to the participating account | | (2,942) | (122) | 1,751 | (7,150) |
| Shareholders' net income (loss) | | (3,624) | 37,293 | 50,498 | 53,327 |
| Less: preferred share dividends declared | 11 | (1,546) | (1,225) | (4,640) | (3,675) |
| Common shareholders' net income (loss) | | \$ (5,170) | \$ 36,068 | \$ 45,858 | \$ 49,652 |
| Earnings per share - basic and diluted | 9 | \$ (5.25) | \$ 36.61 | \$ 46.55 | \$ 50.40 |

(2,000,000 shares authorized; 985,076 shares outstanding)

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

Empire Life - Third Quarter 2023

Interim Consolidated Statements of Comprehensive Income

(unaudited, in thousands of Canadian dollars)

| | Notes | For the three months ended | | For the nine months ended | |
|--|-------|----------------------------|--------------------------|---------------------------|--------------------------|
| | | Sep 30, 2023 | Sep 30, 2022 restated | Sep 30, 2023 | Sep 30, 2022 restated |
| Net income (loss) after taxes | | \$ (6,566) | \$ 37,171 | \$ 52,249 | \$ 46,177 |
| Other comprehensive income (loss), net of income taxes: | | | | | |
| Items that will not be reclassified to net income: | | | | | |
| Remeasurements of post-employment benefit liabilities | 8 | (10,912) | (3,444) | (10,611) | 16,862 |
| Total other comprehensive income (loss) | | (10,912) | (3,444) | (10,611) | 16,862 |
| Comprehensive income (loss) | | \$ (17,478) | \$ 33,727 | \$ 41,638 | \$ 63,039 |
| Comprehensive income (loss) attributable to: | | | | | |
| Participating account | | \$ (2,942) | \$ (122) | \$ 1,751 | \$ (7,150) |
| Shareholders | | (14,536) | 33,849 | 39,887 | 70,189 |
| Total comprehensive income (loss) | | \$ (17,478) | \$ 33,727 | \$ 41,638 | \$ 63,039 |

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

Interim Consolidated Statements of Changes in Equity

(unaudited, in thousands of Canadian dollars)

| | Preferred Shares | Common Shares | Other Equity | Contributed Surplus | Retained Earnings | AOCI (AOCL) | Total Shareholders' Equity | Participating Account | Total Equity |
|--|-------------------|---------------|-------------------|---------------------|---------------------|------------------|----------------------------|-----------------------|---------------------|
| Balance December 31, 2021 as previously reported | \$ 100,000 | \$ 985 | \$ 196,664 | \$ 19,387 | \$ 1,746,945 | \$ 52,217 | \$ 2,116,198 | \$ 55,380 | \$ 2,171,578 |
| Impact of initial application of IFRS 17, net of taxes | | | | | (361,940) | — | (361,940) | (27,951) | (389,891) |
| Impact of initial application of IFRS 9 overlay, net of taxes | | | | | 50,386 | (49,972) | 414 | 2,500 | 2,914 |
| Restated balance as at January 1, 2022 | 100,000 | 985 | 196,664 | 19,387 | 1,435,391 | 2,245 | 1,754,672 | 29,929 | 1,784,601 |
| Restated for the period of January 1, 2022 to September 30, 2022 | | | | | | | | | |
| Comprehensive income (loss) | | | | | 53,327 | 16,862 | 70,189 | (7,150) | 63,039 |
| Preferred share dividends | | | | | (3,675) | | (3,675) | | (3,675) |
| Common share dividends | | | | | (54,524) | | (54,524) | | (54,524) |
| Restated balance as at September 30, 2022 | 100,000 | 985 | 196,664 | 19,387 | 1,430,519 | 19,107 | 1,766,662 | 22,779 | 1,789,441 |
| Restated for the period of October 1, 2022 to December 31, 2022 | | | | | | | | | |
| Comprehensive income (loss) | | | | | 6,465 | 7,680 | 14,145 | 1,276 | 15,421 |
| Preferred share dividends | | | | | (1,225) | | (1,225) | | (1,225) |
| Common share dividends | | | | | (18,175) | | (18,175) | | (18,175) |
| Restated balance as at December 31, 2022 | 100,000 | 985 | 196,664 | 19,387 | 1,417,584 | 26,787 | 1,761,407 | 24,055 | 1,785,462 |
| Impact of initial application of IFRS 9 financial instruments adoption, net of taxes | | | | | — | — | — | — | — |
| Restated balance as at January 1, 2023 | 100,000 | 985 | 196,664 | 19,387 | 1,417,584 | 26,787 | 1,761,407 | 24,055 | 1,785,462 |
| Comprehensive income (loss) for the nine months ended September 30, 2023 | | | | | 50,498 | (10,611) | 39,887 | 1,751 | 41,638 |
| Preferred share dividends | | | | | (4,640) | | (4,640) | | (4,640) |
| Common share dividends | | | | | (56,179) | | (56,179) | | (56,179) |
| Balance as at September 30, 2023 | \$ 100,000 | \$ 985 | \$ 196,664 | \$ 19,387 | \$ 1,407,263 | \$ 16,176 | \$ 1,740,475 | \$ 25,806 | \$ 1,766,281 |

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

Interim Consolidated Statements of Cash Flows

(unaudited, in thousands of Canadian dollars)

| | Notes | For the nine months ended | |
|---|-------|---------------------------|--------------------------|
| | | Sep 30, 2023 | Sep 30, 2022 restated |
| Operating activities | | | |
| Net income (loss) after taxes | | \$ 52,249 | \$ 46,177 |
| Non-cash items affecting net income: | | | |
| Change in contract liabilities | | | |
| Changes in insurance contracts liabilities | | (189,240) | (1,759,117) |
| Changes in reinsurance contracts held | | 31,339 | (108,945) |
| Fair value change in fair value through profit or loss assets | | 282,911 | 1,841,651 |
| Change in investment contract liabilities | | 87,339 | 261,487 |
| Accrued interest on subordinated debt | | 5,701 | 3,665 |
| Amortization related to property and equipment and intangible assets | | 7,160 | 10,467 |
| Deferred income taxes | | 2,297 | (17,927) |
| Share of loss (income) of associates | | (525) | (652) |
| Changes in working capital | | (33,092) | (13,330) |
| Other items | | 11,451 | (14,649) |
| Cash provided from (used for) operating activities | | 257,590 | 248,827 |
| Investing activities | | | |
| Portfolio investments | | | |
| Purchases and advances | | (1,279,489) | (1,449,761) |
| Sales and maturities | | 1,229,848 | 1,435,799 |
| Purchase of property and equipment and intangible assets | | (13,124) | (8,648) |
| Investment in associates | | (4,819) | (6,340) |
| Dividends from associates | | 463 | 360 |
| Acquisition of business | | — | (54,808) |
| Cash provided from (used for) investing activities | | (67,121) | (83,398) |
| Financing activities | | | |
| Dividends paid to common shareholders | 11 | (56,179) | (54,525) |
| Dividends paid to preferred shareholders | 11 | (4,640) | (3,675) |
| Redemption of subordinated debt | | (199,964) | — |
| Issuance of subordinated debt | | 199,329 | — |
| Interest paid | | (18,189) | (14,158) |
| Cash provided from (used for) financing activities | | (79,643) | (72,358) |
| Net change in cash and cash equivalents | | 110,826 | 93,071 |
| Cash and cash equivalents - beginning of period | 3 | 175,523 | 193,218 |
| Cash and cash equivalents - end of period | 3 | \$ 286,349 | \$ 286,289 |
| Supplementary cash flow information related to operating activities: | | | |
| Income taxes paid, net of (refunds) | | \$ 1,145 | \$ 35,924 |
| Interest income received | | 187,870 | 153,419 |
| Dividend income received | | 39,161 | 35,436 |

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

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

1. Description of Company and Summary of Operations

The Empire Life Insurance Company (the Company or Empire Life) was founded in 1923 when it was organized under a provincial charter in Toronto, Ontario. Authorization to continue as a federal corporation was obtained in 1987. The Company underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products for individuals and groups across Canada. The Company is a subsidiary of E-L Financial Corporation Limited (the Parent or E-L). The head office, principal address and registered office of the Company are located at 259 King Street East, Kingston, Ontario, K7L 3A8. Empire Life is a Federally Regulated Financial Institution, regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). Empire Life became a public company on August 5, 2015 and registered as a reporting issuer with the Ontario Securities Commission. The Company owns 100% of the voting shares and maintains control of its subsidiary, Empire Life Investments Inc. (ELII), which was established in 2011. ELII became a registered Investment Funds Manager on January 5, 2012. The head office for ELII is located at 165 University Avenue, 9th Floor, Toronto, Ontario, M5H 3B8. The Company owns 100% of the voting shares and maintains control of its subsidiary, TruStone Financial Inc. (TSFI), which was established in 2022. The head office for TSFI is located at 259 King Street East, Kingston, Ontario, K7L 3A8.

These Interim Consolidated Financial Statements were approved by the Company's Board of Directors (the Board) on October 26, 2023.

2. Significant Accounting Policies

2.1. Basis of Preparation

These unaudited condensed Interim Consolidated Financial Statements are prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and follow the same accounting policies and methods of computation as the most recent annual financial statements except for insurance contracts, investment contracts and financial assets and liabilities. The accounting policy changes for these items are disclosed below. These condensed Interim Consolidated Financial Statements do not include all of the disclosures required under International Financial Reporting Standards (IFRS) for annual financial statements and should be read in conjunction with the notes to the Company's audited Consolidated Financial Statements for the year ended December 31, 2022.

IFRS 17 *Insurance Contracts* (IFRS 17) replaces IFRS 4 *Insurance Contracts* (IFRS 4) for annual periods beginning on or after January 1, 2023. The Company has restated comparative information for 2022 applying the transition provisions in IFRS 17.

In 2014, the IASB issued IFRS 9 *Financial Instruments* (IFRS 9), replacing IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 is effective for annual periods beginning on or after January 1, 2023.

In these financial statements, the Company has applied IFRS 17 and IFRS 9, for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2. Basis of Consolidation

The Company's Interim Consolidated Financial Statements include the assets, liabilities, results of operations and cash flows of the Company and its subsidiaries. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Inter-company transactions, balances, income and expenses are eliminated on consolidation.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

2.3. Estimates, Assumptions and Judgments

The preparation of the Interim Consolidated Financial Statements, in accordance with IFRS, requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the Interim Consolidated Financial Statements, and the reported amounts of revenue and expenses during the year. Key sources of estimation uncertainty include the measurement of insurance contract liabilities, investment contract liabilities and income taxes. Actual results may differ from the Company's estimates thereby impacting the Interim Consolidated Financial Statements. Information on the Company's use of estimates and assumptions related to measurement of insurance contract liabilities and investment contract liabilities are discussed in this Note. See Notes 2.4.1.3 and 2.4.1.4 for important judgments/estimates made by management with respect to transition and fair value respectively.

2.3.1. Insurance and Reinsurance Contracts Held

Key assumptions and sources of estimation that can result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company bases assumptions and estimates on parameters available when the financial statements were prepared. The Company applies estimates in the period on a quarter-to-quarter basis. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are unpredictable. Such changes are reflected in the assumptions as they occur. The Company disaggregates information to disclose insurance contracts issued and reinsurance contracts held within Note 6.

2.3.1.1. The Methods Used to Measure Insurance Contracts

The Company uses the probability weighted average of expected cash flows to estimate the present value of future cash flows. Universal life and participating product guarantees are valued using probabilistic techniques. A stochastic modeling approach is used to value its segregated fund guarantees. The following assumptions were used when estimating future cash flows:

Mortality rates (life insurance business)

Best estimate assumptions are based on a combination of Company experience and recent industry experience. Mortality projections are further adjusted for expected future improvements. Assumptions are differentiated by policyholder age, sex, underwriting class and contract type.

In general, an increase in expected mortality rates for life insurance business will increase the expected claim cost which will reduce future expected profits of the Company.

Morbidity rates (health insurance business)

Morbidity rates relate to contracts that have health risks. Morbidity refers to both the rates of accident or sickness and the rates of recovery from the accident or sickness. Assumptions are based on a combination of Company experience and recent industry experience. Multiple factors go into rate derivation including age, contract type, sex, policy size and type of employment.

An increase in expected incidence rates (rate of accident and sickness) or a decrease in termination rates (rate of recovery) will increase the expected claim costs which will reduce future expected profits of the Company.

Longevity (immediate annuity business)

Assumptions are based on a combination of Company experience and recent industry experience. An appropriate allowance is made for expected future mortality improvements.

An increase in expected longevity (decrease in mortality rates) will lead to an increase in the expected cost of immediate annuity payments which will reduce future expected profits of the Company.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

Expenses

Insurance contract liabilities provide for the future expense of administering policies in force, renewal commissions, acquisition costs, general expenses and taxes. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation.

An increase in the expected level of expenses will reduce future expected profits of the Company.

The cash flows within the contract boundary (defined in Note 2.5.4) include an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational.

Policyholder behaviour

Policy lapse and surrender assumptions (collectively policyholder behaviour) are based on a combination of the Company's internal termination studies and recent industry experience. Policy termination assumptions are derived separately for each product group. For example, in setting policy lapse rates for renewable term insurance, it is assumed that extra lapses will occur at each renewal point and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

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

Additional information regarding insurance-related liabilities can be found in Notes 2, 6 and 15.

2.3.1.2. Discount Rates

IFRS 17 differentiates the requirements for discount rates for contracts whose cash flows do not vary based on the returns of any underlying items from contracts whose cash flows do vary based on the returns of any underlying items. For those that do not vary, insurance contract liabilities are calculated by discounting expected future cash flows at risk free rates, plus an illiquidity premium. For the observable period (30 years), risk free rates are determined by reference to the yields of highly liquid AAA-rated Canadian sovereign securities. The ultimate (year 70) risk free rate was determined to be 3.15%, with an ultimate illiquidity premium of 1.50%. The total discount rate between the observable and the ultimate periods were derived using linear interpolation.

Discount rates applied for contracts whose cash flows do not vary based on the returns of any underlying items (all GMM groups) use the following rates for discounting of future cash flows:

| For contracts whose cash flows do not vary with the underlying items | | |
|--|--------------|--------------|
| Portfolio duration | Sep 30, 2023 | Dec 31, 2022 |
| 1 year | 6.16 % | 5.53 % |
| 3 years | 5.93 % | 5.25 % |
| 5 years | 5.76 % | 5.07 % |
| 10 years | 5.80 % | 5.15 % |
| 20 years | 5.77 % | 5.31 % |
| 30 years | 5.74 % | 5.29 % |
| Ultimate (year 70) | 4.65 % | 4.65 % |

The illiquidity premium, determined using guidance outlined in CIA standards of practice, references observable market rates for corporate debt. Empire Life applies the same illiquidity premium to all contract groups where the GMM applies. It was determined that these contracts were very illiquid, which is reflected in the illiquidity premium used.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

Investment contracts, which represent deferred annuities and guaranteed annuities, require discount rates that include an additional provision to reflect the insurer's own credit risk. However, these contracts were considered more liquid than the insurance contracts and hence a lower illiquidity premium applies. The resulting discount rates used for investment contracts were the same as for the GMM insurance contracts, as it was determined that the adjustments for own credit risk and lower illiquidity premium are offsetting.

2.3.1.3. Risk Adjustment for Non-Financial Risk

The risk adjustment for non-financial risk represents the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts and covers mortality, morbidity, longevity, policyholder behaviour and expense risks. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the best estimate amount.

The Company derives risk adjustment using a margin for adverse deviation (MfAD) approach. The approach adds a margin (conservatism) to each individual insurance risk assumption at the individual contract level. These MfADs are aggregated to derive the Company's total risk adjustment. The risk adjustment recognizes the benefits of diversification and is further adjusted to achieve the target confidence level.

The sum of the direct and ceded risk adjustments for the Company corresponds to a confidence level target range of 80% to 85% as at Sep 30, 2023 and December 31, 2022. The Company plans to maintain the total risk adjustments within this target range.

2.3.1.4. Amortization of the Contractual Service Margin (CSM)

The CSM is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the Company will recognize as it provides services in the future. An amount of the CSM for a given group of insurance contracts is recognized in profit or loss as insurance revenue in each period to reflect the services provided related to the group of insurance contracts in that period. The amount is determined by identifying and projecting the coverage units (defined in the following paragraph) for the particular group of insurance contracts.

The number of coverage units in a group reflects the amount of coverage provided by the contracts in the group, which is determined by considering the quantity of the benefits and investment returns provided. Empire Life's position is that products with fixed Cash Surrender Values (CSVs) do not contain investment return services. Hence, the coverage units for individual non-participating contracts with fixed CSVs are the sum insured less the CSVs. For other individual life non-participating contracts and universal life contracts, the coverage units are defined as the total sum insured.

Coverage units for fixed life contingent payout annuities (immediate annuities) are the expected annualized payment amounts. For participating products, coverage units are the total death benefit amount which approximates the benefits provided under the insurance coverage and investment return service.

For all of the above, coverage units are discounted in order to determine the CSM amortization amounts.

With regards to segregated funds, coverage units are undiscounted for purposes of the CSM amortization derivation. Empire Life has two general contract types providing insurance coverage and investment-related services, with regards to coverage units:

- Segregated funds (non-Guaranteed Minimum Withdrawal Benefit, or non-GMWB) - The main coverage is the amount payable as a death benefit and it is the greater of the fair value of the segregated fund and the death benefit guarantee base.
- Segregated funds (GMWB) - The main coverage is the amount payable as a withdrawal benefit and it is the greater of the fair value of the segregated fund or the lifetime withdrawal amount.

The segregated fund CSM is adjusted with the release of an additional amount into income, which partially offsets the impact of certain economic variables on the CSM balance.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

The total coverage units of each group of insurance contracts are reassessed at the end of each reporting period to adjust for the reduction of remaining coverage for claims paid, expectations of lapses and cancellation of contracts in the period.

For reinsurance contracts held, the CSM amortization reflects the expected pattern of underwriting of the underlying contracts because the level of service provided depends on the number of underlying contracts in-force.

2.3.1.5. Accounting Model Eligibility

The IFRS 17 standards require the application of one of three models to all insurance contracts:

- General Measurement Model (GMM)
- Variable Fee Approach (VFA)
- Premium Allocation Approach (PAA)

The model selection is straightforward in most cases. The GMM applies to all individual non-participating business including fixed life-contingent annuities and universal life insurance contracts. The universal life insurance business contains some features of risk pass through where the VFA model might apply. However, management determined that the bulk of the benefits provided to the policyholder were not linked to an underlying return and that the GMM model should apply. The PAA model applies to the Company's short-term group insurance business and VFA applies to its segregated fund business and eligible participating policies. One participating product series issued by the Company uses the GMM due to the value of the guarantees.

There was judgment involved in deciding to apply the VFA model to the Company's participating business (Par). Empire Life's approach is to define the underlying as the entire Par account, including any surplus. The policyholders benefit from the vast majority of the return on these assets.

2.4. New and Amended Standards and Interpretations

2.4.1. IFRS 17 Insurance Contracts

IFRS 17 was adopted on January 1, 2023 with a transition date of January 1, 2022. The Company has restated comparative information for 2022 applying the transition provisions in IFRS 17. The nature of changes in accounting policies can be summarized as follows:

2.4.1.1. Changes to Classification and Measurement

The adoption of IFRS 17 did not change the classification of the majority of the Company's insurance or investment contract liabilities. Up to and including December 31, 2022, the insurance industry has been permitted to continue using IFRS 4 and the Canadian Asset Liability Method (CALM) as prescribed by the CIA to measure insurance and investment contract liabilities. The exception is deferred annuities which were classified as insurance contracts under IFRS 4 and are now classified as investment contracts under IFRS 9. IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company.

The primary principles of IFRS 17 are that the Company:

- Identifies insurance contracts as those under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
- Divides the insurance and reinsurance contracts held into groups of either assets or liabilities that it will recognize and measure.
- Recognizes profit from a group of insurance contracts over the period that insurance coverage is provided and as the Company is released from risk. If a group of insurance contracts is expected to be onerous (loss making, exclusive of ceded risks) over the remaining coverage period, losses are recognized immediately.
- Measures insurance contract liabilities as the total of the following measurement components:
 - probability weighted, discounted, future cash flows;
 - a risk adjustment (RA); and
 - CSM.

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The Company's classification and measurement of insurance contracts issued and reinsurance contracts held is explained in Note 2.5.

2.4.1.2. Changes to Presentation and Disclosure

IFRS 17 introduces changes to the way in which the Company is required to present and disclose financial results.

On the Interim Statement of Financial Position, reinsurance contracts held are reported as net asset or net liability. In Note 6, reinsurance contracts held are separated into portfolios of reinsurance contracts that are in an asset versus a liability position. Under IFRS 17, a number of insurance-related assets and liabilities that were previously reported on the face of the Interim Statement of Financial Position are now incorporated into the insurance contract liabilities line item. Examples include loans on policies, insurance receivables, insurance payables, policyholders' funds on deposit and provision for profit to policyholders.

Under IFRS 17 the changes to the Interim Statement of Operations are significant. The Interim Statement of Operations no longer reports gross and ceded premiums written, gross and ceded benefits and claims paid, change in insurance and reinsurance contract liabilities or commissions. Instead, it reports an insurance service result comprising insurance revenue and insurance service expenses, net expense of reinsurance contracts held, investment results and net insurance finance result.

IFRS 17 requires disclosures about amounts recognized in the financial statements at a more granular level than under IFRS 4. This includes roll-forward schedules on insurance contract liabilities and reinsurance contracts held, as well as disclosure information on discount rates, new business, the expected emergence pattern of CSM and significant judgments made when applying IFRS 17. There are expanded disclosures about the nature and extent of risks from insurance, investment and reinsurance contracts held.

2.4.1.3. Transition

Changes in accounting policies resulting from the adoption of IFRS 17 were applied using a full retrospective approach where practicable. Due to the lack of historical data, the Company applied the fair value approach (defined in Note 2.4.1.4 below) in determining the transition CSMs for all lines of business except for group insurance. For group insurance contracts, the full retrospective approach combined with the PAA was applied which resulted in no transition CSM.

2.4.1.4. Fair Value Approach

The Company has applied the fair value approach on transition for its life insurance and wealth management contracts. For all in-force business at transition, for each portfolio, the Company grouped contracts from multiple cohorts into a single liability for accounting purposes. Obtaining reasonable and supportable information to apply the full retrospective approach was impracticable. The Company determined the CSM of the Liability for Remaining Coverage (LRC) at the transition date, as the difference between the fair value of the group of insurance contracts and the fulfilment cash flows (FCFs) (as defined in Note 2.5.5.1) measured at January 1, 2022. In determining fair value, the Company applied the principles of IFRS 13 *Fair Value Measurements*.

For the application of the fair value approach, the Company has used reasonable and supportable information available at the transition date in order to:

- Identify groups of insurance contracts and whether they are within the scope of IFRS 17
- Determine whether any contracts are direct participating contracts
- Identify any discretionary cash flows for insurance contracts without direct participation features
- Project policy values and regulatory capital amounts.

The Company used the income approach to calculate the fair value of the insurance contract liabilities at the transition date. CSM liability amounts were derived separately for non-participating life, health, universal life, fixed life-contingent annuities, segregated funds and participating business.

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The weighted average cost of capital (WACC), Life Insurance Capital Adequacy Test (LICAT) targets and underlying insurance assumptions used in applying the fair value approach were determined using market rates for a company of Empire Life's size and capital sources as at January 1, 2022, which were considered to be consistent with those of a market participant in Canada. Allowances were made for the uncertainty around changes to segregated fund regulatory capital requirements expected in 2025. The CSM derived at transition is as follows:

| Transition CSM as at January 1, 2022 (\$ millions) | | |
|--|-----------|--------------|
| Gross | \$ | 1,544 |
| Ceded | | (186) |
| Net | \$ | 1,358 |

For new business beginning in 2022, the CSMs were derived using expected FCFs and actual acquisition costs.

2.4.2. IFRS 9 Financial Instruments

In 2014, the IASB issued IFRS 9, replacing IAS 39. IFRS 9 includes guidance on the classification and measurement of financial assets, including impairment requirements and a new general hedge accounting model. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics and determines how a financial instrument is subsequently measured. The impairment model under IFRS 9 applies to all financial assets not measured at fair value through profit or loss (FVTPL) and requires recognition of full lifetime expected credit losses if certain criteria are met.

Financial assets that would otherwise fall into a different category are permitted to be voluntarily designated at FVTPL. This designation is irrevocable and can only be applied if reliable fair values are available and when doing so eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets and liabilities on different bases.

See Note 2.4.2.1 for a summary of the classification and measurement of financial assets and liabilities.

2.4.2.1. Classification and Measurement

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVTPL. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale (AFS) financial assets. Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at FVTPL, FVOCI or amortized cost based on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS 9 maintains the IAS 39 classification for financial liabilities that may be measured at either amortized cost or FVTPL.

Additional information regarding the classification and measurement of the Company's financial assets and liabilities is included in Note 3.

2.4.2.2. Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' impairment model. The new impairment model applies to financial assets measured at amortized cost and FVOCI. After adoption of IFRS 9, the majority of the Company's financial assets are reported at FVTPL so the expected credit loss model does not have a significant impact.

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2.4.2.3. Transition Impact

Except for the application of the overlay approach (see discussion in Note 2.4.2.4 below), changes in accounting policies resulting from the adoption of IFRS 9 were initially applied on January 1, 2023 without restatement of comparatives. In addition, the following assessments have been made on the basis of the facts and circumstances that existed at January 1, 2023:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

2.4.2.4. Overlay Approach

As permitted, the Company has elected to apply the overlay approach which allows the classification and remeasurement requirements of IFRS 9 to be applied to all financial assets held in comparative periods, including those that were derecognized during that period, in order to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9 and IFRS 17.

The overlay approach involves reclassifying between net income and other comprehensive income (OCI), for designated financial assets, the difference between the amount reported in the Interim Consolidated Statements of Operations under IFRS 9 and the amount that would have been reported under the application of IAS 39. In determining this amount, the Company considered gains and losses on sales of securities, as well as impairment losses on equity instruments using accounting policies required by IAS 39. For financial assets in which the impairment requirements of IFRS 9 applies, the Company has elected to continue presenting in the comparative periods the loss allowance that was determined in accordance with IAS 39.

The following provides a summary of the impact from applying the overlay approach on the classification and measurement of financial assets for the comparative year:

| Financial instrument | IAS 39 Measurement | IFRS 9 Measurement | Original carrying amount as at December 31, 2021 | Impact of overlay application | Adjusted carrying amount as at January 1, 2022 |
|---|-----------------------|--------------------|--|-------------------------------|--|
| Assets impacted by the overlay application | | | | | |
| Short-term investments | AFS | FVTPL | \$ 4,998 | \$ — | \$ 4,998 |
| Bonds ⁽¹⁾ | AFS | FVTPL | 1,891,988 | — | 1,891,988 |
| Preferred shares ⁽²⁾ | AFS | FVTPL | 8,044 | — | 8,044 |
| Common shares ⁽²⁾ | AFS | FVTPL | 57,725 | — | 57,725 |
| Mortgages | Loans and receivables | FVTPL | 153,564 | 5,094 | 158,658 |
| Assets not impacted by the overlay application⁽³⁾ | | | | | |
| Cash and cash equivalents ⁽⁴⁾ | FVTPL | FVTPL | 193,218 | — | 193,218 |
| Short-term investments | FVTPL | FVTPL | 3,649 | — | 3,649 |
| Bonds | FVTPL | FVTPL | 6,257,472 | — | 6,257,472 |
| Preferred shares | FVTPL | FVTPL | 433,295 | — | 433,295 |
| Common shares | FVTPL | FVTPL | 961,709 | — | 961,709 |
| Derivative assets | FVTPL | FVTPL | 6,302 | — | 6,302 |
| Loans | Loans and receivables | FVTPL | 52,808 | — | 52,808 |
| | | | \$ 10,024,772 | \$ 5,094 | \$ 10,029,866 |

⁽¹⁾ Certain bonds classified as AFS under IAS 39 were reclassified to FVTPL under IFRS 9 because they do not pass the IFRS 9 Solely Payments of Principal and Interest (SPPI) test or because doing so can eliminate or significantly reduce an accounting mismatch.

⁽²⁾ Under IAS 39, certain preferred shares and common shares were classified as AFS. Under IFRS 9, these financial assets are classified as FVTPL, and we have not elected to designate them as FVOCI.

⁽³⁾ Certain balances, such as Loans on policies, that were previously presented separately as financial instruments, are now included in the determination and reported balance of Insurance contract liabilities or Reinsurance contracts held liabilities under IFRS 17.

⁽⁴⁾ Amounts have been revised from those previously presented.

Additional information regarding the classification and measurement of the Company's financial assets and liabilities is included in Note 2.4.2.1.

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2.4.2.5. Impact of Adoption of IFRS 9 on January 1, 2023

2.4.2.5.1. Classification of Financial Assets and Financial Liabilities

The following table provides the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of financial assets and liabilities as at January 1, 2023, as well as a reconciliation of the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2023, including any reclassification and measurement changes.

| Financial instrument | IAS 39 Classification | IFRS 9 Classification | Carrying amount as at December 31, 2022 (IAS 39) ⁽¹⁾ | Impact of classification and measurement | Impact of impairment | Total impact | Carrying amount as at January 1, 2023 (IFRS 9) |
|--|-----------------------|-----------------------|---|--|----------------------|-------------------|--|
| Financial assets | | | | | | | |
| Cash and cash equivalents | FVTPL | FVTPL | \$ 175,523 | \$ — | \$ — | \$ — | 175,523 |
| Short-term investments ⁽²⁾ | AFS | FVTPL | 592 | (592) | — | (592) | — |
| Short-term investments | FVTPL | FVTPL | 8,439 | 592 | — | 592 | 9,031 |
| Bonds ⁽²⁾ | AFS | FVTPL | 1,682,445 | (1,682,445) | — | (1,682,445) | — |
| Bonds | FVTPL | FVTPL | 5,062,312 | 1,682,445 | — | 1,682,445 | 6,744,757 |
| Preferred shares ⁽³⁾ | AFS | FVTPL | 17,238 | (17,238) | — | (17,238) | — |
| Preferred shares | FVTPL | FVTPL | 384,927 | 17,238 | — | 17,238 | 402,165 |
| Common shares ⁽³⁾ | AFS | FVTPL | 41,064 | (41,064) | — | (41,064) | — |
| Common shares | FVTPL | FVTPL | 789,569 | 41,064 | — | 41,064 | 830,633 |
| Derivative assets | FVTPL | FVTPL | 9,776 | — | — | — | 9,776 |
| Mortgages | Loans and receivables | FVTPL | 113,901 | — | — | — | 113,901 |
| Loans ⁽⁴⁾⁽⁵⁾ | Loans and receivables | FVTPL | 50,036 | — | — | — | 50,036 |
| Segregated fund assets | FVTPL | FVTPL | 8,565,675 | — | — | — | 8,565,675 |
| Total financial assets | | | 16,901,497 | — | — | — | 16,901,497 |
| Financial liabilities | | | | | | | |
| Accounts payable and other liabilities | Amortized cost | Amortized cost | 110,309 | — | — | — | 110,309 |
| Investment contract liabilities ⁽⁶⁾ | Amortized cost | FVTPL | 27,246 | 594,146 | — | 594,146 | 621,392 |
| Total financial liabilities⁽⁷⁾ | | | \$ 137,555 | \$ 594,146 | \$ — | \$ 594,146 | \$ 731,701 |

⁽¹⁾ Amounts for the year ended December 31, 2022 include the impact of the overlay approach.

⁽²⁾ Certain amounts classified as AFS under IAS 39 were reclassified to FVTPL under IFRS 9 because they do not pass the SPPI test or because doing so can eliminate or significantly reduce an accounting mismatch.

⁽³⁾ Under IAS 39, certain preferred shares and common shares were classified as AFS. Under IFRS 9, these financial assets are classified as FVTPL, and we have not elected to designate them as FVOCI.

⁽⁴⁾ Certain balances, such as Loans on policies, that were previously presented separately as financial instruments, are now included in the determination and reported balance of Insurance contract liabilities or Reinsurance contracts held liabilities under IFRS 17.

⁽⁵⁾ Certain non-current balances have been reclassified from Accounts receivable.

⁽⁶⁾ Deferred annuities were classified as insurance contracts under IFRS 4 and are now classified as investment contracts under IFRS 9.

⁽⁷⁾ Total financial liabilities excludes Subordinated debt (Note 7), which has had no impact from IFRS 9 and remains classified as amortized cost.

2.4.2.5.2. Items Previously Designated at FVTPL

The Company has assessed its financial assets previously designated at FVTPL under IAS 39. Under IFRS 9, all preferred shares and common shares are measured mandatorily at FVTPL. Short-term investments and bonds previously designated FVTPL under IAS 39 will remain so under IFRS 9 under the fair value option.

2.5. Summary of Significant Accounting Policies

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders by agreeing to compensate the policyholder if a specified uncertain future event affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits payable after an insured event with benefits payable if the insured event had not occurred. The Company issues

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a broad suite of insurance contracts including life, health, wealth and group benefits solutions. IFRS 17 requires one of three accounting models to be applied to insurance contracts. Empire Life has applied the following models depending on the underlying contract type. Group benefits contracts generally apply the simplified PAA. Segregated fund contracts and participating insurance contracts contain direct participation features and are measured using the VFA. All other insurance contracts apply the GMM.

The Company maintains an account in respect of participating policies (“participating account”), separate from those maintained in respect of other policies, in the form and manner determined by OSFI under sections 456-464 of the *Insurance Companies Act (Canada)* (ICA). The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account. Dividends are paid annually, with certain older plans paying dividends every five years as per contractual provisions. Participating policyholder dividends represent cash flows projected in FCFs of the insurance contract liabilities. Expected FCFs for a period is recorded in insurance revenue and actual FCFs is recorded as insurance service expenses.

At the end of the reporting period, all participating insurance contract liabilities, both guaranteed and discretionary, are held within Insurance contract liabilities. Related participating policy reinsurance contracts held at the end of the reporting period, are held within Reinsurance contracts held assets or Reinsurance contracts held liabilities. Net income attributable to the participating account is shown on the Interim Consolidated Statements of Operations. Comprehensive income attributable to the participating account is shown on the Interim Consolidated Statements of Comprehensive Income.

2.5.1. Separating Components from Insurance and Reinsurance Contracts Held

The Company has assessed its insurance contracts and reinsurance contracts held products to determine whether they contain distinct components which must be accounted for under another IFRS rather than IFRS 17. After separating any distinct components, an entity must apply IFRS 17 to all remaining components of the (host) insurance contract.

Some insurance contracts issued by the Company include a surrender option under which the surrender value is paid to the policyholder on maturity or earlier lapse of the contract. Surrender values are common for participating and universal life contracts. These surrender options have been assessed to meet the definition of a non-distinct investment component under IFRS 17. IFRS 17 defines investment components as the amounts that an insurance contract requires an insurer to repay to a policyholder in all circumstances. For participating contracts the non-distinct investment component includes the CSV (including dividends on deposit) and the policyholder dividends. The policyholder account value is the non-distinct component for segregated fund contracts. Investment components which are highly interrelated with the insurance contract of which they form a part are considered non-distinct and are not separately accounted for. However, receipts and payments of the investment components are recorded outside of profit or loss. Differences between expected and actual cash surrender payouts flow through the CSM and, as such, impact future profitability.

2.5.2. Level of Aggregation

IFRS 17 requires an entity to determine the level of aggregation for applying its requirements. The Company previously applied aggregation levels under IFRS 4, which were significantly higher than the level of aggregation required by IFRS 17. The level of aggregation for the Company is determined by dividing business written into portfolios of contracts which have similar risks and are managed together. IFRS 17 also requires that no new groups contain contracts issued more than one year apart.

The direct insurance portfolios are divided into:

- Group of contracts that are onerous at initial recognition
- Group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently
- Group of the remaining contracts in the portfolio

The Company has identified the portfolios of insurance contracts issued based on the fact that these portfolios contain products that are subject to similar risks and managed together. The expected profitability of these portfolios is based on

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the current actuarial valuation assumptions which includes existing and new business. For financial reporting, the Company has assigned the portfolios to one of three reporting segments, namely, Individual Insurance, Wealth Management and Group Solutions.

For PAA business, groups of insurance contracts are assumed to not be onerous unless the facts and circumstances indicate otherwise.

The reinsurance contracts held portfolios are divided into similar groups as the direct insurance contracts, and follow the underlying direct contracts that they support:

- A group of contracts on which there is a net gain on initial recognition
- A group of contracts that have no significant possibility of a net gain arising subsequent to initial recognition
- A group of the remaining contracts in the portfolio

The Company has identified the portfolios of reinsurance contracts held based on the fact that these portfolios contain products that are subject to similar risks and managed together. The expected profitability of these portfolios is based on the current actuarial valuation assumptions which includes existing and new business. For financial reporting, the Company has assigned the portfolios to one of three reporting segments, namely, Individual Insurance, Wealth Management and Group Solutions.

2.5.3. Recognition

The Company recognizes groups of insurance contracts that it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts; or
- The date when the first payment from a policyholder in the group becomes due; or
- For a group of onerous contracts, when a group becomes onerous

The Company recognizes a group of reinsurance contracts held from the beginning of the coverage period of the group or when the first underlying direct contract is issued for proportionate reinsurance. The Company adds new contracts to the group when they are issued or initiated.

2.5.4. Contract Boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with services.

2.5.5. Measurement Models

2.5.5.1. Insurance Contracts – Initial Measurement

For non-onerous GMM and VFA insurance contracts, IFRS 17 measures the actuarial liabilities of a group of insurance contracts as the total of:

- The present value of the FCFs, and
- A CSM representing the unearned profit the Company will recognize as it provides service to the insurance contracts in the group

FCFs comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus risk adjustments for non-financial risk.

The Company's objective in estimating future cash flows is to determine the expected value, or the probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the

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reporting date without undue cost or effort. The Company estimates future cash flows considering a range of scenarios which have commercial substance and give a good representation of possible outcomes. The cash flows from each scenario are probability-weighted and discounted using current assumptions.

When estimating future cash flows, the Company includes all cash flows that are within the contract boundary including:

- Premiums and related cash flows
- Claims and benefits
- Acquisition costs
- Claims handling costs
- Policy administration and maintenance costs, including recurring commissions that are expected to be paid
- An allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts
- Investment and premium taxes

The Company incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. The Company estimates the probabilities and amounts of future payments under existing contracts based on information obtained, including:

- Information about claims already reported by policyholders
- Other information about the known or estimated characteristics of the insurance contracts
- Historical data about the Company's own experience, supplemented, when necessary, with data from other sources and adjusted to reflect current conditions
- Current pricing information

The CSM is a component of the liability for the group of insurance contracts that represents the unearned profit the Company will recognize as it provides services. The CSM on initial recognition is an amount that, unless the group of contracts is onerous, results in no net income arising from initial recognition of the FCFs.

For groups of contracts assessed as onerous, the Company recognizes a loss in insurance service expense in the Interim Statement of Operations for the net outflow, resulting in the carrying amount of the liability for the group being equal to the FCFs and the CSM of the group being zero. A loss component is established for the LRC for an onerous group depicting the losses recognized. For additional disclosures on the loss component, please refer to Note 2.5.5.4.2.

The LRC reflects the Company's obligation to pay valid claims for insured events that have not yet occurred (i.e., the obligation that relates to the unexpired portion of the coverage period) and at initial recognition, comprises all remaining expected future cash inflows and cash outflows under the group of insurance contracts plus the CSM for that group.

The Liability for Incurred Claims (LIC) reflects the Company's obligation to pay claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses. At initial recognition of a group of contracts, the LIC is usually nil as no insured events have occurred.

Initial measurement of insurance contracts applying the PAA consist of the LRC measured as premiums received minus any insurance acquisition cash flows paid. If a group of PAA contracts is onerous on initial recognition, then the Company recognizes a loss in insurance service expense and increases the LRC for the difference between the current estimates of the FCFs that relate to remaining coverage and the carrying amount of the LRC.

2.5.5.2. Insurance Contracts – Subsequent Measurement

2.5.5.2.1. Insurance Contracts

For GMM and VFA insurance contracts, the CSM at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognized in profit or loss, because it relates to future service to be provided.

For a group of insurance contracts where the GMM applies, the carrying amount of the CSM of the group at the end of the reporting period equals the carrying amount at the beginning of the reporting period adjusted, as follows:

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- The effect of any new contracts added to the group (see Note 2.5.3 above)
- Interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates at initial recognition
- The changes in FCFs relating to future service, except to the extent that:
 - Such increases in the FCFs exceed the carrying amount of the CSM, giving rise to a loss; or
 - Such decreases in the FCFs are allocated to the loss component of the LRC (see Note 2.5.5.4.2)
- The amount recognized as insurance revenue because of the transfer of services in the period, determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period (see Note 2.5.5.4.1).

The locked-in discount rate is set at the date of initial recognition for contracts that joined a group over a 12-month period. The discount rate used for accretion of interest on the CSM is determined using a bottom-up approach (Note 2.3.1.2) at inception. The changes in FCFs relating to future service that adjust the CSM comprise:

- Experience adjustments that arise from the difference between the premium receipts (and any related cash flows such as insurance acquisition cash flows and insurance premium taxes) and the estimate, at the beginning of the period, of the amounts expected. Differences in premiums received (or due) related to current or past services are recognized immediately in profit or loss while differences related to premiums received (or due) for future services are adjusted against the CSM
- Changes in estimates of the present value of future cash flows in the LRC, except those relating to the time value of money and changes in financial risk (recognized in the Interim Statement of Operations rather than adjusting the CSM)
- Differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period
- Changes in the risk adjustment for non-financial risk that relate to future service

The Company measures the carrying amount of a group of insurance contracts at the end of each reporting period as the sum of: (i) the LRC comprising FCFs related to future service allocated to the group at that date and the CSM of the group at that date; and (ii) the LIC for the Company comprised of the FCFs related to past service allocated to the group at that date.

For contracts where the VFA applies, the above description is modified such that there is no fixed accretion rate on the liability. Instead, all experience variances, including financial risk variances, flow through the CSM. Hence, the CSM related to the VFA model is more likely to be volatile.

For subsequent measurement of insurance contracts measured applying the PAA, the LRC is increased for any additional premiums received and decreased by amounts recognized as insurance revenue for services provided during the period and any additional insurance acquisition cash flows paid.

The LIC is measured as the FCFs for losses on claims and expenses that have not yet been paid, including a risk adjustment for non-financial risk and the time value of money.

For groups of onerous contracts, the LRC which includes a loss component is remeasured using the same calculation as on initial recognition reflecting any changes by adjusting the loss component as required until the loss component reduces to zero. If a loss component did not exist on initial recognition but there are indications that a group of contracts is onerous on subsequent measurement, then the Company establishes the loss component using the same methodology as on initial recognition.

2.5.5.2.2. Reinsurance Contracts Held

The measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued, with the exception of the following:

- Measurement of the cash flows include an allowance on a probability-weighted basis for the effect of any non-performance by the reinsurers, including the effects of collateral and losses from disputes

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- The Company determines the risk adjustment for non-financial risk so that it represents the amount of risk being transferred to the reinsurer
- The Company defers both profits and losses at initial recognition in the statement of financial position as a CSM and releases this to profit or loss as the reinsurer renders services
- On initial recognition of direct insurance contracts losses are partially offset by reinsurance adjustments through a loss recovery component
- On subsequent measurement, changes in the FCFs are recognized in profit or loss if the related changes arising from the underlying ceded contracts have been recognized in profit or loss. Alternatively, changes in the FCFs adjust the CSM.

2.5.5.3. Insurance Contracts – Modification and Derecognition

The Company derecognizes insurance contracts when the rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired), or the contract is modified such that the modification would result in a different insurance contract or a change in measurement model.

2.5.5.4. Presentation

The Company has presented separately in the Interim Statement of Financial Position the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

The Company disaggregates the amounts recognized in the Interim Statement of Operations and other comprehensive income into an insurance service result, comprising insurance revenue, insurance service expenses, and net expense from reinsurance contracts held.

The Company disaggregates the change in risk adjustment between the financial and non-financial portion and includes the non-financial change as part of risk adjustment movements in the insurance service results.

Insurance finance income related to segregated fund account liabilities and the corresponding income on segregated fund assets are separately presented in the Interim Statement of Operations.

2.5.5.4.1. Insurance Revenue

Insurance revenue from a group of insurance contracts is the amount that is earned in the period arising from:

- Expected future cash outflows in the period, including claims and directly attributable expenses expected to be incurred
- Release of the risk adjustment for non-financial risk as risk expires throughout the term of the contract
- CSM earned over the service period, based on coverage units for each period of service
- Allocation of expected premium receipts from PAA contracts
- Amounts related to insurance acquisition cash flows
- Revenue excludes non-distinct investment components described in Note 2.5.1.

For approaches applied to the amortization of CSM, please refer to Note 2.3.1.4.

2.5.5.4.2. Loss Components and Loss Recovery Components

Groups of contracts which are expected to be loss making exclusive of amounts ceded are separately measured.

A loss component represents a notional record of the losses attributable to each group of onerous insurance contracts (or contracts profitable at inception that have become onerous). The loss component is released based on a systematic allocation of the subsequent changes in the FCFs to: (i) the loss component; and (ii) the LRC excluding the loss component. The loss component is also updated for subsequent changes in estimates of the FCFs related to future service. The systematic allocation of subsequent changes to the loss component results in the total amounts allocated to the loss component being equal to zero by the end of the coverage period of a group of contracts (since the loss

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component will have been materialized in the form of incurred claims). The Company uses the proportion on initial recognition to determine the systematic allocation of subsequent changes in future cash flows between the loss component and the LRC excluding the loss component.

When a loss component is recognized on underlying insurance contracts, a recovery is simultaneously recognized in profit or loss relating to the recovery of that loss from the reinsurance contract held. This recovery is then tracked, similar to the loss component, and determines the amounts that are subsequently presented in the Interim Consolidated Statement of Operations within net reinsurance results. The loss recovery component is adjusted on subsequent measurement to reflect changes in the loss component of the onerous group of underlying contracts to the extent that it impacts reinsured cash flows, however it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Company expects to recover from the reinsurance contracts held.

2.5.5.4.3. Insurance Finance Income or Expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money
- The effect of financial risk and changes in financial risk

Finance expense includes interest accretion on the GMM CSM where the rate is fixed at the date of establishing the CSM group. Also included is the impact on the present value of FCFs due to changes in the discount rates as well as changes in the policyholders share of the underlying for VFA products.

With regards to general fund assets and liabilities, the duration of insurance contract liability cash flows is greater than the assets supporting them. Hence, the liabilities are generally more sensitive to interest rate changes than the assets. This difference is mitigated by the impact of changes in the market values of capital and surplus fixed income assets. Changes in equity values and other non-fixed income assets that are not passed through to policyholders generally have an impact on investment income with no offsetting change in investment finance expense.

With regards to VFA contracts (participating insurance and segregated funds), the change in the underlying items would be recognized both as insurance finance income (or expense) and investment income, with offsetting impacts.

2.5.5.4.4. Net Income or Expense from Reinsurance Contracts Held

The Company presents net expense from reinsurance contracts held on the face of the Interim Statement of Operations as the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contracts held and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the Interim Statement of Operations.

2.5.5.4.5. Acquisition Costs

For policies accounted for under the GMM and VFA, acquisition costs are deferred and amortized into income using the same coverage units as the CSM amortization.

For policies accounted for under the PAA, the Company has selected the accounting policy option to expense acquisition costs as incurred.

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2.6. Financial Instruments

2.6.1. Fair Value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset or liability quoted in an active market is generally the closing price. For financial instruments such as cash equivalents and short-term investments that have a short duration, the carrying value of these instruments approximates fair value.

Fair value measurements used in these Interim Consolidated Financial Statements have been classified using a fair value hierarchy based upon the transparency of the inputs used in making the measurements. The three levels of the hierarchy are:

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

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

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

All of the Company's financial instruments requiring fair value measurement meet the requirements of Level 1 or Level 2 of the fair value hierarchy.

2.6.2. Cash and Cash Equivalents and Investments

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

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

2.6.2.1. Financial Assets and Liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provision of the financial instrument.

Financial assets are classified and measured based on three categories: amortized cost, FVOCI and FVTPL. Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

The classification and measurement of financial assets is based on the business model for managing these financial assets and their contractual cash flow characteristics:

- Assets held for the purpose of collecting contractual cash flows that represent solely payments of principal and interest (SPPI) are measured at amortized cost;

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- Assets held within a business model where assets are held for both the purpose of collecting contractual cash flows and selling financial assets prior to maturity, and the contractual cash flows represent solely payments of principal and interest, are measured at FVOCI; and
- Assets held within another business model or assets that do not have contractual cash flow characteristics that are SPPI are measured at FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, unless there is a change in the business model in managing the financial asset that would cause the Company to reassess the classification of financial assets. Financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL, with the exception of investment contract liabilities as noted below.

Financial assets that would otherwise fall into a different category are permitted to be voluntarily designated at FVTPL. This designation is irrevocable and can only be applied if reliable fair values are available and when doing so eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets and liabilities on different bases. Financial liabilities may also be designated at FVTPL when they are part of a portfolio which is managed on a fair value basis in accordance with the Company's risk management strategy and are reported internally on that basis.

See Note 2.4.2.1 for a summary of the classification and measurement of financial assets and liabilities.

Most financial assets are designated as FVTPL. Changes in the fair value of these financial assets are recorded in fair value change in FVTPL assets in the Interim Consolidated Statements of Operations in the period in which they occur.

Prior to January 1, 2023, with the exception of the overlay approach (See Note 2.4.2.4), most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. These assets may be comprised of cash and cash equivalents, short-term investments, bonds and debentures, common and preferred shares, futures, forwards and options. Changes in the fair value of these financial assets are recorded in fair value change in FVTPL assets in the Interim Consolidated Statements of Operations in the period in which they occur.

Prior to January 1, 2023, with the exception of the overlay approach (See Note 2.4.2.4), most financial assets supporting capital and surplus and participating accounts are classified as AFS. These assets may be comprised of short-term investments, bonds and debentures or common and preferred shares. AFS assets are carried at fair value in the Interim Consolidated Statements of Financial Position. Except for foreign currency gains and losses on monetary AFS assets and impairment losses, any changes in the fair value are recorded, net of income taxes, in Other comprehensive income (OCI). Gains and losses realized on sale or maturity of AFS assets are reclassified from OCI to realized gain (loss) on AFS assets in the Interim Consolidated Statements of Operations.

Prior to January 1, 2023, with the exception of the overlay approach (See Note 2.4.2.4), loans and receivables include trade accounts receivables. These assets are recorded at amortized cost, using the effective interest rate method, net of provisions for impairment losses, if any. Mortgages are secured by real estate. In most instances, loans are secured by policy values. Loans and receivables are defined as non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans on policies are included in insurance contract cash flows under IFRS 17.

All transactions are recorded on the trade date. Transaction costs are expensed for FVTPL instruments and capitalized for all others.

2.6.3. Derivative Financial Instruments

The Company uses derivative financial instruments to manage exposure to foreign currency, equity and other market risks associated with certain assets and liabilities. Derivative financial assets and liabilities are classified as FVTPL. Therefore, they are initially recorded at fair value on the acquisition date and subsequently revalued at their fair value at each reporting date. Derivative financial instruments with a positive fair value are disclosed as Derivative assets while derivative financial instruments with a negative fair value are included in the reported balance of Accounts payable and other liabilities. Changes in fair value are recorded in Fair value change in FVTPL assets in the Interim Consolidated Statements of Operations.

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2.6.4. Other

Trade accounts receivables are measured at amortized cost and presented as Other assets. The simplified approach is used when calculating the expected credit loss for trade accounts receivables, which represents the lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. Historical experience, external indicators and forward-looking information is used to calculate the expected credit losses.

Accounts payable and other liabilities (excluding derivative liabilities) are measured at amortized cost. For these financial instruments, carrying value approximates fair value due to their short-term nature.

Prior to January 1, 2023, insurance receivables and trade accounts receivables have been classified as loans or receivables and are carried at amortized cost.

2.6.5. Impairment

For financial assets measured at amortized cost, the impairment model under IFRS 9 reflects expected credit losses. The Company recognizes loss allowances for expected credit losses and changes in those expected credit losses. At each reporting date, financial assets carried at amortized cost are assessed to determine whether they are credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

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

2.6.5.1. AFS Debt Instruments (IAS 39)

Prior to January 1, 2023, an AFS debt instrument would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through net income. Impairment losses previously recorded in net income are reversed if the fair value subsequently increases and can be objectively related to an event occurring after the impairment loss was recognized.

2.6.5.2. AFS Equity Instruments (IAS 39)

or to January 1, 2023, objective evidence of impairment of an equity instrument exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

The accounting for an impairment that is recognized in net income is the same as described for AFS debt instruments above with the exception that impairment losses previously recognized in net income cannot be subsequently reversed through net income. Any subsequent increase in value is recorded in OCI.

2.6.5.3. Loans and Receivables (IAS 39)

Prior to January 1, 2023, mortgages and loans are individually evaluated for impairment in establishing the allowance for impairment.

Objective evidence of impairment exists if there is no longer reasonable assurance of full collection of loan principal or loan interest related to a mortgage or loan. Events and conditions considered in determining if there is objective evidence

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of impairment include the value of the security underlying the mortgage or loan, geographic location, industry classification of the borrower, an assessment of the financial stability and credit worthiness of the borrower, repayment history or an assessment of the impact of current economic conditions. If objective evidence of impairment is found, allowances for credit losses are established to adjust the carrying value of these assets to their net recoverable amount and the impairment loss is recorded in net income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed by adjusting the allowance account and the reversal is recognized in net income.

2.6.6. Derecognition

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

2.7. Investment Contracts

These contracts include products that do not involve the transfer of significant insurance risk, either at inception or during the life of the contract. For the Company, these products are limited to certain segregated funds, deferred annuities and term certain annuities that provide for income payments for a specified period of time.

Investment contract liabilities are designated at FVTPL. As the Company's segregated fund products have fair values dependent on the fair value of underlying financial assets, the designation at FVTPL will eliminate the accounting mismatch that would otherwise arise from measuring the assets or liabilities or recognizing the gains or losses on them on different bases. Deferred annuity products are designated at FVTPL as they are managed on a fair value basis, in accordance with the Company's risk management strategy, and are reported internally on that basis. Similarly, the Company's term certain annuity products are designated at FVTPL.

Prior to January 1, 2023, under IAS 39, investment contract liabilities are measured at amortized cost or FVTPL. Contracts recorded at amortized cost are initially recognized at fair value, and subsequently they are carried at amortized cost based on expected future cash flows using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the Interim Consolidated Statements of Operations. If contracts have fair values dependent on the fair value of underlying financial assets, then they are designated at inception at FVTPL to eliminate the accounting mismatch that would otherwise arise from measuring the assets or liabilities or recognizing the gains or losses on them on different bases. Deposits and withdrawals are recorded in investment contract liabilities on the Interim Consolidated Statements of Financial Position.

2.8. Foreign Currency Translation

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

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

For monetary and non-monetary financial assets classified as FVTPL and amortized cost, translation differences are recognized in the Interim Consolidated Statements of Operations.

2.9. Comprehensive Income

Comprehensive income consists of net income and OCI. OCI includes items that will not be reclassified to net income (i.e., remeasurements of post-employment benefit liabilities). All OCI amounts are presented net of taxes.

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Prior to January 1, 2023, with the exception of the overlay approach (see Note 2.4.2.4), OCI includes items that may be reclassified subsequently to net income, which included unrealized fair value change on AFS investments, net of amounts reclassified to net income and the amortization of loss on derivative investments designated as cash flow hedges.

2.10. Segregated Funds

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. Although the underlying assets are registered in the Company's name and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the segregated fund's investment performance. Segregated fund assets are not available to pay liabilities of the Company's general fund. The assets of these segregated funds are carried at their period-end fair values. The Company records a segregated fund insurance contract liability equal to the fair value of the assets and any benefit guarantees are recorded as an insurance contract liability.

The Company provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within insurance contract liabilities.

2.11. Fee Income

Fee income, earned from policy administration and distribution service, is recognized on an accrual basis.

2.12. Investment Income

Changes in the fair value of financial assets are recorded in fair value change in FVTPL assets in the Interim Consolidated Statements of Operations in the period in which they occur.

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

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

Interest income and dividend income are included in Investment income in the Interim Consolidated Statements of Operations for all financial assets.

2.13. Income Taxes

Income tax is recognized in OCI or directly in equity, respectively.

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

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

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

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

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On January 1, 2022, the Company recorded a deferred tax asset on transition to IFRS 17 in the amount of \$138,700. During 2022, all of the restatements related to the adoption of IFRS 17 were treated as temporary differences and reflected in the net Deferred tax asset balance.

The federal tax legislation related to the adoption of IFRS 17 became effective January 1, 2023. The transition adjustment was calculated at this date and taken over five years.

3. Financial Instruments

3.1. Summary of Cash and Cash Equivalents and Investments

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

| As at | Sep 30, 2023 | | | Dec 31, 2022 restated | | |
|----------------------------------|------------------|------------------|------------------|-----------------------|------------------|------------------|
| | Level 1 | Level 2 | Total FVTPL | Level 1 | Level 2 | Total FVTPL |
| Cash and cash equivalents | \$ 64,361 | \$ 221,988 | \$ 286,349 | \$ 78,310 | \$ 97,213 | \$ 175,523 |
| Investments | | | | | | |
| Short-term investments | — | 4,894 | 4,894 | — | 9,031 | 9,031 |
| Bonds | — | 6,528,940 | 6,528,940 | — | 6,744,757 | 6,744,757 |
| Preferred shares | 484,079 | — | 484,079 | 299,524 | 102,641 | 402,165 |
| Common shares | 647,630 | 104,058 | 751,688 | 687,798 | 142,835 | 830,633 |
| Derivative assets | 9,065 | 2,328 | 11,393 | 7,604 | 2,172 | 9,776 |
| Mortgages | — | 102,564 | 102,564 | — | 113,901 | 113,901 |
| Loans | — | 43,471 | 43,471 | — | 50,036 | 50,036 |
| Total investments | 1,140,774 | 6,786,255 | 7,927,029 | 994,926 | 7,165,373 | 8,160,299 |

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 investments during the year ended December 31, 2022 or during the nine months ended September 30, 2023.

For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments refer to Note 15 Risk Management and Note 5 for Segregated Fund Assets.

3.2. Investment Income

Investment income is comprised of the following:

| | For the three months ended | | For the nine months ended | |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
| | Sep 30, 2023 | Sep 30, 2022 restated | Sep 30, 2023 | Sep 30, 2022 restated |
| Investment income, excluding segregated funds | | | | |
| Interest income | \$ 90,387 | \$ 81,644 | \$ 255,042 | \$ 225,120 |
| Dividend income | 12,157 | 11,750 | 39,250 | 34,733 |
| Net realized and unrealized gain (loss) | (650,635) | (41,999) | (441,482) | (1,924,723) |
| Income from investments in associates | 746 | 263 | 525 | 652 |
| Other | 13 | 24 | 67 | 27 |
| Investment income, excluding segregated funds | (547,332) | 51,682 | (146,598) | (1,664,191) |

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3.2.1. Net Investment Result recognized in Net Income

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|--------------------------|---------------------------|--------------------------|
| | Sep 30, 2023 | Sep 30, 2022 restated | Sep 30, 2023 | Sep 30, 2022 restated |
| Net investment result, excluding segregated funds | | | | |
| Interest and other investment income | \$ 103,303 | \$ 93,681 | \$ 294,884 | \$ 260,532 |
| Change in fair value of investments | (650,635) | (41,999) | (441,482) | (1,924,723) |
| Investment income, excluding segregated funds | (547,332) | 51,682 | (146,598) | (1,664,191) |
| Change in investment contracts | 171 | 2,046 | (9,009) | 14,696 |
| Net investment result, excluding segregated funds | (547,161) | 53,728 | (155,607) | (1,649,495) |
| Insurance finance income (expense) from insurance contracts issued, excluding segregated fund account balances | | | | |
| Interest accreted | (46,679) | (30,166) | (129,033) | (80,840) |
| Effect of changes in interest rates and other financial assumptions | 490,598 | (15,514) | 261,059 | 1,495,148 |
| Changes in fair value of underlying items in insurance contracts with direct participation features | 34,686 | (219) | 7,028 | 119,555 |
| Insurance finance income (expense) from insurance contracts issued, excluding segregated fund account balances | 478,605 | (45,899) | 139,054 | 1,533,863 |
| Insurance finance income (expense) from reinsurance contracts held | | | | |
| Interest accreted | 1,083 | 1,158 | 3,734 | 2,681 |
| Effect of changes in interest rates and other financial assumptions | 21,072 | (1,007) | 7,041 | 71,221 |
| Insurance finance income (expense) from reinsurance contracts held | 22,155 | 151 | 10,775 | 73,902 |
| Segregated funds net investment and insurance finance result | | | | |
| Investment income (loss) on investments for account of segregated fund holders | | | | |
| Insurance contracts | (159,381) | (17,613) | 189,245 | (842,178) |
| Investment contracts | 2,958 | 6,915 | 7,777 | (29,474) |
| Investment income (loss) on investments for account of segregated fund holders | (156,423) | (10,698) | 197,022 | (871,652) |
| Insurance and investment finance income (expense) | | | | |
| Insurance contracts | 159,381 | 17,613 | (189,245) | 842,178 |
| Investment contracts | (2,958) | (6,915) | (7,777) | 29,474 |
| Insurance and investment finance income (expense) | 156,423 | 10,698 | (197,022) | 871,652 |
| Segregated funds net investment and insurance finance result | — | — | — | — |
| Net investment and insurance finance result | \$ (46,401) | \$ 7,980 | \$ (5,778) | \$ (41,730) |

3.3. Derivative Financial Instruments

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

| As at | Sep 30, 2023 | | | Dec 31, 2022 | | |
|---------------------------|---------------------|-------------------|------------------------|--------------------|-------------------|------------------------|
| | Notional principal | Fair value assets | Fair value liabilities | Notional principal | Fair value assets | Fair value liabilities |
| Exchange-traded | | | | | | |
| Equity index futures | \$ 60,649 | \$ 1,542 | \$ 406 | \$ 57,846 | \$ 1,008 | \$ 2,193 |
| Equity options | 739,655 | 7,523 | — | 430,061 | 6,268 | — |
| Over-the-counter | | | | | | |
| Foreign currency forwards | 221,359 | 2 | 2,284 | 172,979 | 19 | 32 |
| Cross currency swaps | 66,559 | 2,326 | 1,665 | 44,943 | 2,481 | 1,388 |
| Total | \$ 1,088,222 | \$ 11,393 | \$ 4,355 | \$ 705,829 | \$ 9,776 | \$ 3,613 |

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For analysis of the Company's risks arising from financial instruments, refer to Note 15.

3.4. Securities Lending

The Company has a securities lending agreement with its custodian. Under this agreement, the custodian may lend securities from the Company's portfolio to other institutions, as approved by the Company, for periods of time. In addition to a fee, the Company receives collateral which exceeds the market value of the loaned securities, which is retained by the Company until the underlying security has been returned to the Company. In the event that any of the loaned securities are not returned to the custodian, at its option the custodian may either restore to the Company securities identical to the loaned securities or it will pay to the Company the value of the collateral up to but not exceeding the market value of the loaned securities on the date on which the loaned securities were to have been returned (Valuation Date) to the custodian. If the collateral is not sufficient to allow the custodian to pay such market value to the Company, the custodian shall indemnify the Company only for the difference between the market value of the securities and the value of such collateral on the Valuation Date. As a result, there is no significant exposure to credit risk associated with this securities lending agreement.

As at September 30, 2023 and December 31, 2022, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

| As at | Sep 30, 2023 | | | Dec 31, 2022 | | |
|------------------------------|---------------|------------------|--------------|---------------|------------------|--------------|
| | General Funds | Segregated Funds | Total | General Funds | Segregated Funds | Total |
| Value of securities loaned | \$ 1,293,137 | \$ 1,444,639 | \$ 2,737,776 | \$ 1,183,898 | \$ 1,839,056 | \$ 3,022,954 |
| Value of collateral received | \$ 1,319,027 | \$ 1,475,338 | \$ 2,794,365 | \$ 1,207,628 | \$ 1,877,197 | \$ 3,084,825 |

4. Business Acquisition

On March 10, 2022, the Company acquired 100% of the shares of six financial services firms and amalgamated them into one wholly owned subsidiary of Empire Life under the name TruStone Financial Inc. (TSFI). The six purchased agencies are Life Management Financial Group Ltd., LMF Investor Services Inc., Paradigm Financial Advisors (North) Inc., Paradigm Financial Advisors Inc., Dwight Goertz & Associates Insurance Agency Limited and Pacific Place Financial Services Inc. The acquisitions support the Company's commitment to facilitating access to independent financial advice for Canadians.

Total consideration for the 100% acquisition of TSFI was paid with \$57,910 in cash. The purchase price is primarily comprised of goodwill and intangible assets, including customer relationships, distributor relationships, and non-competition agreements.

The fair values of the identifiable assets acquired and liabilities assumed were:

| As at | March 10, 2022 |
|---|----------------|
| Intangible assets | \$ 32,500 |
| Other net assets | 945 |
| Total identifiable net assets at fair value | 33,445 |
| Goodwill arising on acquisition | 24,465 |
| Total consideration | \$ 57,910 |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

5. Segregated Funds

5.1. The following table identifies segregated fund assets by category of asset split between insurance contracts and investment contracts.

| As at | Sep 30, 2023 | | | Dec 31, 2022 | | |
|---|---------------------|----------------------|--------------|---------------------|----------------------|--------------|
| | Insurance Contracts | Investment Contracts | Total | Insurance Contracts | Investment Contracts | Total |
| Cash | \$ 298,400 | \$ 5,439 | \$ 303,839 | \$ 7,344 | \$ 393 | \$ 7,737 |
| Short-term investments | 345,916 | 9,252 | 355,168 | 564,500 | 14,648 | 579,148 |
| Bonds | 1,613,283 | 125,123 | 1,738,406 | 1,651,525 | 102,993 | 1,754,518 |
| Common and preferred shares | 5,752,810 | 230,525 | 5,983,335 | 6,046,280 | 254,978 | 6,301,258 |
| | 8,010,409 | 370,339 | 8,380,748 | 8,269,649 | 373,012 | 8,642,661 |
| Add: other assets | 65,226 | 2,638 | 67,864 | 14,533 | 827 | 15,360 |
| Less: segregated funds held within general fund investments | (5,554) | (87,093) | (92,647) | (5,234) | (87,112) | (92,346) |
| Total | \$ 8,070,081 | \$ 285,884 | \$ 8,355,965 | \$ 8,278,948 | \$ 286,727 | \$ 8,565,675 |

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

| As at | Sep 30, 2023 | | | Dec 31, 2022 | | |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Cash | \$ 303,839 | \$ — | \$ 303,839 | \$ 7,737 | \$ — | \$ 7,737 |
| Short-term investments | — | 355,168 | 355,168 | — | 579,148 | 579,148 |
| Bonds | — | 1,738,406 | 1,738,406 | — | 1,754,518 | 1,754,518 |
| Common and preferred shares | 5,983,335 | — | 5,983,335 | 6,301,258 | — | 6,301,258 |
| Total | \$ 6,287,174 | \$ 2,093,574 | \$ 8,380,748 | \$ 6,308,995 | \$ 2,333,666 | \$ 8,642,661 |

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2023 or during the year ended December 31, 2022. There were no Level 3 investments as at September 30, 2023 or December 31, 2022.

5.3. The following table presents the change in segregated fund assets:

| | For the three months ended | | For the nine months ended | |
|--|----------------------------|---------------------|---------------------------|---------------------|
| | Sep 30, 2023 | Sep 30, 2022 | Sep 30, 2023 | Sep 30, 2022 |
| Segregated fund assets at beginning of period | \$ 8,666,000 | \$ 8,233,840 | \$ 8,565,675 | \$ 9,257,298 |
| Additions to segregated funds: | | | | |
| Amount received from policyholders | 149,096 | 438,576 | 612,757 | 918,484 |
| Interest | 26,633 | 18,250 | 61,828 | 51,689 |
| Dividends | 33,807 | 35,174 | 108,263 | 110,098 |
| Other income and (expense) | 6,808 | 5,983 | 26,433 | 23,405 |
| Net realized gains on sale of investments | 58,360 | 10,689 | 226,172 | 100,960 |
| Total additions to segregated funds | 274,704 | 508,672 | 1,035,453 | 1,204,636 |
| Deductions from segregated funds: | | | | |
| Amounts withdrawn or transferred by policyholders | 241,864 | 456,692 | 830,500 | 983,135 |
| Net unrealized decrease in fair value of investments | 282,031 | 80,794 | 225,674 | 1,157,804 |
| Management fees and other operating costs | 61,561 | 61,981 | 188,768 | 189,004 |
| Total deductions from segregated funds | 585,456 | 599,467 | 1,244,942 | 2,329,943 |
| Net change in segregated funds held within general fund investments | 717 | (100) | (221) | 10,954 |
| Segregated fund assets at end of period | \$ 8,355,965 | \$ 8,142,945 | \$ 8,355,965 | \$ 8,142,945 |

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5.4. Empire Life's Exposure to Segregated Fund Guarantee Risk

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

6. Insurance Contract Liabilities and Reinsurance Contracts Held Assets/Liabilities

6.1. Insurance Contracts and Reinsurance Contracts Held

The breakdown of portfolios of insurance contracts and reinsurance contracts held, that are in an asset position and those in a liability position is set out in the table below:

| As at | Sep 30, 2023 | | | Dec 31, 2022 | | |
|---|---------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
| | (Assets) | Liabilities | Total | (Assets) | Liabilities | Total |
| Insurance contracts | | | | | | |
| Insurance contracts not measured under PAA | | | | | | |
| Insurance contracts not measured under PAA | \$ — | \$ 5,592,034 | \$ 5,592,034 | \$ — | \$ 5,791,736 | \$ 5,791,736 |
| Insurance contract liabilities for account of segregated fund holders | — | 8,070,081 | 8,070,081 | — | 8,278,948 | 8,278,948 |
| Total insurance contracts not measured under PAA | — | 13,662,115 | 13,662,115 | — | 14,070,684 | 14,070,684 |
| Insurance contracts measured under PAA | — | 364,104 | 364,104 | — | 353,642 | 353,642 |
| Total insurance contracts | — | 14,026,219 | 14,026,219 | — | 14,424,326 | 14,424,326 |
| Reinsurance contracts held | | | | | | |
| Reinsurance contracts held not measured under PAA | (140,121) | 241,286 | 101,165 | (150,168) | 217,056 | 66,888 |
| Reinsurance contracts held measured under PAA | (162,814) | — | (162,814) | (159,876) | — | (159,876) |
| Total reinsurance contracts held | (302,935) | 241,286 | (61,649) | (310,044) | 217,056 | (92,988) |
| Net insurance and reinsurance contracts held | \$ (302,935) | \$ 14,267,505 | \$ 13,964,570 | \$ (310,044) | \$ 14,641,382 | \$ 14,331,338 |

6.2. Insurance Contracts Issued

The components of new business for insurance contracts issued are disclosed in the table below. There were no insurance contracts acquired in 2022 or 2023.

| Insurance contracts initially recognized in the period | For the nine months ended September 30, 2023 | | |
|---|--|--------------------------|-----------------|
| | Non-onerous contracts issued | Onerous contracts issued | Total |
| Insurance acquisition cash flows | \$ 72,351 | \$ 37,482 | \$ 109,833 |
| Claims and other cash outflows | 200,330 | 116,530 | 316,860 |
| Estimates of the present value of future cash outflows | 272,681 | 154,012 | 426,693 |
| Estimates of the present value of future cash inflows | (346,241) | (187,250) | (533,491) |
| Risk adjustment for non-financial risk | 31,142 | 42,716 | 73,858 |
| Contractual service margin | 42,418 | | 42,418 |
| Increase in insurance contract liabilities from contracts recognized in the period | \$ — | \$ 9,478 | \$ 9,478 |

| Insurance contracts initially recognized in the year | For the year ended December 31, 2022 | | |
|---|--------------------------------------|--------------------------|-----------------|
| | Non-onerous contracts issued | Onerous contracts issued | Total |
| Insurance acquisition cash flows | \$ 111,468 | \$ 22,504 | \$ 133,972 |
| Claims and other cash outflows | 349,998 | 74,706 | 424,704 |
| Estimates of the present value of future cash outflows | 461,466 | 97,210 | 558,676 |
| Estimates of the present value of future cash inflows | (579,581) | (113,456) | (693,037) |
| Risk adjustment for non-financial risk | 62,480 | 24,199 | 86,679 |
| Contractual service margin | 55,635 | | 55,635 |
| Increase in insurance contract liabilities from contracts recognized in the period | \$ — | \$ 7,953 | \$ 7,953 |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

6.3. Insurance Contracts Roll-Forward by Component

The tables below present a roll-forward of the net asset or liability for insurance contracts issued not measured using PAA showing estimates of the present value of future cash flows, risk adjustment and CSM. These tables exclude insurance contracts measured using the PAA.

| For the nine months ended September 30, 2023 | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | Contractual service margin | | Total |
|--|---|--|----------------------------|------------------|----------------------|
| | | | Fair value approach | Other | |
| Insurance contracts at beginning of period | | | | | |
| Insurance contract (assets) | \$ — | \$ — | \$ — | \$ — | \$ — |
| Insurance contract liabilities | 11,398,490 | 935,603 | 1,693,989 | 42,602 | 14,070,684 |
| Net insurance contracts at beginning of period | 11,398,490 | 935,603 | 1,693,989 | 42,602 | 14,070,684 |
| Changes that relate to current services | | | | | |
| CSM recognized for services provided | | | (135,153) | (4,420) | (139,573) |
| Risk adjustment recognized for non-financial risk expired | | (39,519) | | | (39,519) |
| Experience adjustments | 1,818 | | | | 1,818 |
| Changes that relate to future services | | | | | |
| Contracts initially recognized in the period | (106,798) | 73,857 | 238 | 42,181 | 9,478 |
| Changes in estimates that adjust the CSM | (75,283) | 11,686 | 72,687 | (9,090) | — |
| Changes in estimates that do not adjust the CSM | 10,794 | (14,853) | | | (4,059) |
| Changes that relate to past services | | | | | |
| Adjustments to liabilities for incurred claims | (802) | 43 | — | — | (759) |
| Insurance service result | (170,271) | 31,214 | (62,228) | 28,671 | (172,614) |
| Insurance finance (income) expenses | (133,780) | (30,056) | 22,089 | 1,244 | (140,503) |
| Segregated funds changes in fair value of underlying items | 189,245 | | | | 189,245 |
| Total changes in the Statement of Operations | (114,806) | 1,158 | (40,139) | 29,915 | (123,872) |
| Cash flows | | | | | |
| Premiums received | 858,489 | | | | 858,489 |
| Claims and other expenses paid | (1,010,626) | | | | (1,010,626) |
| Insurance acquisition cash flows | (132,560) | | | | (132,560) |
| Total cash flows | (284,697) | | | | (284,697) |
| Net insurance contracts at end of period | \$ 10,998,987 | \$ 936,761 | \$ 1,653,850 | \$ 72,517 | \$ 13,662,115 |
| Insurance contracts (excluding PAA contracts) | | | | | |
| Insurance contract (assets) at end of period | \$ — | \$ — | \$ — | \$ — | \$ — |
| Insurance contract liabilities at end of period | 10,998,987 | 936,761 | 1,653,850 | 72,517 | 13,662,115 |
| Net insurance contracts at end of period | \$ 10,998,987 | \$ 936,761 | \$ 1,653,850 | \$ 72,517 | \$ 13,662,115 |

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(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

| For the year ended December 31, 2022 restated | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | Contractual service margin | | Total |
|--|---|--|----------------------------|-----------|---------------|
| | | | Fair value approach | Other | |
| Insurance contracts (excluding PAA contracts) | | | | | |
| Insurance contract (assets) at beginning of year | \$ — | \$ — | \$ — | \$ — | \$ — |
| Insurance contract liabilities at beginning of year | 13,462,144 | 1,190,973 | 1,543,816 | — | 16,196,933 |
| Net insurance contracts at beginning of year | 13,462,144 | 1,190,973 | 1,543,816 | — | 16,196,933 |
| Changes that relate to current services | | | | | |
| CSM recognized for services provided | | | (182,980) | (1,910) | (184,890) |
| Risk adjustment recognized for non-financial risk expired | | (49,774) | | | (49,774) |
| Experience adjustments | (15,154) | | | | (15,154) |
| Changes that relate to future services | | | | | |
| Contracts initially recognized in the period | (134,361) | 86,679 | 2,530 | 53,105 | 7,953 |
| Changes in estimates that adjust the CSM | (240,035) | (51,177) | 300,131 | (8,919) | — |
| Changes in estimates that do not adjust the CSM | 1,365 | (6,247) | | | (4,882) |
| Changes that relate to past services | | | | | |
| Adjustments to liabilities for incurred claims | 26,064 | 2,693 | — | — | 28,757 |
| Insurance service result | (362,121) | (17,826) | 119,681 | 42,276 | (217,990) |
| Insurance finance (income) expenses | (1,254,501) | (237,544) | 30,492 | 326 | (1,461,227) |
| Segregated funds changes in fair value of underlying items | (353,681) | | | | (353,681) |
| Total changes in the Statement of Operations | (1,970,303) | (255,370) | 150,173 | 42,602 | (2,032,898) |
| Cash flows | | | | | |
| Premiums received | 1,080,072 | | | | 1,080,072 |
| Claims and other expenses paid | (1,012,529) | | | | (1,012,529) |
| Insurance acquisition cash flows | (160,894) | | | | (160,894) |
| Total cash flows | (93,351) | | | | (93,351) |
| Net insurance contracts at end of year | \$ 11,398,490 | \$ 935,603 | \$ 1,693,989 | \$ 42,602 | \$ 14,070,684 |
| Insurance contracts (excluding PAA contracts) | | | | | |
| Insurance contract (assets) at end of year | \$ — | \$ — | \$ — | \$ — | \$ — |
| Insurance contract liabilities at end of year | 11,398,490 | 935,603 | 1,693,989 | 42,602 | 14,070,684 |
| Net insurance contracts at end of year | \$ 11,398,490 | \$ 935,603 | \$ 1,693,989 | \$ 42,602 | \$ 14,070,684 |

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(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

6.4. Insurance Contracts Roll-Forward by Type

The tables below present a roll-forward of the net asset or liability for all insurance contracts issued showing liabilities for remaining coverage and liability for incurred claims. These tables include insurance contracts measured using the PAA.

| For the nine months ended September 30, 2023 | Liability for remaining coverage | | Liability for incurred claims | | | Total |
|---|----------------------------------|-----------------|-------------------------------|-------------------------------------|------------------|----------------------|
| | Excluding loss component | Loss component | Contracts not using PAA | Contracts using PAA | | |
| | | | | Estimate of PV of future cash flows | Risk adjustment | |
| Insurance contract (assets) at beginning of period | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Insurance contract liabilities at beginning of period | 13,923,657 | 3,794 | 143,233 | 319,760 | 33,882 | 14,424,326 |
| Net insurance contracts at beginning of period | 13,923,657 | 3,794 | 143,233 | 319,760 | 33,882 | 14,424,326 |
| Insurance revenue | | | | | | |
| Contracts under fair value approach | (473,727) | | | | | (473,727) |
| Other contracts | (517,124) | | | | | (517,124) |
| Insurance service expenses | | | | | | |
| Incurred claims and other expenses | | (258) | 324,962 | 445,006 | — | 769,710 |
| Amortization of insurance acquisition cash flows | 26,955 | | | | | 26,955 |
| Losses and reversal of losses on onerous contracts | | 5,421 | | | | 5,421 |
| Adjustments to liabilities for incurred claims | | | — | 4,263 | (119) | 4,144 |
| Investment components | (771,102) | | 771,102 | | | — |
| Insurance service result | (1,734,998) | 5,163 | 1,096,064 | 449,269 | (119) | (184,621) |
| Insurance finance (income) expenses | (140,993) | 518 | — | 1,446 | (25) | (139,054) |
| Segregated funds changes in fair value of underlying items | 189,245 | | | | | 189,245 |
| Total changes in the Statement of Operations | (1,686,746) | 5,681 | 1,096,064 | 450,715 | (144) | (134,430) |
| Cash flows | | | | | | |
| Premiums received | 1,370,019 | | | | | 1,370,019 |
| Claims and other expenses paid | | | (1,056,130) | (445,006) | | (1,501,136) |
| Insurance acquisition cash flows | (132,560) | | | | | (132,560) |
| Total cash flows | 1,237,459 | | (1,056,130) | (445,006) | | (263,677) |
| Net insurance contract (assets)/liabilities at end of period | 13,474,370 | 9,475 | 183,167 | 325,469 | 33,738 | 14,026,219 |
| Insurance contract (assets) at end of period | — | — | — | — | — | — |
| Insurance contract liabilities at end of period | 13,474,370 | 9,475 | 183,167 | 325,469 | 33,738 | 14,026,219 |
| Net insurance contract (assets)/liabilities at end of period | \$ 13,474,370 | \$ 9,475 | \$ 183,167 | \$ 325,469 | \$ 33,738 | \$ 14,026,219 |

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| For the year ended December 31, 2022 restated | Liability for remaining coverage | | Liability for incurred claims | | | Total |
|--|----------------------------------|----------------|-------------------------------|-------------------------------------|-----------------|--------------------|
| | Excluding loss component | Loss component | Contracts not using PAA | Contracts using PAA | | |
| | | | | Estimate of PV of future cash flows | Risk adjustment | |
| Insurance contract (assets) at beginning of year | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Insurance contract liabilities at beginning of year | 16,108,170 | — | 89,523 | 314,753 | 33,844 | \$ 16,546,290 |
| Net insurance contracts at beginning of year | 16,108,170 | — | 89,523 | 314,753 | 33,844 | 16,546,290 |
| Insurance revenue | | | | | | |
| Contracts under fair value approach | (623,380) | | | | | (623,380) |
| Other contracts | (631,972) | | | | | (631,972) |
| Insurance service expenses | | | | | | |
| Incurred claims and other expenses | | (104) | 405,620 | 555,774 | — | 961,290 |
| Amortization of insurance acquisition cash flows | 24,992 | | | | | 24,992 |
| Losses and reversal of losses on onerous contracts | | 3,071 | | | | 3,071 |
| Adjustments to liabilities for incurred claims | | | — | 26,064 | 2,693 | 28,757 |
| Investment components | (400,312) | | 400,312 | | | — |
| Insurance service result | (1,630,672) | 2,967 | 805,932 | 581,838 | 2,693 | (237,242) |
| Insurance finance (income) expenses | (1,438,341) | 827 | — | (21,058) | (2,655) | (1,461,227) |
| Segregated funds changes in fair value of underlying items | (353,681) | | | | | (353,681) |
| Total changes in the Statement of Operations | (3,422,694) | 3,794 | 805,932 | 560,780 | 38 | (2,052,150) |
| Cash flows | | | | | | |
| Premiums received | 1,399,085 | | | | | 1,399,085 |
| Claims and other expenses paid | | | (752,232) | (555,773) | | (1,308,005) |
| Insurance acquisition cash flows | (160,894) | | | | | (160,894) |
| Total cash flows | 1,238,191 | | (752,232) | (555,773) | | (69,814) |
| Net insurance contract (assets)/liabilities at end of year | 13,923,667 | 3,794 | 143,223 | 319,760 | 33,882 | 14,424,326 |
| Insurance contract (assets) at end of year | — | — | — | — | — | — |
| Insurance contract liabilities at end of year | 13,923,657 | 3,794 | 143,233 | 319,760 | 33,882 | 14,424,326 |
| Net insurance contract (assets)/liabilities at end of year | \$ 13,923,657 | \$ 3,794 | \$ 143,233 | \$ 319,760 | \$ 33,882 | \$ 14,424,326 |

6.5. The components of new business for reinsurance contracts held

| | For the nine months ended Sep 30, 2023 | | For the year ended Dec 31, 2022 restated |
|---|---|----------------|---|
| New business reinsurance contracts | | | |
| Estimates of present value of cash outflows | \$ | 154,758 | \$ (177,055) |
| Estimates of present value of cash inflows | | (144,978) | 186,282 |
| Risk adjustment for non-financial risk | | (34,399) | (39,626) |
| Contractual service margin | | 17,607 | 24,602 |
| Amount included in reinsurance (assets) liabilities for the period | \$ | (7,012) | \$ (5,797) |

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6.6. Reinsurance Contracts Roll-Forward by Component

The tables below present a roll-forward of the net asset or liability for reinsurance contracts held not measured using PAA showing estimates of the present value of future cash flows, risk adjustment and CSM. These tables exclude reinsurance held contracts the relate to insurance contracts measured using the PAA.

| For the nine months ended September 30, 2023 | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | Contractual service margin | | Total |
|---|---|--|----------------------------|------------------|-------------------|
| | | | Fair value approach | Other | |
| Reinsurance contracts held (excluding PAA contracts) | | | | | |
| Reinsurance contracts held (assets) at beginning of period | \$ 343,690 | \$ (264,761) | \$ (249,563) | \$ 20,466 | \$ (150,168) |
| Reinsurance contracts held liabilities at beginning of period | 260,297 | (79,781) | 36,398 | 142 | 217,056 |
| Net reinsurance contracts held at beginning of period | 603,987 | (344,542) | (213,165) | 20,608 | 66,888 |
| Changes that relate to current services | | | | | |
| CSM recognized for services received | | | 19,022 | (2,532) | 16,490 |
| Risk adjustment recognized for non-financial risk expired | | 15,901 | | | 15,901 |
| Experience adjustments | 11,033 | | | | 11,033 |
| Changes that relate to future services | | | | | |
| Contracts initially recognized in the period | 9,781 | (34,400) | 36 | 17,571 | (7,012) |
| Changes in estimates that adjust the CSM | 2,162 | (2,828) | 624 | 42 | — |
| Changes in estimates that adjust recoveries of losses on onerous underlying contracts | (56) | (36) | | | (92) |
| Changes in recoveries of losses on onerous underlying contracts that adjust the CSM | | | 1,114 | 1,800 | 2,914 |
| Changes that relate to past services | | | | | |
| Changes in amounts recoverable arising from changes in liability for incurred claims | 4,205 | — | | | 4,205 |
| Reinsurance service result | 27,125 | (21,363) | 20,796 | 16,881 | 43,439 |
| Reinsurance finance (income) expenses | (18,150) | 12,059 | (5,292) | 1,174 | (10,209) |
| Total changes in the Statement of Operations | 8,975 | (9,304) | 15,504 | 18,055 | 33,230 |
| Cash flows | | | | | |
| Premiums paid | (107,220) | | | | (107,220) |
| Amounts received | 108,267 | | | | 108,267 |
| Total cash flows | 1,047 | | | | 1,047 |
| Net reinsurance contracts held at end of period | \$ 614,009 | \$ (353,846) | \$ (197,661) | \$ 38,663 | \$ 101,165 |
| Reinsurance contracts held (excluding PAA contracts) | | | | | |
| Reinsurance contracts held (assets) at end of period | \$ 333,441 | \$ (278,489) | \$ (233,506) | \$ 38,433 | \$ (140,121) |
| Reinsurance contracts held liabilities at end of period | 280,568 | (75,357) | 35,845 | 230 | 241,286 |
| Net reinsurance contracts held at end of period | \$ 614,009 | \$ (353,846) | \$ (197,661) | \$ 38,663 | \$ 101,165 |

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| For the year ended December 31, 2022 restated | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | Contractual service margin | | Total |
|---|---|--|----------------------------|-----------|-----------|
| | | | Fair value approach | Other | |
| Reinsurance contracts held (excluding PAA contracts) | | | | | |
| Reinsurance contracts held (assets) at beginning of year | \$ 408,519 | \$ (300,711) | \$ (240,144) | \$ — | (132,336) |
| Reinsurance contracts held liabilities at beginning of year | 388,182 | (103,581) | 54,322 | — | 338,923 |
| Net reinsurance contracts held at beginning of year | 796,701 | (404,292) | (185,822) | — | 206,587 |
| Changes that relate to current services | | | | | |
| CSM recognized for services received | | | 22,917 | (1,143) | 21,774 |
| Risk adjustment recognized for non-financial risk expired | | 18,368 | | | 18,368 |
| Experience adjustments | (2,922) | | | | (2,922) |
| Changes that relate to future services | | | | | |
| Contracts initially recognized in the period | 9,227 | (39,626) | 251 | 24,351 | (5,797) |
| Changes in estimates that adjust the CSM | 58,396 | (8,647) | (44,979) | (4,770) | — |
| Changes in estimates that adjust recoveries of losses on onerous underlying contracts | 486 | (36) | | | 450 |
| Changes in recoveries of losses on onerous underlying contracts that adjust the CSM | | | 505 | 1,676 | 2,181 |
| Changes that relate to past services | | | | | |
| Changes in amounts recoverable arising from changes in liability for incurred claims | — | — | | | — |
| Reinsurance service result | 65,187 | (29,941) | (21,306) | 20,114 | 34,054 |
| Reinsurance finance (income) expenses | (176,587) | 89,691 | (6,037) | 494 | (92,439) |
| Total changes in the Statement of Operations | (111,400) | 59,750 | (27,343) | 20,608 | (58,385) |
| Cash flows | | | | | |
| Premiums paid | (121,338) | | | | (121,338) |
| Amounts received | 40,024 | | | | 40,024 |
| Total cash flows | (81,314) | | | | (81,314) |
| Net reinsurance contracts held at end of year | \$ 603,987 | \$ (344,542) | \$ (213,165) | \$ 20,608 | \$ 66,888 |
| Reinsurance contracts held (excluding PAA contracts) | | | | | |
| Reinsurance contracts held (assets) at end of year | \$ 343,690 | \$ (264,761) | \$ (249,563) | 20,466 | (150,168) |
| Reinsurance contracts held liabilities at end of year | 260,297 | (79,781) | 36,398 | 142 | 217,056 |
| Net reinsurance contracts held at end of year | \$ 603,987 | \$ (344,542) | \$ (213,165) | \$ 20,608 | \$ 66,888 |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

6.7. Reinsurance Contracts Roll-Forward by Type

The tables below present a roll-forward of the net asset or liability for all reinsurance contracts held showing (assets) liabilities for remaining coverage and amounts recoverable on incurred claims.

| For the nine months ended September 30, 2023 | Assets for remaining coverage | | Amounts recoverable incurred claims | | | Total |
|---|-------------------------------|-------------------|-------------------------------------|-------------------------------------|--------------------|--------------------|
| | Excluding loss component | Loss component | Contracts not using PAA | Contracts using PAA | | |
| | | | | Estimate of PV of future cash flows | Risk adjustment | |
| Reinsurance contracts held (assets) at beginning of period | \$ (147,379) | \$ (2,789) | \$ — | \$ (145,837) | \$ (14,039) | \$ (310,044) |
| Reinsurance contracts held liabilities at beginning of period | 208,626 | — | 8,430 | — | — | 217,056 |
| Net reinsurance contracts held (assets) liabilities at beginning of period | 61,247 | (2,789) | 8,430 | (145,837) | (14,039) | (92,988) |
| Allocation of premiums paid | | | | | | |
| Contracts under fair value approach | 108,178 | | | | | 108,178 |
| Other contracts | 122,265 | | | | | 122,265 |
| Amounts recoverable from reinsurers | | | | | | |
| Amounts recoverable for claims and other expenses incurred in the period | | 1,088 | (78,008) | (96,129) | — | (173,049) |
| Changes in amounts recoverable from changes in liability for incurred claims | | | (80) | (2,418) | 47 | (2,451) |
| Changes in fulfilment cash flows which relate to onerous underlying contracts | | (4,191) | | | | (4,191) |
| Net income or expense from reinsurance contracts held | 230,443 | (3,103) | (78,088) | (98,547) | 47 | 50,752 |
| Reinsurance finance income (expenses) | (9,997) | (212) | — | (588) | 22 | (10,775) |
| Total changes in the Statement of Operations | 220,446 | (3,315) | (78,088) | (99,135) | 69 | 39,977 |
| Cash flows | | | | | | |
| Premiums paid | (195,832) | | | | | (195,832) |
| Amounts received | | | 91,065 | 96,129 | | 187,194 |
| Total cash flows | (195,832) | | 91,065 | 96,129 | | (8,638) |
| Net reinsurance contracts held (assets)/liabilities at end of | 85,861 | (6,104) | 21,407 | (148,843) | (13,970) | (61,649) |
| Reinsurance contracts held (assets) at end of period | (138,223) | (6,104) | 4,205 | (148,843) | (13,970) | (302,935) |
| Reinsurance contracts held liabilities at end of period | 224,084 | — | 17,202 | — | — | 241,286 |
| Net reinsurance contracts held (assets) liabilities at end of period | \$ 85,861 | \$ (6,104) | \$ 21,407 | \$ (148,843) | \$ (13,970) | \$ (61,649) |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

| For the year ended December 31, 2022 restated | Assets for remaining coverage | | Amounts recoverable incurred claims | | | Total |
|---|-------------------------------|----------------|-------------------------------------|-------------------------------------|-----------------|--------------|
| | Excluding loss component | Loss component | Contracts not using PAA | Contracts using PAA | | |
| | | | | Estimate of PV of future cash flows | Risk adjustment | |
| Reinsurance contracts held (assets) at beginning of year | \$ (132,335) | \$ — | \$ — | \$ (136,674) | \$ (14,290) | \$ (283,299) |
| Reinsurance contracts held liabilities at beginning of year | 320,633 | — | 18,289 | — | — | 338,922 |
| Net reinsurance contracts held (assets) liabilities at beginning of period | 188,298 | — | 18,289 | (136,674) | (14,290) | 55,623 |
| Allocation of premiums paid | | | | | | |
| Contracts under fair value approach | 138,191 | | | | | 138,191 |
| Other contracts | 153,107 | | | | | 153,107 |
| Amounts recoverable from reinsurers | | | | | | |
| Amounts recoverable for claims and other expenses incurred in the period | | 443 | (132,428) | (93,486) | — | (225,471) |
| Changes in amounts recoverable from changes in liability for incurred claims | | | — | (17,505) | (729) | (18,234) |
| Changes in fulfilment cash flows which relate to onerous underlying contracts | | (3,166) | | | | (3,166) |
| Net income or expense from reinsurance contracts held | 291,298 | (2,723) | (132,428) | (110,991) | (729) | 44,427 |
| Reinsurance finance income (expenses) | (92,260) | (66) | — | 8,342 | 980 | (83,004) |
| Total changes in the Statement of Operations | 199,038 | (2,789) | (132,428) | (102,649) | 251 | (38,577) |
| Cash flows | | | | | | |
| Premiums paid | (326,089) | | | | | (326,089) |
| Amounts received | | | 122,569 | 93,486 | | 216,055 |
| Total cash flows | (326,089) | | 122,569 | 93,486 | | (110,034) |
| Net reinsurance contracts held (assets)/liabilities at end of year | 61,247 | (2,789) | 8,430 | (145,837) | (14,039) | (92,988) |
| Reinsurance contracts held (assets) at end of year | (147,379) | (2,789) | — | (145,837) | (14,039) | (310,044) |
| Reinsurance contracts held liabilities at end of year | 208,626 | — | 8,430 | — | — | 217,056 |
| Net reinsurance contracts held (assets) liabilities at end of year | \$ 61,247 | \$ (2,789) | \$ 8,430 | \$ (145,837) | \$ (14,039) | \$ (92,988) |

6.8. Insurance Service Revenue

The tables below presents insurance service revenue showing contracts not measured under the PAA and contracts measured under the PAA.

| Insurance service revenue | For the three months ended | | For the nine months ended | |
|---|----------------------------|-----------------------|---------------------------|-----------------------|
| | Sep 30, 2023 | Sep 30, 2022 restated | Sep 30, 2023 | Sep 30, 2022 restated |
| Contracts not measured under the PAA | | | | |
| Amounts relating to changes in liabilities for remaining coverage | | | | |
| CSM recognized for services provided | \$ 45,729 | \$ 44,093 | \$ 139,573 | \$ 136,999 |
| Change in risk adjustment for non-financial risk for risk expired | 13,333 | 12,463 | 39,423 | 37,050 |
| Expected claims and other insurance service expenses | 103,844 | 99,092 | 309,383 | 291,194 |
| Recovery of insurance acquisition cash flows | 14,182 | 2,813 | 26,955 | 19,188 |
| Total | 177,088 | 158,461 | 515,334 | 484,431 |
| Contracts measured under the PAA | 160,305 | 151,785 | 475,517 | 447,650 |
| Total insurance service revenue | \$ 337,393 | \$ 310,246 | \$ 990,851 | \$ 932,081 |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

6.9. Expected CSM amortization over various future periods (Summarized)

| Recognition of the Contractual Service Margin | As at September 30, 2023 | | | | | | | | Total |
|---|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|---------------------|-------|
| | Less than 1 year | 1 - 2 years | 2 - 3 years | 3 - 4 years | 4 - 5 years | 5 - 10 years | More than 10 years | | |
| Insurance contracts | \$ 171,807 | \$ 155,713 | \$ 142,051 | \$ 128,884 | \$ 116,620 | \$ 427,178 | \$ 584,114 | \$ 1,726,367 | |
| Reinsurance contracts held | (19,432) | (17,554) | (15,819) | (14,122) | (12,497) | (41,587) | (37,987) | (158,998) | |
| Total | \$ 152,375 | \$ 138,159 | \$ 126,232 | \$ 114,762 | \$ 104,123 | \$ 385,591 | \$ 546,127 | \$ 1,567,369 | |

| Recognition of the Contractual Service Margin | As at December 31, 2022 | | | | | | | | Total |
|---|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|---------------------|-------|
| | Less than 1 year | 1 - 2 years | 2 - 3 years | 3 - 4 years | 4 - 5 years | 5 - 10 years | More than 10 years | | |
| Insurance contracts | \$ 171,216 | \$ 155,474 | \$ 141,915 | \$ 129,078 | \$ 117,001 | \$ 430,019 | \$ 591,888 | \$ 1,736,591 | |
| Reinsurance contracts held | (22,658) | (20,648) | (18,658) | (16,802) | (14,986) | (51,078) | (47,727) | (192,557) | |
| Total | \$ 148,558 | \$ 134,826 | \$ 123,257 | \$ 112,276 | \$ 102,015 | \$ 378,941 | \$ 544,161 | \$ 1,544,034 | |

6.10. Liquidity Position

The Company maintains a high level of liquid assets so that cash demands can be readily met. The Company's liquidity position is as follows:

| As at | Sep 30, 2023 | Dec 31, 2022 restated |
|---|---------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents & Short-term investments | \$ 291,243 | \$ 184,554 |
| Canadian federal and provincial bonds | 2,853,126 | 2,916,849 |
| Other readily marketable bonds and stocks | 4,911,581 | 5,060,706 |
| Total liquid assets | \$ 8,055,950 | \$ 8,162,109 |
| Liabilities | | |
| Demand liabilities ⁽¹⁾ with fixed values | \$ 1,000,206 | \$ 915,899 |
| Demand liabilities with market value adjustments | 1,290,912 | 1,178,857 |
| Total liquidity needs | \$ 2,291,118 | \$ 2,094,756 |

⁽¹⁾ Demand liabilities consist of CSVs plus funds on deposit less policy loans.

7. Subordinated Debt

The table below presents the obligations included in Subordinated debt.

| As at | Interest rate | Earliest par call or redemption date | Maturity | Sep 30, 2023 Carrying value | Dec 31, 2022 Carrying value |
|--------------------------------|---------------|--------------------------------------|----------|-----------------------------|-----------------------------|
| Series 2017-1 ⁽¹⁾ | 3.664 % | March 15, 2023 | 2028 | \$ — | \$ 199,964 |
| Series 2021-1 ⁽²⁾ | 2.024 % | September 24, 2026 | 2031 | 199,399 | 199,165 |
| Series 2023-1 ⁽³⁾ | 5.503 % | January 13, 2028 | 2033 | 199,412 | — |
| Total Subordinated Debt | | | | \$ 398,811 | \$ 399,129 |
| Fair Value | | | | \$ 367,300 | \$ 374,616 |

⁽¹⁾ All of the outstanding Series 2017-1 Subordinated 3.664% Unsecured Debentures were redeemed on March 15, 2023

⁽²⁾ Series 2021-1 Subordinated 2.024% Unsecured Debentures due 2031. From September 24, 2026, interest is payable at 0.67% over CDOR

⁽³⁾ Series 2023-1 Subordinated 5.503% Unsecured Debentures due 2033. From January 13, 2028, interest is payable at 2.26% over CORRA

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

8. Income Taxes

The tax provision for September 30, 2023 has been prepared in accordance with the Canadian federal tax legislation effective January 1, 2023 related to adoption of IFRS 17.

January 1, 2022 opening Statement of Financial Position differences between the IFRS 4 and IFRS 17 actuarial liabilities reflected in Retained earnings on adoption have been treated as temporary differences and reflected in the net Deferred tax asset balance. The tax transition adjustment for the impact of converting actuarial liabilities and the non-deductible portion of the CSM was calculated at January 1, 2023 and taken over 5 years.

OCI is presented net of income taxes.

The following income tax amounts are included in each component of total OCI.

| For the three months ended | Sep 30, 2023 | | | Sep 30, 2022 | | |
|---|--------------|--------------------------|-------------|--------------|--------------------------|------------|
| | Before tax | Tax provision (recovery) | After tax | Before tax | Tax provision (recovery) | After tax |
| Remeasurements of post-employment benefit liabilities | (14,822) | 3,910 | (10,912) | (4,678) | 1,234 | (3,444) |
| Total other comprehensive income (loss) | \$ (14,822) | \$ 3,910 | \$ (10,912) | \$ (4,678) | \$ 1,234 | \$ (3,444) |

| For the nine months ended | Sep 30, 2023 | | | Sep 30, 2022 | | |
|---|--------------|--------------------------|-------------|--------------|--------------------------|-----------|
| | Before tax | Tax provision (recovery) | After tax | Before tax | Tax provision (recovery) | After tax |
| Remeasurements of post-employment benefit liabilities | (14,413) | 3,802 | (10,611) | 22,905 | (6,043) | 16,862 |
| Total other comprehensive income (loss) | \$ (14,413) | \$ 3,802 | \$ (10,611) | \$ 22,905 | \$ (6,043) | \$ 16,862 |

9. Earnings Per Share

Earnings per share (EPS) is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred shares issued (refer to Note 10) do not dilute EPS as the preferred shares are not convertible into common shares.

Details of the calculation of the net income and the weighted average number of shares used in the EPS computations are as follows:

| | For the three months ended | | For the nine months ended | |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
| | Sep 30, 2023 | Sep 30, 2022 restated | Sep 30, 2023 | Sep 30, 2022 restated |
| Basic and diluted EPS | | | | |
| Common shareholders' net income | \$ (5,170) | \$ 36,068 | \$ 45,858 | \$ 49,652 |
| Weighted average number of common shares outstanding | 985,076 | 985,076 | 985,076 | 985,076 |
| Basic and diluted EPS | \$ (5.25) | \$ 36.61 | \$ 46.55 | \$ 50.40 |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

10. Capital Stock

| As at | Sep 30, 2023 | | | Dec 31, 2022 | | |
|--------------------------------|-------------------|-------------------------------|------------|-------------------|-------------------------------|------------|
| | Shares authorized | Shares issued and outstanding | Amount | Shares authorized | Shares issued and outstanding | Amount |
| Preferred shares | | | | | | |
| Series 3 | unlimited | 4,000,000 | \$ 100,000 | unlimited | 4,000,000 | \$ 100,000 |
| Limited recourse capital notes | | 200,000 | \$ 196,664 | | 200,000 | \$ 196,664 |
| Common shares | 2,000,000 | 985,076 | \$ 985 | 2,000,000 | 985,076 | \$ 985 |

In the fourth quarter of 2017, Empire Life issued to E-L Financial Corporation Limited 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 (Series 3 Preferred Shares) at \$25 per share. Holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 4.90% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including January 17, 2023. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.24%. Holders of Series 3 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 4 (Series 4 Preferred Shares), subject to certain conditions, on January 17, 2023 and on January 17 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the 3-month Government of Canada Treasury Bill yield plus 3.24%. Subject to regulatory approval, Empire Life may redeem the Series 3 Preferred Shares, in whole or in part, at par, on January 17, 2023 and every five years thereafter.

In the fourth quarter of 2022, Empire Life provided notice to E-L Financial Corporation Limited that it did not intend to exercise its right to redeem all or any part of the currently outstanding 4,000,000 Series 3 Preferred Shares of Empire Life on January 17, 2023 and, as a result and subject to certain conditions, the holders of the Series 3 Preferred Shares had the right, at their option, on the Series 3 Conversion Date, to convert all or part of their Series 3 Preferred Shares on a one-for-one basis into Series 4 Preferred Shares. In early 2023, E-L Financial irrevocably elected not to exercise this right. Effective January 18, 2023, holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 6.187% annually, as and when declared by the Board of Directors of Empire Life, for the renewal period ending on and including January 17, 2028. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.24%.

11. Dividends

| | Dividend declaration date | Shares issued and outstanding | Dividend rate per share | Total dividend (\$ 000's) | Dividend payment date |
|--|---------------------------|-------------------------------|-------------------------|---------------------------|-----------------------|
| Common shareholder dividends | | | | | |
| Common shares | October 26, 2023 | 985,076 | \$ 19.290000 | \$ 19,002 | December 5, 2023 |
| | August 4, 2023 | 985,076 | \$ 19.290000 | \$ 19,002 | September 13, 2023 |
| | May 9, 2023 | 985,076 | \$ 19.290000 | \$ 19,002 | June 14, 2023 |
| | February 23, 2023 | 985,076 | \$ 18.450000 | \$ 18,175 | April 4, 2023 |
| Preferred shareholder dividends | | | | | |
| Series 3 | October 26, 2023 | 4,000,000 | \$ 0.3866875 | \$ 1,547 | January 17, 2024 |
| | August 4, 2023 | 4,000,000 | \$ 0.3866875 | \$ 1,547 | October 17, 2023 |
| | May 9, 2023 | 4,000,000 | \$ 0.3866875 | \$ 1,547 | July 17, 2023 |
| | February 23, 2023 | 4,000,000 | \$ 0.3866875 | \$ 1,547 | April 17, 2023 |

On October 26, 2023, the Board approved the following cash dividends:

- \$19,002 (\$19.29 per share) on the issued and outstanding Common Shares, payable on December 5, 2023.
- \$1,547 (\$0.3866875 per share) on the issued and outstanding Series 3 Preferred Shares, payable on January 17, 2024.

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12. Participating Account

The participating account balance is considered to be equity of the Company; however, its distribution is restricted by the *Insurance Companies Act*. Transfers from the participating account to the shareholders account is contingent upon future payment of dividends to participating policyholders.

Participating policyholders share in the returns of the underlying items. The entire participating fund is considered as the underlying. The fair value of the underlying items as at September 30, 2023 is \$921,360 (December 31, 2022 \$892,093).

The following table sets out the composition and fair value of the underlying assets supporting the Company's participating account liabilities at the reporting date.

| As at | Sep 30, 2023 | Dec 31, 2022 |
|---|-------------------|-------------------|
| Underlying assets supporting participating account | | |
| Cash and cash equivalents | \$ 49,221 | \$ 13,220 |
| Bonds | 577,138 | 579,144 |
| Preferred shares | 100,996 | 91,801 |
| Common shares | 161,920 | 154,814 |
| Mortgages | 14,579 | 15,321 |
| Other net assets (liabilities) | 17,506 | 37,793 |
| Total | \$ 921,360 | \$ 892,093 |

13. Segmented Information

The Company operates in the Canadian life insurance industry and follows a product line management approach for internal reporting and decision making. A description of the product lines is as follows:

The Wealth Management product line includes segregated funds, mutual funds, guaranteed interest rate annuities and annuities providing income for life.

The Group Solutions product line offers group benefit plans to employers for medical, dental, disability, and life insurance coverage of their employees.

The Individual Insurance product line includes both non-participating and participating individual life and health insurance products.

Capital and Surplus is made up of assets held in the shareholders' equity, the participating account, and other corporate items not allocated to other segments.

Operating results are segmented into three product lines along with the Company's capital and surplus as follows:

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(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

| For the three months ended September 30, 2023 | Wealth Management | Group Solutions | Individual Insurance | Capital & Surplus | Total |
|--|----------------------|--------------------|-------------------------|----------------------|------------------|
| Net insurance service result | | | | | |
| Insurance revenue | \$ 63,085 | \$ 160,305 | \$ 114,003 | \$ — | 337,393 |
| Insurance service expenses | (36,998) | (142,375) | (79,044) | — | (258,417) |
| Insurance service results | 26,087 | 17,930 | 34,959 | — | 78,976 |
| Net recovery (expense) from reinsurance contracts held | 121 | (5,512) | (13,823) | — | (19,214) |
| Net insurance service result | 26,208 | 12,418 | 21,136 | — | 59,762 |
| Net investment and insurance finance result | | | | | |
| Investment income (loss), excluding segregated funds | | | | | |
| Investment income | (16,347) | (6,861) | (448,346) | (75,778) | (547,332) |
| Change in investment contracts | 171 | — | — | — | 171 |
| Net investment result, excluding segregated funds | (16,176) | (6,861) | (448,346) | (75,778) | (547,161) |
| Insurance finance income (expense), excluding segregated funds | | | | | |
| Insurance contracts issued | 12,218 | 3,290 | 463,097 | — | 478,605 |
| Reinsurance contracts held | (184) | (1,851) | 24,190 | — | 22,155 |
| Net insurance finance result, excluding segregated funds | 12,034 | 1,439 | 487,287 | — | 500,760 |
| Segregated funds net investment and insurance finance result | | | | | |
| Investment income (loss) on investments for account of segregated fund holders | (156,848) | — | 425 | — | (156,423) |
| Insurance finance and investment income (expense) | 156,848 | — | (425) | — | 156,423 |
| Segregated funds net investment and insurance finance result | — | — | — | — | — |
| Net investment and insurance finance result | (4,142) | (5,422) | 38,941 | (75,778) | (46,401) |
| Other income and expenses | | | | | |
| Fee and other income | 278 | 1,712 | 112 | 5,571 | 7,673 |
| Non-insurance operating expenses | (7,443) | (4,667) | (6,161) | (7,946) | (26,217) |
| Interest expenses | — | — | — | (5,707) | (5,707) |
| Total other income and expenses | (7,165) | (2,955) | (6,049) | (8,082) | (24,251) |
| Net income (loss) before taxes | \$ 14,901 | \$ 4,041 | \$ 54,028 | \$ (83,860) | (10,890) |
| Income taxes | | | | | 4,324 |
| Net income (loss) after taxes | | | | \$ | (6,566) |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

| For the three months ended September 30, 2022 | Wealth Management | Group Solutions | Individual Insurance | Capital & Surplus | Total |
|--|----------------------|--------------------|-------------------------|----------------------|-----------------|
| Net insurance service result | | | | | |
| Insurance revenue | \$ 53,108 | \$ 151,785 | \$ 105,353 | \$ — | 310,246 |
| Insurance service expenses | (26,703) | (135,121) | (72,263) | — | (234,087) |
| Insurance service results | 26,405 | 16,664 | 33,090 | — | 76,159 |
| Net recovery (expense) from reinsurance contracts held | (618) | (9,198) | (13,705) | — | (23,521) |
| Net insurance service result | 25,787 | 7,466 | 19,385 | — | 52,638 |
| Net investment and insurance finance result | | | | | |
| Investment income (loss), excluding segregated funds | | | | | |
| Investment income | 286 | (154) | 44,279 | 7,271 | 51,682 |
| Change in investment contracts | 2,046 | — | — | — | 2,046 |
| Net investment result, excluding segregated funds | 2,332 | (154) | 44,279 | 7,271 | 53,728 |
| Insurance finance income (expense), excluding segregated funds | | | | | |
| Insurance contracts issued | (1,920) | 151 | (44,130) | — | (45,899) |
| Reinsurance contracts held | (2) | (57) | 210 | — | 151 |
| Net insurance finance result, excluding segregated funds | (1,922) | 94 | (43,920) | — | (45,748) |
| Segregated funds net investment and insurance finance result | | | | | |
| Investment income (loss) on investments for account of segregated fund holders | (10,698) | — | — | — | (10,698) |
| Insurance finance and investment income (expense) | 10,698 | — | — | — | 10,698 |
| Segregated funds net investment and insurance finance result | — | — | — | — | — |
| Net investment and insurance finance result | 410 | (60) | 359 | 7,271 | 7,980 |
| Other income and expenses | | | | | |
| Fee and other income | 953 | 1,580 | 27 | 5,255 | 7,815 |
| Non-insurance operating expenses | (5,775) | (3,285) | (2,499) | (5,260) | (16,819) |
| Interest expenses | — | — | — | (4,738) | (4,738) |
| Total other income and expenses | (4,822) | (1,705) | (2,472) | (4,743) | (13,742) |
| Net income (loss) before taxes | \$ 21,375 | \$ 5,701 | \$ 17,272 | \$ 2,528 | 46,876 |
| Income taxes | | | | | (9,705) |
| Net income (loss) after taxes | | | | \$ | 37,171 |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

| For the nine months ended September 30, 2023 | Wealth Management | Group Solutions | Individual Insurance | Capital & Surplus | Total |
|--|----------------------|--------------------|-------------------------|----------------------|------------------|
| Net insurance service result | | | | | |
| Insurance revenue | \$ 177,097 | \$ 475,517 | \$ 338,237 | \$ — | 990,851 |
| Insurance service expenses | (109,446) | (449,150) | (247,634) | — | (806,230) |
| Insurance service results | 67,651 | 26,367 | 90,603 | — | 184,621 |
| Net recovery (expense) from reinsurance contracts held | 682 | (11,874) | (39,560) | — | (50,752) |
| Net insurance service result | 68,333 | 14,493 | 51,043 | — | 133,869 |
| Net investment and insurance finance result | | | | | |
| Investment income (loss), excluding segregated funds | | | | | |
| Investment income | 5,074 | (1,409) | (123,280) | (26,983) | (146,598) |
| Change in investment contracts | (9,009) | — | — | — | (9,009) |
| Net investment result, excluding segregated funds | (3,935) | (1,409) | (123,280) | (26,983) | (155,607) |
| Insurance finance income (expense), excluding segregated funds | | | | | |
| Insurance contracts issued | (1,482) | (1,451) | 141,987 | — | 139,054 |
| Reinsurance contracts held | 189 | 565 | 10,021 | — | 10,775 |
| Net insurance finance result, excluding segregated funds | (1,293) | (886) | 152,008 | — | 149,829 |
| Segregated funds net investment and insurance finance result | | | | | |
| Investment income (loss) on investments for account of segregated fund holders | 196,597 | — | 425 | — | 197,022 |
| Insurance finance and investment income (expense) | (196,597) | — | (425) | — | (197,022) |
| Segregated funds net investment and insurance finance result | — | — | — | — | — |
| Net investment and insurance finance result | (5,228) | (2,295) | 28,728 | (26,983) | (5,778) |
| Other income and expenses | | | | | |
| Fee and other income | 735 | 5,714 | 180 | 14,628 | 21,257 |
| Non-insurance operating expenses | (21,908) | (12,064) | (15,440) | (18,836) | (68,248) |
| Interest expenses | — | — | — | (18,189) | (18,189) |
| Total other income and expenses | (21,173) | (6,350) | (15,260) | (22,397) | (65,180) |
| Net income (loss) before taxes | \$ 41,932 | \$ 5,848 | \$ 64,511 | \$ (49,380) | 62,911 |
| Income taxes | | | | | (10,662) |
| Net income (loss) after taxes | | | | \$ | 52,249 |

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

| For the nine months ended September 30, 2022 | Wealth Management | Group Solutions | Individual Insurance | Capital & Surplus | Total |
|--|-------------------|-----------------|----------------------|-------------------|-------------|
| Net insurance service result | | | | | |
| Insurance revenue | \$ 176,196 | \$ 447,650 | \$ 308,235 | \$ — | 932,081 |
| Insurance service expenses | (95,452) | (442,191) | (233,906) | — | (771,549) |
| Insurance service results | 80,744 | 5,459 | 74,329 | — | 160,532 |
| Net recovery (expense) from reinsurance contracts held | (714) | (4,595) | (20,638) | — | (25,947) |
| Net insurance service result | 80,030 | 864 | 53,691 | — | 134,585 |
| Net investment and insurance finance result | | | | | |
| Investment income (loss), excluding segregated funds | | | | | |
| Investment income | (76,185) | (15,975) | (1,333,343) | (238,688) | (1,664,191) |
| Change in investment contracts | 14,696 | — | — | — | 14,696 |
| Net investment result, excluding segregated funds | (61,489) | (15,975) | (1,333,343) | (238,688) | (1,649,495) |
| Insurance finance income (expense), excluding segregated funds | | | | | |
| Insurance contracts issued | 56,672 | 26,779 | 1,450,412 | — | 1,533,863 |
| Reinsurance contracts held | (1,511) | (10,676) | 86,089 | — | 73,902 |
| Net insurance finance result, excluding segregated funds | 55,161 | 16,103 | 1,536,501 | — | 1,607,765 |
| Segregated funds net investment and insurance finance result | | | | | |
| Investment income (loss) on investments for account of segregated fund holders | (871,652) | — | — | — | (871,652) |
| Insurance finance and investment income (expense) | 871,652 | — | — | — | 871,652 |
| Segregated funds net investment and insurance finance result | — | — | — | — | — |
| Net investment and insurance finance result | (6,328) | 128 | 203,158 | (238,688) | (41,730) |
| Other income and expenses | | | | | |
| Fee and other income | 244 | 4,578 | 69 | 11,677 | 16,568 |
| Non-insurance operating expenses | (14,977) | (8,910) | (6,951) | (13,308) | (44,146) |
| Interest expenses | — | — | — | (14,158) | (14,158) |
| Total other income and expenses | (14,733) | (4,332) | (6,882) | (15,789) | (41,736) |
| Net income (loss) before taxes | \$ 58,969 | \$ (3,340) | \$ 249,967 | \$ (254,477) | 51,119 |
| Income taxes | | | | | (4,942) |
| Net income (loss) after taxes | | | | \$ | 46,177 |

Assets are segmented into three product lines along with the Company's capital and surplus as follows:

| As at September 30, 2023 | Wealth Management | Group Solutions | Individual Insurance | Capital & Surplus | Total |
|-----------------------------------|-------------------|-----------------|----------------------|-------------------|---------------|
| Assets excluding segregated funds | \$ 936,340 | \$ 373,542 | \$ 5,249,871 | \$ 2,307,014 | \$ 8,866,767 |
| Segregated funds | 8,338,902 | — | 17,063 | — | 8,355,965 |
| Total assets | \$ 9,275,242 | \$ 373,542 | \$ 5,266,934 | \$ 2,307,014 | \$ 17,222,732 |

| As at December 31, 2022 restated | Wealth Management | Group Solutions | Individual Insurance | Capital & Surplus | Total |
|-----------------------------------|-------------------|-----------------|----------------------|-------------------|---------------|
| Assets excluding segregated funds | \$ 858,602 | \$ 367,862 | \$ 5,284,118 | \$ 2,481,415 | \$ 8,991,997 |
| Segregated funds | 8,547,562 | — | 18,113 | — | 8,565,675 |
| Total assets | \$ 9,406,164 | \$ 367,862 | \$ 5,302,231 | \$ 2,481,415 | \$ 17,557,672 |

While specific general fund assets are nominally matched against specific types of general fund liabilities or held in the shareholders' equity and participating accounts, all general fund assets are available to pay all general fund liabilities, if required. Segregated fund assets are not available to pay liabilities of the general fund.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

14. Capital Management

The Company manages its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act* as established and monitored by OSFI. OSFI has implemented the LICAT framework to monitor capital adequacy. Under this framework, the Company's capital adequacy is measured as a ratio of Available Capital plus Surplus Allowance and Eligible Deposits divided by a Base Solvency Buffer. The components of the LICAT ratio are determined in accordance with the guidelines defined by OSFI. OSFI has established a Supervisory Target Total Ratio of 100% and a Supervisory Target Core Ratio of 70%. As at January 1, 2022, December 31, 2022 and September 30, 2023 the Company was in compliance with the applicable regulatory capital ratios.

15. Risk Management

The Company is exposed to risks arising from its investing activities and its insurance operations and to general reputation risk associated with these activities and its ability to manage specific risks. The following sections describe the principal risks and associated risk management strategies for the risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company: market, liquidity, credit and product (which includes insurance).

15.1. Caution Related to Sensitivities

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on the market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk variable, assuming that all other risk variables remain constant. The sensitivities do not take into account indirect effects such as potential impacts on goodwill impairments or valuation allowances on deferred tax assets. Actual results can differ materially from these estimates for a variety of reasons, including differences in the pattern or distribution of market shocks, the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined and should not be viewed as predictors for the Company's future Net income, CSM, Equity and capital sensitivities. Given the nature of these calculations, the Company cannot provide assurance that the 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.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

15.2. Market Risk

The Company's most significant market risks are equity risk and interest rate risk. Foreign exchange risk, liquidity risk, credit risk and concentration of credit risk have not changed materially since December 31, 2022. Information related to market sensitivities should be read in conjunction with the information contained in the Risk Management section of the Company's 2022 Annual Report.

Equity and interest rate risk

The impacts of one-time changes in equity markets are found below:

| As at | Change in equity markets | Sep 30, 2023 | | Dec 31, 2022 restated | |
|---|--------------------------|-----------------------------|------------------|-----------------------------|------------------|
| | | Impact on profit before tax | Impact on equity | Impact on profit before tax | Impact on equity |
| Insurance and reinsurance contracts held and equity | +20% | \$ 62,372 | \$ 45,918 | \$ 77,125 | \$ 56,779 |
| Insurance and reinsurance contracts held and equity | +10% | \$ 29,501 | \$ 21,719 | \$ 39,361 | \$ 28,978 |
| Insurance and reinsurance contracts held and equity | -20% | \$ (35,343) | \$ (26,019) | \$ (53,488) | \$ (39,378) |
| Insurance and reinsurance contracts held and equity | -10% | \$ (25,284) | \$ (18,614) | \$ (29,059) | \$ (21,393) |

The impacts of one-time changes in interest rates are found below:

| As at | Change in interest rates | Time period | Sep 30, 2023 | | Dec 31, 2022 restated | |
|---|--------------------------|-------------------|-----------------------------|------------------|-----------------------------|------------------|
| | | | Impact on profit before tax | Impact on equity | Impact on profit before tax | Impact on equity |
| Insurance and reinsurance contracts held and debt instruments | +50 bps | Observable period | \$ (51,780) | \$ (38,120) | \$ (27,368) | \$ (20,148) |
| Insurance and reinsurance contracts held and debt instruments | +50 bps | All years | \$ 2,117 | \$ 1,559 | \$ 30,553 | \$ 22,493 |
| Insurance and reinsurance contracts held and debt instruments | -50 bps | Observable period | \$ 25,345 | \$ 18,659 | \$ 20,474 | \$ 15,073 |
| Insurance and reinsurance contracts held and debt instruments | -50 bps | All years | \$ (52,456) | \$ (38,618) | \$ (64,965) | \$ (47,828) |
| Insurance and reinsurance contracts held and debt instruments | +100 bps | Observable period | \$ (87,168) | \$ (64,173) | \$ (54,170) | \$ (39,880) |
| Insurance and reinsurance contracts held and debt instruments | -100 bps | Observable period | \$ 57,565 | \$ 42,380 | \$ 33,260 | \$ 24,486 |

⁽¹⁾ Amounts have been revised from those previously presented.

Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

15.3. Product Risk

Product risk is the risk that actual experience related to claims, benefit payments, expenses, cost of embedded product options and cost of guarantees associated with products, does not emerge as expected. The Company is exposed to various categories of product risk as a result of the business it writes, including: insurance (mortality, policyholder behaviour (termination/surrender or lapse), expenses, morbidity, longevity), product design and pricing risk, underwriting and claims risk and reinsurance risk.

The tables below provide sensitivities to changes in insurance variables. Product design and pricing, underwriting and claims and reinsurance risks have not changed materially since December 31, 2022. Information related to insurance sensitivities should be read in conjunction with the information contained in the Risk Management section of the Company's 2022 Annual Report.

| | Sep 30, 2023 | | | | |
|---------------------------|-----------------------|--|--|---------------------------------------|-------------------------------------|
| | Change in assumptions | Impact on profit before tax gross of reinsurance | Impact on profit before tax net of reinsurance | Impact of equity gross of reinsurance | Impact on equity net of reinsurance |
| Mortality | +2% | \$ (1,414) | \$ (912) | \$ (1,041) | \$ (671) |
| Morbidity | +5% | \$ (4,840) | \$ (2,706) | \$ (3,563) | \$ (1,992) |
| Longevity | -2% | \$ (27) | \$ (27) | \$ (20) | \$ (20) |
| Expenses | +5% | \$ (199) | \$ (199) | \$ (147) | \$ (147) |
| Lapse and surrenders rate | +10% | \$ (13,575) | \$ (14,905) | \$ (9,994) | \$ (10,973) |
| Lapse and surrenders rate | -10% | \$ 8,827 | \$ 9,246 | \$ 6,498 | \$ 6,807 |

| | Dec 31, 2022 restated | | | | |
|---------------------------|-----------------------|--|--|---------------------------------------|-------------------------------------|
| | Change in assumptions | Impact on profit before tax gross of reinsurance | Impact on profit before tax net of reinsurance | Impact of equity gross of reinsurance | Impact on equity net of reinsurance |
| Mortality | +2% | \$ (601) | \$ (538) | \$ (443) | \$ (396) |
| Morbidity | +5% | \$ (4,870) | \$ (2,717) | \$ (3,585) | \$ (2,000) |
| Longevity | -2% | \$ — | \$ — | \$ — | \$ — |
| Expenses | +5% | \$ (82) | \$ (82) | \$ (61) | \$ (61) |
| Lapse and surrenders rate | +10% | \$ (6,066) | \$ (6,586) | \$ (4,466) | \$ (4,849) |
| Lapse and surrenders rate | -10% | \$ 3,817 | \$ 3,780 | \$ 2,810 | \$ 2,783 |

| | Sep 30, 2023 | | Dec 31, 2022 restated | | |
|---------------------------|-----------------------|---|--------------------------------|---|--------------------------------|
| | Change in assumptions | Impact on CSM before tax gross of reinsurance | Impact on ceded CSM before tax | Impact on CSM before tax gross of reinsurance | Impact on ceded CSM before tax |
| Mortality | +2% | \$ (71,743) | \$ 45,009 | \$ (71,155) | \$ 44,061 |
| Morbidity | +5% | \$ (14,654) | \$ 6,126 | \$ (14,451) | \$ 6,074 |
| Longevity | -2% | \$ (5,264) | \$ 183 | \$ (6,195) | \$ (3,037) |
| Expenses | +5% | \$ (11,336) | \$ (7) | \$ (11,755) | \$ (142) |
| Lapse and surrenders rate | +10% | \$ (178,564) | \$ 56,215 | \$ (172,191) | \$ 59,531 |
| Lapse and surrenders rate | -10% | \$ 232,639 | \$ (68,548) | \$ 216,290 | \$ (68,659) |

GLOSSARY OF TERMS (unaudited)

Accumulated Other Comprehensive Income (AOCI)

A separate component of shareholders' equity and policyholders' account which includes remeasurement of post-employment benefit liabilities. These items have been recognized in comprehensive income but excluded from net income.

Active Market

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

Available For Sale (AFS) Financial Assets

Non-derivative financial assets that are designated as AFS under IAS 39 or that are not classified as loans and receivables, held to maturity investments, or held for trading under IAS 39. Prior to the adoption of IFRS 9, most financial assets allocated to the Capital and Surplus segment were classified as AFS under IAS 39.

Best Estimate Liability (BEL)

BEL refers to discounted present value of the unbiased, probability-weighted estimate of future cash flows as defined in the standard for the general measurement model applied to a group of insurance contracts.

Canadian Institute of Actuaries (CIA)

The CIA is the qualifying and governing body of the actuarial profession in Canada. The CIA develops and upholds rigorous standards, shares its risk management expertise, and advances actuarial science to improve lives in Canada and around the world. Its more than 6,000 members apply their knowledge of math, statistics, data analytics, and business in providing services and advice of the highest quality to help Canadian people and organizations face the future with confidence.

Canadian Life and Health Insurance Association (CLHIA)

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

Chartered Professional Accountants of Canada (CPA Canada)

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

Contractual Service Margin (CSM)

An amount that represents the unearned profit from insurance contracts.

Effective Interest Method

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

Expected Credit Loss (ECL)

An expected loss amount as a result of credit deterioration of the party that has been issued the credit.

Fair Value Through Profit or Loss (FVTPL)

Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option.

Fulfilment Cash Flows (FCF)

Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk.

GLOSSARY OF TERMS (unaudited)

International Financial Reporting Standards (IFRS)

Refers to the international accounting standards that were adopted in Canada, effective January 1, 2011; these are now Canadian Generally Accepted Accounting Principles (CGAAP) for publicly accountable enterprises.

Life Insurance Capital Adequacy Test (LICAT)

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

Other Comprehensive Income (OCI)

Under IAS 39 unrealized gains and losses, primarily on financial assets supporting the Capital and Surplus segment, were recorded as Other Comprehensive Income ("OCI") or Other Comprehensive Loss ("OCL"). When these assets were sold or written down the resulting gain or loss was reclassified from OCI to net income. Upon the Company's adoption of IFRS 9, these assets were designated at FVTPL so unrealized gains and losses are now immediately recognized in net income. Remeasurements of post-employment benefit liabilities are also recorded as OCI or OCL. These remeasurements will not be reclassified to net income and will remain in AOCI.

Office of the Superintendent of Financial Institutions Canada (OSFI)

The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Participating Policies

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

Return on Common Shareholders' Equity (ROE)

A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

Risk Adjustment (RA)

The risk adjustment for non-financial risk represents the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts and covers mortality, morbidity, longevity, policyholder behaviour and expense risks. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the best estimate amount.

Empire Life Condensed Interim Consolidated Financial Statements

Established in 1923 and a subsidiary of E-L Financial Corporation Limited, The Empire Life Insurance Company provides individual and group life and health insurance, investment and retirement products.

Our mission is to make it simple, fast and easy for Canadians to get the products and services they need to build wealth, generate income, and achieve financial security.

Follow us on social media @EmpireLife or visit empire.ca for more information, including current ratings and financial results.

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www.tsxtrust.com

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.

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