The Empire Life Insurance Company

Consolidated Financial Statements

For the year ended December 31, 2021

This page has been left blank intentionally.

TABLE OF CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements in this annual report have been prepared by management, who is responsible for their integrity, objectivity and reliability. This responsibility includes selecting and applying appropriate accounting policies, making judgments and estimates, and ensuring information contained throughout the annual report is consistent with these statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI).

The Company maintains a system of internal control over financial reporting which is designed to provide reasonable assurance that assets are safeguarded, expenditures are made in accordance with authorizations of management and directors, transactions are properly recorded, and the financial records are reliable for preparing the consolidated financial statements in accordance with (IFRS). Under the supervision of management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out as at December 31, 2021. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2021.

The Board of Directors, acting through the Audit Committee which is comprised of directors who are not officers or employees of the Company, oversees management's responsibility for financial reporting and for internal control systems. The Audit Committee is responsible for reviewing the consolidated financial statements and annual report and recommending them to the Board of Directors for approval. The Audit Committee meets with management, internal audit and the external auditors to discuss audit plans, internal controls over accounting and financial reporting processes, auditing matters, and financial reporting issues.

The Appointed Actuary is appointed by the Board of Directors and is responsible for ensuring that the assumptions and methods used in the valuation of the policy liabilities are in accordance with accepted actuarial practice and regulatory requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities at the consolidated statement of financial position date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The Appointed Actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company under adverse economic and business conditions for the current year and the next four years.

PricewaterhouseCoopers' responsibility as external auditor is to report to the policyholders and shareholders regarding the fairness of presentation of the Company's annual consolidated financial statements. The external auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit. The Independent Auditor's Report outlines the scope of their examination and their opinion.

Mark Sylvia

President and Chief Executive Officer
Kingston, Ontario
February 24, 2022

Rebecca Rycroft

Senior Vice-President and Chief Financial Officer
Kingston, Ontario
February 24, 2022

APPOINTED ACTUARY'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

I have valued the policy liabilities and reinsurance liabilities of The Empire Life Insurance Company for its Consolidated statements of financial position at December 31, 2021 and their change in the Consolidated statements of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance liabilities, makes appropriate provision for all policy obligations and the Consolidated financial statements fairly present the results of the valuation.

Dan Doyle, FSA, FCIA, MAAA
Fellow, Canadian Institute of Actuaries
Kingston, Ontario
February 24, 2022

INDEPENDENT AUDITOR'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Empire Life Insurance Company and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities *Refer to note 2 – Significant Accounting Policies and note 10 – Insurance Contract Liabilities and Reinsurance Assets/Liabilities to the consolidated financial statements.* The Company has gross insurance contract liabilities of $7.1 billion and reinsurance liabilities of $0.3 billion as at December 31, 2021 on its consolidated statement of financial position (collectively, insurance contract liabilities). Insurance contract liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and premium taxes on policies in force. Insurance contract liabilities are determined using the Canadian Asset Liability Method (CALM), as established by the Canadian Institute of Actuaries (CIA) (actuarial models). The CALM incorporates best-estimate assumptions for mortality, policy lapses, surrenders and future investment yields that require management judgment. The assumptions are based on experience studies, industry studies and requirements of the CIA. We considered this a key audit matter due to the judgment applied by management when developing their valuation of the insurance contract liabilities, which in turn led to a high degree of auditor judgment and effort in evaluating the best-estimate assumptions. Professionals with specialized skill and knowledge in the field of actuarial sciences assisted us in performing our procedures.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the valuation of the insurance contract liabilities, which included the following: – Understood management's method (CALM) for determining the valuation of insurance contract liabilities. – Tested the operating effectiveness of relevant controls over the completeness and accuracy of the underlying policy data used in management's valuation of insurance contract liabilities. – With the assistance of professionals with specialized skill and knowledge in the field of actuarial science assessed the reasonableness of management's best estimate assumptions for policy lapses, surrenders, mortality and future investment yields by: ◦ Evaluating these assumptions in accordance with actuarial principles and requirements of the CIA. ◦ Evaluating experience studies conducted by the Appointed Actuary for appropriateness and considering the relationship of the results with industry studies. – With the assistance of professionals with specialized skill and knowledge in the field of actuarial science, tested the appropriateness of the actuarial models used in developing the valuation of insurance contract liabilities, by: ◦ Assessing a sample of actuarial models to ensure the correct modelling of product features. ◦ Assessing a sample of actuarial models to ensure the correct application of best-estimate assumptions for policy lapses, surrenders, mortality and future investment yields. • Tested the disclosures made in the consolidated financial statements, particularly on the sensitivity of best-estimate assumptions on insurance contract liabilities.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance..

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Owen Thomas.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
February 24, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31		2021		2020
Assets				
Cash and cash equivalents (Note 3)	$	**193,217**	$	189,356
Investments				
Short-term investments (Note 3)		**8,647**		13,008
Bonds (Note 3)		**8,149,460**		8,027,780
Preferred shares (Note 3)		**441,339**		616,902
Common shares (Note 3)		**1,019,434**		918,700
Derivative assets (Note 3)		**6,302**		5,377
Mortgages (Note 3)		**153,564**		157,214
Loans on policies (Note 3)		**56,917**		56,458
Policy contract loans (Note 3)		**52,808**		60,407
Total cash and cash equivalents and investments		**10,081,688**		10,045,202
Accrued investment income		**42,379**		38,932
Insurance receivables (Note 4)		**48,700**		46,533
Current income taxes		**15,242**		38,795
Other assets (Note 5)		**19,452**		21,289
Property and equipment (Note 6)		**14,889**		18,301
Intangible assets (Note 7)		**28,511**		27,983
Investment in associates		**22,504**		21,301
Segregated fund assets (Note 8)		**9,257,298**		8,457,417
Total assets	$	**19,530,663**	$	18,715,753
Liabilities				
Accounts payable and other liabilities (Note 11)	$	**95,583**	$	130,971
Insurance payables (Note 9)		**115,793**		114,938
Reinsurance liabilities (Note 10)		**253,330**		384,761
Insurance contract liabilities (Note 10)		**7,091,053**		7,145,461
Investment contract liabilities		**27,872**		29,041
Policyholders' funds on deposit		**35,094**		34,817
Provision for profits to policyholders		**38,665**		36,124
Deferred income taxes (Note 18)		**45,539**		35,711
Subordinated debt (Note 13)		**398,858**		399,442
Segregated fund policy liabilities		**9,257,298**		8,457,417
Total liabilities		**17,359,085**		16,768,683
Equity				
Preferred shares (Note 20)		**100,000**		249,500
Other equity instruments (Note 20)		**196,664**		—
Common shares (Note 20)		**985**		985
Contributed surplus		**19,387**		19,387
Retained earnings		**1,802,325**		1,602,915
Accumulated other comprehensive income		**52,217**		74,283
Total equity		**2,171,578**		1,947,070
Total liabilities and equity	$	**19,530,663**	$	18,715,753

Duncan N. R. Jackman
Chairman of the Board

Mark Sylvia
President and Chief Executive Officer

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Canadian dollars except per share amounts and shares authorized and outstanding)

For the year ended December 31		2021		2020
Revenue				
Gross premiums (Note 14)	$	**1,182,899**	$	1,081,630
Premiums ceded to reinsurers (Note 14)		**(267,356)**		(221,389)
Net premiums (Note 14)		**915,543**		860,241
Investment income (Note 3)		**329,693**		329,423
Fair value change in fair value through profit or loss assets		**(363,415)**		356,755
Realized gain (loss) on fair value through profit or loss assets sold		**105,609**		154,926
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)		**(1,477)**		29,414
Fee income (Note 15)		**272,774**		251,343
Total revenue		**1,258,727**		1,982,102
Benefits and expenses				
Gross benefits and claims paid (Note 16)		**789,050**		715,766
Claims recovery from reinsurers (Note 16)		**(158,932)**		(137,475)
Gross change in insurance contract liabilities (Note 16)		**(54,408)**		1,071,593
Change in insurance contract liabilities ceded (Note 16)		**(131,431)**		(313,611)
Change in investment contracts provision		**471**		989
Policy dividends		**36,820**		35,166
Operating expenses (Note 17)		**176,513**		168,305
Commissions		**265,337**		226,441
Commission recovery from reinsurers		**(31,559)**		(23,880)
Interest expense		**21,472**		14,437
Total benefits and expenses		**913,333**		1,757,731
Premium tax		**18,229**		18,742
Investment and capital tax		**3,822**		4,066
Net income before income taxes		**323,343**		201,563
Income taxes (Note 18)		**64,409**		44,332
Net income	**$**	**258,934**	$	157,231
Less: net income (loss) attributable to participating policyholders		**12,849**		4,047
Shareholders' net income (loss)		**246,085**		153,184
Less: preferred share dividends declared (Note 21)		**7,049**		13,496
Common shareholders' net income	**$**	**239,036**	$	139,688
Earnings per share - basic and diluted (Note 19)	**$**	**242.66**	$	141.80
(2,000,000 shares authorized; 985,076 shares outstanding)				

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

For the year ended December 31		2021		2020
Net income	**$**	**258,934**	$	157,231
Other comprehensive income (loss), net of income taxes:				
Items that may be reclassified subsequently to net income:				
Unrealized fair value change on available for sale investments (Note 18)		**(57,228)**		78,894
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 18)		**1,201**		(21,620)
Net unrealized fair value increase (decrease)		**(56,027)**		57,274
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 18)		**33,961**		(16,809)
Total other comprehensive income (loss)		**(22,066)**		40,465
Comprehensive income (loss)	**$**	**236,868**	$	197,696
Comprehensive income (loss) attributable to:				
Participating policyholders	**$**	**14,064**	$	4,036
Shareholders		**222,804**		193,660
Total	**$**	**236,868**	$	197,696

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

For the year ended December 31	2021			2020		
	Shareholders'	**Policyholders'**	**Total**	Shareholders'	Policyholders'	Total
Preferred shares (Note 20)	**$ 100,000**	**$ —**	**$ 100,000**	$ 249,500	$ —	$ 249,500
Other equity instruments (Note 20)	**196,664**	**—**	**$ 196,664**	—	—	$ —
Common shares (Note 20)	**985**	**—**	**985**	985	—	985
Contributed surplus	**19,387**	**—**	**19,387**	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	**1,560,384**	**42,531**	**1,602,915**	1,597,668	38,484	1,636,152
Net income (loss)	**246,085**	**12,849**	**258,934**	153,184	4,047	157,231
Preferred share dividends declared	**(7,049)**	**—**	**(7,049)**	(13,496)	—	(13,496)
Common share dividends declared	**(52,475)**	**—**	**(52,475)**	(176,972)	—	(176,972)
Retained earnings - end of period	**1,746,945**	**55,380**	**1,802,325**	1,560,384	42,531	1,602,915
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	**72,666**	**1,617**	**74,283**	32,190	1,628	33,818
Other comprehensive income (loss)	**(23,281)**	**1,215**	**(22,066)**	40,476	(11)	40,465
Accumulated other comprehensive income (loss) - end of period	**49,385**	**2,832**	**52,217**	72,666	1,617	74,283
Total equity	**$ 2,113,366**	**$ 58,212**	**$ 2,171,578**	$ 1,902,922	$ 44,148	$ 1,947,070
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	**$ 47,840**	**$ 2,132**	**$ 49,972**	$ 102,676	$ 3,323	$ 105,999
Remeasurements of post-employment benefit liabilities	**1,397**	**848**	**2,245**	(30,243)	(1,473)	(31,716)
Shareholder portion of policyholders' accumulated other comprehensive income	**148**	**(148)**	**—**	233	(233)	—
Total accumulated other comprehensive income (loss)	**$ 49,385**	**$ 2,832**	**$ 52,217**	$ 72,666	$ 1,617	$ 74,283

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the year ended December 31	2021	2020
Operating activities		
Net income	**$ 258,934**	$ 157,231
Non-cash items affecting net income:		
Change in contract liabilities	**(53,937)**	1,072,582
Change in reinsurance liabilities	**(131,431)**	(313,611)
Fair value change in fair value through profit or loss assets	**363,415**	(356,755)
Realized (gain) loss on assets including impairment write downs on available for sale assets	**(104,132)**	(184,340)
Amortization related to discount on debt instruments	**(71,236)**	(80,137)
Amortization related to property and equipment and intangible assets (Notes 6 & 7)	**13,181**	11,226
Share of loss(income)from associates	**(1,323)**	—
Deferred income taxes (Note 18)	**(2,342)**	32,951
Other items	**45,814**	(65,890)
Cash provided from (used for) operating activities	**316,943**	273,257
Investing activities		
Portfolio investments		
Purchases and advances	**(2,726,524)**	(2,039,973)
Sales and maturities	**2,443,363**	2,012,546
Loans on policies		
Advances	**(8,541)**	(9,345)
Repayments	**15,701**	14,620
(Increase) decrease in short-term investments	**4,361**	19,376
Purchases of property and equipment and intangible assets (Notes 6 & 7)	**(10,845)**	(13,136)
Investment in associates	**(150)**	(3,760)
Dividends from associates	**270**	—
Cash provided from (used for) investing activities	**(282,365)**	(19,672)
Financing activities		
Dividends paid to common shareholders (Note 21)	**(52,475)**	(176,972)
Dividends paid to preferred shareholders (Note 21)	**(9,198)**	(13,496)
Interest paid on subordinated debt	**(15,508)**	(14,094)
Issuance of subordinated debt (Note 13)	**199,300**	—
Subordinated debt redemption (Note 13)	**(200,000)**	—
Preferred share redemption (Note 20)	**(149,500)**	—
Limited recourse capital notes issue (Note 20)	**196,664**	—
Cash provided from (used for) financing activities	**(30,717)**	(204,562)
Net change in cash and cash equivalents	**3,861**	49,023
Cash and cash equivalents - beginning of year (Note 3)	**189,356**	140,333
Cash and cash equivalents - end of year (Note 3)	**$ 193,217**	$ 189,356
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	**$ 22,790**	$ 114,790
Interest income received	**201,253**	192,830
Dividend income received	**56,482**	56,018

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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. 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 mutual fund 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.

These Consolidated Financial Statements were approved by the Company's Board of Directors (the Board) on February 24, 2022.

2. Significant Accounting Policies

(a) Basis of preparation

The annual Consolidated Financial Statements of the Company for the year ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These Consolidated Financial Statements have been prepared on a fair value measurement basis, with the exception of certain assets and liabilities. Insurance contract liabilities and Reinsurance assets/ liabilities are measured on a discounted basis in accordance with accepted actuarial practice. Investment contract liabilities, Mortgages, Policy contract loans and Loans on policies are carried at amortized cost. Certain other assets and liabilities are measured on a historical cost basis, as explained throughout this note. All amounts included in the Consolidated Financial Statements are presented in thousands of Canadian dollars except for per share amounts and where otherwise stated. These Consolidated Financial Statements also comply with the accounting requirements of OSFI, none of which are an exception to IFRS.

(b) Basis of consolidation

The Company's 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. All significant inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

(c) Critical accounting estimates and judgments

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

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

(i) Insurance-related liabilities
Liabilities for insurance contracts are determined using the Canadian Asset Liability Method (CALM), as permitted by IFRS 4 - *Insurance Contracts*, which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and are updated to reflect actual experience and market conditions. Changes in the assumptions and margins for adverse deviation can have a significant impact on the valuation of insurance related liabilities.

Additional information regarding insurance-related liabilities is included in Notes 2(e), 2(l),10 and 27.

(ii) Financial instruments classification
Management judgment is used to classify financial instruments as fair value through profit or loss (FVTPL), available for sale (AFS) or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in Net income or Other comprehensive income (OCI).

Additional information regarding financial instrument classification is included in Notes 2(d), 3(a), 3(b) and 10(c).

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

Additional information regarding pension and other post-employment benefits is included in Notes 2(k) and 12.

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

Additional information regarding impairment is included in Notes 2(d), 3(b), 10(c) and 27(c).

(d) Financial instruments

(i) 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 Consolidated Financial Statements have been classified by using a fair value hierarchy based upon the transparency of the inputs used in making the measurements. The three levels of the hierarchy are:

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

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

Level 3 - Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect 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.

(ii) 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.

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 Consolidated Statements of Operations in the period in which they occur.

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 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 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 Consolidated Statements of Operations.

Loans and receivables may include mortgage loans, loans on policies and policy contract loans. These assets are recorded at amortized cost, using the effective interest rate method, net of provisions for impairment losses, if any. Mortgage loans are secured by real estate. Loans on policies and policy contract 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.

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

(iii) 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 disclosed as Other liabilities. Changes in fair value are recorded in Fair value change in FVTPL assets in the Consolidated Statements of Operations.

(iv) Impairment

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.

(1) AFS debt instruments

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) AFS equity instruments

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.

(3) Loans and receivables

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, policy contract loan or a loan on a policy. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the 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.

(v) 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 retained, the assets are derecognized if the asset is not controlled through rights to sell or pledge the asset.

(vi) Other

Insurance receivables and trade accounts receivables have been classified as loans or receivables and are carried at amortized cost. Trade accounts receivables are presented as Other assets. Accounts payable and other liabilities (excluding derivative liabilities) and Insurance payables have been classified as other financial liabilities and are carried at amortized cost. For these financial instruments, carrying value approximates fair value due to their short term nature.

(vii) Securities lending

The Company engages in securities lending through its custodian as lending agent. Loaned securities are not derecognized and continue to be reported within Investments in the Consolidated Statements of Financial Position, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities. For further details, refer to Note 3(e).

(e) Reinsurance

The Company enters into reinsurance agreements in order to limit its exposure to excess risk. The Company has a Reinsurance Risk Management policy which requires that such arrangements be placed with well-established, highly rated reinsurers. Reinsurance is measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance treaty. Amounts due to or from reinsurers with respect to premiums received or claims paid are included in Insurance receivables and Insurance liabilities in the Consolidated Statement of Financial Position. Premiums for reinsurance ceded are presented as Premiums ceded to reinsurers in the Consolidated Statements of Operations. Reinsurance recoveries on claims incurred are recorded as Claims recovery from reinsurers in the Consolidated Statements of Operations. The reinsurers' share of Insurance contract liabilities is recorded as Reinsurance assets or Reinsurance liabilities in the Consolidated Statements of Financial Position at the same time as the underlying insurance contract liability to which it relates.

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

Gains or losses on buying reinsurance are recognized in the Consolidated Statements of Operations immediately at the date of purchase and are not amortized.

(f) Property and equipment

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

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

Land	No amortization
Building	Five percent (declining balance)
Furniture and equipment	Three to five years (straight-line)
Leasehold improvements	Remaining lease term (straight-line)

Amortization is included in Operating expenses in the Consolidated Statements of Operations.

The estimated useful lives, residual values and amortization methods are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment losses are recognized in the Consolidated Statements of Operations.

(g) Intangible assets

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

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Impairment losses are recognized in the Consolidated Statements of Operations.

(h) Investment in associates

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

The Company's share of post-acquisition income or loss is recognized in the Consolidated Statements of Operations, and its share of OCI is recognized in the Consolidated Statements of Comprehensive Income. The Company determines at each reporting date whether there is any objective evidence that each investment in associates is impaired. The Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as share of income (loss) of associates in the Consolidated Statements of Operations. Income and losses resulting from transactions between the Company and its associates are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

(i) 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 fund's investment performance. Segregated fund assets are not available to pay liabilities of the general fund. The assets of these funds are carried at their period-end fair values. The Company records a segregated fund policy liability equal to the fair value of the assets and any guarantees are recorded as an insurance contract liability. The Company's Consolidated Statements of Operations includes fee income earned for management of the segregated funds, as well as expenses related to the acquisition, investment management, administration and death benefit, maturity benefit and withdrawal guarantees of these funds. See Note 8 for details on segregated fund assets and changes in segregated fund assets.

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. Sensitivity of the Company's liability for segregated fund guarantees to market fluctuations is disclosed in Note 27(a)(1).

(j) Subordinated debt

Subordinated debt is recorded at amortized cost using the effective interest rate method. Interest on subordinated debt is reported as Interest expense in the Consolidated Statements of Operations.

(k) Employee benefits

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

(i) Pension benefits

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

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

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

(ii) Other post-employment benefits

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

(iii) Termination benefits

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

(l) Insurance and investment contracts

(i) Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder and the insurance contract has commercial substance. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or service contracts, as appropriate. Products issued by the Company that transfer significant insurance risk have been classified as insurance contracts in accordance with IFRS 4 *Insurance Contracts*. Otherwise, products issued by the Company are classified as either investment contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or service contracts in accordance with IFRS 15 *Revenue from Contracts with Customers*. The Company defines significant insurance risk as the possibility of paying at least 2% more than the benefits payable if the insured event did not occur. When referring to multiple contract types, the Company uses the terminology policy liabilities.

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

The Company classifies its insurance and investment contracts into three main categories: short-term insurance contracts, long-term insurance contracts and investment contracts.

(1) Insurance contracts

The Company's insurance contract liabilities are determined using Canadian Actuarial Standards of Practice and the requirements of OSFI. The Company uses CALM for valuation of insurance contracts, which satisfies the IFRS 4 *Insurance Contracts* requirements for eligibility for use under IFRS.

(a) Short-term insurance contracts

These contracts include both annuity products and group benefits.

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

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

(b) Long-term insurance contracts

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

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

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

Annually, the Appointed Actuary determines whether insurance contract liabilities (for both short-term and long-term categories) make appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation. A number of valuation methods are applied, including CALM, discounted cash flows and stochastic modeling. Aggregation levels and the level of prudence applied in assessing liability adequacy are consistent with requirements of the CIA. Any adjustment is recorded as a Gross change in insurance contract liabilities and/or Change in insurance contract liabilities ceded in the Consolidated Statements of Operations.

(2) Investment contracts

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

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

(ii) Premiums

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

(iii) Benefits and claims paid

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

(iv) Deferred acquisition costs

Distribution costs of segregated funds having a deferred sales charge are deferred and amortized over the term of the related deposits or the applicable period of such sales charge, as appropriate. These deferred costs form part of Insurance contract liabilities on the Consolidated Statements of Financial Position. The costs deferred in the period and amortization of deferred costs form part of the Gross change in insurance contract liabilities on the Consolidated Statements of Operations.

(m) Participating policies

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*. 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 a few older plans paying dividends every five years as per contractual provisions. Participating policyholder dividends are recognized as Policy dividends expense in the Consolidated Statements of Operations.

At the end of the reporting period all participating insurance contract liabilities, both guaranteed and discretionary, are held within Insurance contract liabilities, Policyholders' funds on deposit and Provision for profits to policyholders. All participating policy reinsurance ceded at the end of the reporting period is held within Reinsurance assets or Reinsurance liabilities. Net income attributable to participating policyholders is shown on the Consolidated Statements of Operations. Comprehensive income attributable to participating policyholders is shown on the Consolidated Statements of Comprehensive Income. The portion of Retained earnings and AOCI in respect of participating policies is reported separately in the Policyholders' equity section of the Consolidated Statements of Changes in Equity.

(i) Investment policy
The investments in the participating account are subject to limits established by the *Insurance Companies Act* and to investment guidelines established by the Investment Committee of the Board. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable and measurable low levels.

(ii) Investment income allocation
Investment income is recorded directly to each asset segment. When there is a deficiency of funds over assets, a portion of investment income is allocated to the Shareholders' Capital and Surplus segment from the participating account's asset segments in proportion to the deficiency of funds over assets of each segment. When there is an excess of funds over assets, a portion of investment income is allocated from the Shareholders' Capital and Surplus segment to the participating account's asset segments in proportion to the excess of funds over assets of each segment.

(iii) Expense allocation
For purposes of allocation of profits to the participating account, expenses associated directly with the participating account will be attributed to the participating account. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost centres are charged to the participating account in proportion to expenses directly charged. Investment expenses are allocated monthly to the participating account in proportion to the Company's total funds at the beginning of each month. Premium taxes are allocated in proportion to taxable premiums. Other taxes, licenses, and fees are allocated to lines of business using cost centre methods.

(iv) Income tax allocation
For the purpose of allocation of profits to the participating account, income taxes are allocated to the participating account in proportion to total taxable income for the Company.

(n) Fee income
Fee income includes investment management, policy administration and guarantee fees that are recognized on an accrual basis, and surrender charges that are recognized as incurred. Fee income earned for investment management, administration and guarantees of the investment funds is based on the funds' closing net asset values.

(o) Investment income
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 Consolidated Statements of Operations for all financial assets.

(p) Income taxes
Income tax expense for the period is comprised of current and deferred tax. Tax is recognized in the Consolidated Statements of Operations except to the extent that it relates to items recognized in OCI or directly in equity. In these cases, the tax is recognized in OCI or directly in equity, respectively.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute 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 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.

(q) Foreign currency translation

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

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

For monetary financial assets designated as AFS, translation differences are recognized in the Consolidated Statements of Operations. Translation differences on non-monetary items, such as foreign denominated AFS common equities, are recognized in OCI and included in the AFS component within AOCI. On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in AOCI is recognized in the Consolidated Statements of Operations.

(r) Comprehensive income

Comprehensive income consists of Net income and OCI. OCI includes items that may be reclassified subsequently to Net income: 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. OCI also includes items that will not be reclassified to net income: Remeasurements of post-employment benefit liabilities. All OCI amounts are net of taxes.

(s) Provisions

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

(t) Leases

The Company leases certain property and equipment. When the Company enters into a lease as a lessee, a right-of-use asset and a lease liability is recognized in the Statements of Financial Position. The initial lease liability is computed based on the present value of the lease payments, discounted at the Company's incremental borrowing rate. Subsequent to the initial recognition the lease liability is measured at the amortized cost using the effective interest rate method and is included in Accounts payable and other liabilities. Interest expense is included in operating expenses. The depreciation on the corresponding right-of-use asset is included in operating expenses.

The Company has elected to apply the option to recognize lease payments for short-term and low level assets on a straight-line basis over the lease term in operating expenses.

(u) Earnings per share (EPS)

Basic EPS is calculated by dividing the Net income for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The Company does not have any potentially dilutive instruments. As a result, diluted EPS are the same as basic EPS.

(v) Accounting changes

(i) New accounting pronouncements issued but not yet effective

(1) IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and Measurement* with a new mixed measurement model having three measurement categories of amortized cost, fair value through other comprehensive income (FVTOCI) and FVTPL for financial assets.

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

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (which will be subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two options for insurance companies relating to IFRS 9:

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

The Company has evaluated the criteria and will apply the temporary exemption for periods beginning before January 1, 2023, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. OSFI has also mandated that all Federally Regulated Life Insurance Companies defer the application of IFRS 9 until IFRS 17 is adopted.

Per the amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, companies applying the temporary exemption are required to disclose fair value information with respect to their investments in financial assets whose contractual cash flows reflect solely payments of principal and interest on the principal amount outstanding (SPPI), to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. The Company's fixed income invested assets presented in Note 3(a) include cash equivalents, short-term investments, bonds, mortgages, loans on policies and policy contract loans and primarily have cash flows that qualify as SPPI. Fixed income invested assets which do not have SPPI qualifying cash flows as at December 31, 2021 include bonds and mortgages with fair values of $257 million (2020 $13.2 million) and $8 million (2020 $10 million), respectively.

The Company is currently evaluating the impact of IFRS 9 on its Consolidated Financial Statements.

(2) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, which will replace IFRS 4. In June 2020, the IASB issued amendments to IFRS 17 which include deferral of the effective date to annual periods beginning on or after January 1, 2023. The deferral option for IFRS 9 was also extended to January 1, 2023. In December 2021, the IASB issued an optional amendment for a new transition option relating to comparative information on financial assets presented on the initial application of IFRS 17. IFRS 17 establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfilment values using one of three measurement models, 1. the general measurement model, 2. the variable fee approach or 3. the premium allocation approach, depending on the type of insurance contract. On transition to the new standard, IFRS 17 is to be applied retrospectively unless it is impracticable to do so. If it is impracticable to apply IFRS 17 retrospectively, an entity shall apply IFRS 17 using either a modified retrospective approach or a fair value approach.

IFRS 17 will affect how we account for our insurance contracts and how we report our financial performance in our Consolidated Statement of Operations. The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance services are provided. The Company continues to assess all of the impacts of IFRS 17 on its Consolidated Financial Statements. We anticipate that IFRS 17 will have an impact on timing of earnings recognition and presentation and disclosure.

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

3. Financial Instruments

(a) Summary of Cash and cash equivalents and investments

The carrying values of cash and cash equivalents and investments are as follows:

As at December 31	2021			2020		
Asset category	**Fair value through profit or loss**	**Available for sale**	**Total carrying value**	Fair value through profit or loss	Available for sale	Total carrying value
Cash and cash equivalents						
Cash	$ **62,512**	$ **—**	$ **62,512**	$ 35,201	$ —	$ 35,201
Cash equivalents	**130,705**	**—**	**130,705**	154,155	—	154,155
Total cash and cash equivalents	**193,217**	**—**	**193,217**	189,356	—	189,356
Short-term investments						
Canadian federal government	**3,499**	**4,998**	**8,497**	4,999	4,999	9,998
Canadian provincial governments	**—**	**—**	**—**	—	—	—
Canadian municipal governments	**—**	**—**	**—**	—	—	—
Corporate	**150**	**—**	**150**	3,010	—	3,010
Total short-term investments	**3,649**	**4,998**	**8,647**	8,009	4,999	13,008
Bonds						
Canadian federal government	**16,558**	**326,450**	**343,008**	8,013	252,719	260,732
Canadian provincial governments	**3,186,187**	**552,848**	**3,739,035**	3,554,583	543,756	4,098,339
Canadian municipal governments	**107,940**	**89,463**	**197,403**	117,558	95,069	212,627
Total Canadian government bonds	**3,310,685**	**968,761**	**4,279,446**	3,680,154	891,544	4,571,698
Canadian corporate bonds by industry sector:						
Energy	**258,757**	**100,759**	**359,516**	141,206	62,341	203,547
Materials	**12,999**	**10,898**	**23,897**	16,193	7,030	23,223
Industrials	**87,008**	**47,090**	**134,098**	90,584	49,751	140,335
Consumer discretionary	**24,616**	**13,433**	**38,049**	15,068	6,336	21,404
Consumer staples	**190,959**	**43,407**	**234,366**	198,407	72,255	270,662
Health care	**87,831**	**8,578**	**96,409**	81,884	9,319	91,203
Financial services	**728,328**	**473,799**	**1,202,127**	642,664	363,736	1,006,400
Information Technology	**469**	**4,424**	**4,893**	181	5,116	5,297
Communication services	**363,448**	**58,522**	**421,970**	284,443	42,202	326,645
Utilities	**589,261**	**80,637**	**669,898**	628,449	77,174	705,623
Real estate	**50,984**	**12,782**	**63,766**	42,655	18,718	61,373
Infrastructure	**448,848**	**68,898**	**517,746**	418,409	59,328	477,737
Total Canadian corporate bonds	**2,843,508**	**923,227**	**3,766,735**	2,560,143	773,306	3,333,449
Foreign bonds						
Government	**103,279**	**—**	**103,279**	111,399	—	111,399
Corporate	**—**	**—**	**—**	11,234	—	11,234
Total foreign bonds	**103,279**	**—**	**103,279**	122,633	—	122,633
Total bonds	**6,257,472**	**1,891,988**	**8,149,460**	6,362,930	1,664,850	8,027,780
Total preferred shares - Canadian	**433,295**	**8,044**	**441,339**	606,664	10,238	616,902

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

As at December 31	2021			2020		
Asset category	**Fair value through profit or loss**	**Available for sale**	**Total carrying value**	Fair value through profit or loss	Available for sale	Total carrying value
Common shares						
Canadian common shares	**240,742**	**57,725**	**298,467**	172,172	47,734	219,906
Exchange-traded funds	**503,434**	**—**	**503,434**	501,905	—	501,905
Canadian real estate limited partnership units	**138,352**	**—**	**138,352**	121,290	—	121,290
U.S.	**50,020**	**—**	**50,020**	42,046	—	42,046
Other	**29,161**	**—**	**29,161**	33,553	—	33,553
Total common shares	**961,709**	**57,725**	**1,019,434**	870,966	47,734	918,700
Total derivative assets	**6,302**	**—**	**6,302**	5,377	—	5,377
Loans and receivables						
Mortgages	**—**	**—**	**153,564**	—	—	157,214
Loans on policies	**—**	**—**	**56,917**	—	—	56,458
Policy contract loans	**—**	**—**	**52,808**	—	—	60,407
Total financial instruments	**$ 7,855,644**	**$ 1,962,755**	**$ 10,081,688**	$ 8,043,302	$ 1,727,821	$ 10,045,202

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

As at December 31	2021			2020		
	Level 1	**Level 2**	**Total fair value**	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	**$ 62,512**	**$ 130,705**	**$ 193,217**	$ 35,201	$ 154,155	$ 189,356
Short-term investments	**—**	**3,649**	**3,649**	—	8,009	8,009
Bonds	**—**	**6,257,472**	**6,257,472**	—	6,362,930	6,362,930
Preferred shares	**433,295**	**—**	**433,295**	606,664	—	606,664
Common shares	**821,560**	**140,149**	**961,709**	749,275	121,691	870,966
Derivative assets	**6,301**	**1**	**6,302**	5,361	16	5,377
Available for sale:						
Short-term investments	**—**	**4,998**	**4,998**	—	4,999	4,999
Bonds	**—**	**1,891,988**	**1,891,988**	—	1,664,850	1,664,850
Preferred shares	**8,044**	**—**	**8,044**	10,238	—	10,238
Common shares	**57,725**	**—**	**57,725**	47,734	—	47,734
Loans and Receivables						
Mortgages	**—**	**158,658**	**158,658**	—	170,886	170,886
Loans on policies	**—**	**56,917**	**56,917**	—	56,458	56,458
Policy contract loans	**—**	**52,808**	**52,808**	—	60,407	60,407
Total	**$ 1,389,437**	**$ 8,697,345**	**$ 10,086,782**	$ 1,454,473	$ 8,604,401	$ 10,058,874

The fair value of mortgages has been calculated by discounting cash flows of each mortgage at a discount rate appropriate to its remaining term to maturity. The discount rates are determined based on regular competitive rate surveys. The fair values of Loans on policies and Policy contract loans approximates their carrying values, due to the life insurance contracts that secure them.

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 and there were no Level 3 investments during the year ended December 31, 2021 or during the year ended December 31, 2020.

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

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 27 Risk Management.

(b) Impairments

(i) Loans and receivables

Investments in individual assets have been reduced by the following specific allowances for impairment:

As at December 31	2021			2020		
Impaired Loans	**Recorded investment**	**Allowance for impairment**	**Carrying value**	Recorded investment	Allowance for impairment	Carrying value
Mortgages	**$ 3,939**	**$ 1,550**	**$ 2,389**	$ 6,337	$ 3,147	$ 3,190
Policy contract loans	**813**	**424**	**389**	813	444	369
Total	**$ 4,752**	**$ 1,974**	**$ 2,778**	$ 7,150	$ 3,591	$ 3,559

The Company holds collateral with a fair value of $2,389 (2020 $3,190) in respect of these mortgages and $389 (2020 $369) in respect of these policy contract loans as at December 31, 2021. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

For the year ended December 31	2021	2020
Continuity of allowance for loan impairment:		
Allowance - beginning of year	**$ 3,591**	$ 3,138
Provision for loan impairment	**(44)**	618
Write-off of loans	**(1,573)**	(165)
Allowance - end of year	**$ 1,974**	$ 3,591

The Company has recorded interest income of $513 (2020 $751) on these assets.

(ii) Available for sale

For the year-ended December 31, 2021, the Company reclassified a pre-tax gain of $1,506 (pre-tax loss 2020 $4,252) from OCI to Net income due to write downs of impaired AFS common and preferred shares. Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

For additional information on the fair values of the Company's AFS investments, refer to Note 3(a). For analysis of the Company's risks arising from financial instruments, refer to Note 27.

(c) Investment income

Investment income is comprised of the following:

For the year ended December 31	2021	2020
Interest income	**$ 271,391**	$ 271,271
Dividend income	**55,761**	57,279
Other	**2,171**	1,491
Provision for loan impairment	**370**	(618)
Investment income	**$ 329,693**	$ 329,423

Interest income includes $60,827 (2020 $62,916) relating to assets not classified as FVTPL.

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

(d) 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 December 31	2021			2020		
	Notional principal	**Fair value assets**	**Fair value liabilities**	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	**$ 69,166**	**$ 2,669**	**$ 1,170**	$ 104,315	$ 3,325	$ 43
Equity options	**448,381**	**3,632**	**—**	122,828	2,033	—
Over-the-counter						
Foreign currency forwards	**33,158**	**1**	**663**	34,114	16	7
Cross currency swaps	**20,980**	**—**	**596**	20,980	3	1,360
Total	**$ 571,685**	**$ 6,302**	**$ 2,429**	$ 282,237	$ 5,377	$ 1,410

All contracts mature in less than one year, except for cross currency swaps which mature in more than five years. Fair value asset amounts are reported in the Consolidated Statements of Financial Position as Derivative assets. Fair value liability amounts are reported in the Consolidated Statements of Financial Position as part of Accounts payable and other liabilities. Fair value of exchange traded derivatives is determined based on Level 1 inputs. Foreign currency forward contracts are valued based primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency, interest rates and credit spreads.

Cross currency swaps are valued by discounting the future cash flows for both legs at the underlying market interest rate curves in each currency applicable at the valuation date. The sum of the cash flows denoted in the foreign currency is converted with the spot rate applicable at that time. The foreign currency leg, where Empire Life owes interest and principal, produces a negative fair value to Empire Life while the Canadian dollar leg produces a positive fair value to Empire Life. The net of these amounts represents the reported fair value of the cross currency swap. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit-related inputs are determined not to be significant to fair value, are classified as Level 2.

For analysis of the Company's risks arising from financial instruments, refer to Note 27.

(e) 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.

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

Income recognized from securities lending activities was as follows:

For the year ended December 31	2021	2020
General funds	$ **1,748**	$ 1,593
Segregated funds	**1,564**	1,677
Total	$ **3,312**	$ 3,270

As at December 31, 2021 and December 31, 2020, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at December 31	2021			2020		
	General Funds	**Segregated Funds**	**Total**	General Funds	Segregated Funds	Total
Value of securities loaned	$ **1,514,071**	$ **1,508,807**	$ **3,022,878**	$ 1,307,965	$ 1,452,978	$ 2,760,943
Value of collateral received	$ **1,544,381**	$ **1,539,045**	$ **3,083,426**	$ 1,334,144	$ 1,482,183	$ 2,816,327

4. Insurance Receivables

As at December 31	2021	2020
Due from policyholders	$ **4,786**	$ 2,946
Due and accrued from reinsurers	**21,287**	15,591
Fees receivable	**13,806**	14,415
Other	**8,821**	13,581
Insurance receivables	$ **48,700**	$ 46,533

All amounts are expected to be recovered within one year of the Consolidated Statements of Financial Position date. These financial instruments are short-term in nature and their fair values approximate carrying values.

5. Other Assets

Other assets consist of the following:

As at December 31	2021	2020
Trade accounts receivable	$ **6,696**	$ 7,245
Prepaid expenses	**7,336**	7,236
Right-of-use assets	**5,420**	6,808
Other assets	$ **19,452**	$ 21,289

All amounts are expected to be recovered within one year of the Consolidated Statements of Financial Position date except for right-of-use assets of $5,420 (2020 $6,808). Trade accounts receivable are short-term in nature and their fair values approximate carrying value.

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

6. Property and Equipment

	Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Cost					
As at January 1, 2020	$ 2,318	$ 13,039	$ 46,021	$ 9,010	$ 70,388
Additions	—	—	1,238	720	1,958
Disposals	—	—	—	—	—
As at December 31, 2020	2,318	13,039	47,259	9,730	72,346
Additions	—	—	1,351	28	1,379
Disposals	—	—	—	—	—
As at December 31, 2021	**$ 2,318**	**$ 13,039**	**$ 48,610**	**$ 9,758**	**$ 73,725**
Amortization					
As at January 1, 2020	$ —	$ (5,192)	$ (35,897)	$ (7,283)	$ (48,372)
Charge for the year	—	(392)	(4,880)	(401)	(5,673)
Disposals	—	—	—	—	—
As at December 31, 2020	—	(5,584)	(40,777)	(7,684)	(54,045)
Charge for the year	—	(372)	(3,976)	(443)	(4,791)
Disposals	—	—	—	—	—
As at December 31, 2021	**$ —**	**$ (5,956)**	**$ (44,753)**	**$ (8,127)**	**$ (58,836)**
Carrying amount					
December 31, 2021	**$ 2,318**	**$ 7,083**	**$ 3,857**	**$ 1,631**	**$ 14,889**
December 31, 2020	$ 2,318	$ 7,455	$ 6,482	$ 2,046	$ 18,301

There were no asset impairments in 2021 or 2020.

7. Intangible Assets

	Intangible assets
Cost	
As at January 1, 2020	$ 75,747
Additions	11,179
Disposals	—
As at December 31, 2020	86,926
Additions	9,363
Disposals	(444)
As at December 31, 2021	**$ 95,845**
Amortization	
As at January 1, 2020	$ (53,390)
Charge for the year	(5,553)
Disposals	—
As at December 31, 2020	(58,943)
Charge for the year	(8,605)
Disposals	214
As at December 31, 2021	**$ (67,334)**
Carrying amount	
December 31, 2021	**$ 28,511**
December 31, 2020	$ 27,983

There were no asset impairments during 2021 or 2020.

.

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

8. Segregated Funds

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

As at December 31	2021	2020
Cash	$ **39,880**	$ 34,871
Short-term investments	**467,829**	410,641
Bonds	**1,880,326**	1,866,564
Common and preferred shares	**6,935,850**	6,207,527
Other assets	**30,271**	20,320
	9,354,156	8,539,923
Less segregated funds held within general fund investments	**(96,858)**	(82,506)
Total	$ **9,257,298**	$ 8,457,417

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

As at December 31	2021			2020		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Cash	$ **39,880**	$ **—**	$ **39,880**	$ 34,871	$ —	$ 34,871
Short-term investments	**—**	**467,829**	**467,829**	—	410,641	410,641
Bonds	**—**	**1,880,326**	**1,880,326**	—	1,866,564	1,866,564
Common and preferred shares	**6,935,850**	**—**	**6,935,850**	6,207,527	—	6,207,527
Total	$ **6,975,730**	$ **2,348,155**	$ **9,323,885**	$ 6,242,398	$ 2,277,205	$ 8,519,603

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2021 and December 31, 2020. There were no Level 3 investments as at December 31, 2021 and December 31, 2020.

(c) The following table presents the change in segregated fund assets:

For the year ended December 31	2021	2020
Segregated fund assets - beginning of year	$ **8,457,417**	$ 8,498,583
Additions to segregated funds:		
Amount received from policyholders	**997,002**	774,960
Interest	**58,995**	60,001
Dividends	**204,465**	157,007
Other income	**22,441**	15,676
Net realized gains on sale of investments	**382,696**	11,173
Net unrealized increase in fair value of investments	**538,711**	190,114
	2,204,310	1,208,931
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	**1,131,098**	1,014,459
Management fees and other operating costs	**258,979**	230,898
	1,390,077	1,245,357
Net change in segregated funds held within general fund investments	**(14,352)**	(4,740)
Segregated fund assets - end of year	$ **9,257,298**	$ 8,457,417

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

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

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

9. Insurance Payables

As at December 31		2021		2020
Claims due and accrued	**$**	**47,237**	$	49,207
Payable to agents		**20,342**		21,564
Premiums paid in advance		**1,506**		1,008
Due to reinsurance companies		**18,289**		9,456
Other		**28,419**		33,703
Insurance payables	**$**	**115,793**	$	114,938

Of the above total, $786 (2020 $759) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. Most of these financial instruments are short-term in nature and their fair value approximates carrying values.

10. Insurance Contract Liabilities and Reinsurance Assets/Liabilities

(a) Nature and composition of insurance contract liabilities and related reinsurance
Insurance contract liabilities include life, health and annuity contracts on a participating and non-participating basis.

Changes in actuarial assumptions are made based on emerging and evolving experience with respect to major factors affecting estimates of future cash flows and consideration of economic forecasts of investment returns, industry and internal studies and the Standards of Practice of the Canadian Institute of Actuaries (CIA) and OSFI guidelines.

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

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

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

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

The Company is active in most life insurance and annuity product lines across Canada and does not operate in foreign markets. The table below shows the concentration of insurance contract liabilities and related reinsurance assets (liabilities) by type of contract:

As at December 31	2021			2020		
	Gross insurance contract liabilities	**Reinsurance (assets) liabilities**	**Net**	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Participating Individual						
Life	**$ 878,191**	**$ 6,975**	**$ 885,166**	$ 824,384	$ 8,631	$ 833,015
Annuity	**79**	**—**	**79**	86	—	86
Non-participating Individual						
Life	**4,836,301**	**413,301**	**5,249,602**	4,752,536	511,682	5,264,218
Health	**260,617**	**(8,332)**	**252,285**	268,383	(8,832)	259,551
Annuity	**792,840**	**(7,314)**	**785,526**	1,033,955	(8,844)	1,025,111
Non-participating Group						
Life	**41,063**	**(6,880)**	**34,183**	34,157	(3,796)	30,361
Health	**318,024**	**(144,420)**	**173,604**	265,944	(114,080)	151,864
Annuity	**41,178**	**—**	**41,178**	44,428	—	44,428
Segregated fund deferred acquisition costs	**(77,240)**	**—**	**(77,240)**	(78,412)	—	(78,412)
Total	**$ 7,091,053**	**$ 253,330**	**$ 7,344,383**	$ 7,145,461	$ 384,761	$ 7,530,222

The Company expects to pay $6,996,900 (2020 $7,060,918) of Insurance contract liabilities and $279,162 (2020 $400,547) of Reinsurance liabilities more than one year after the Consolidated Statements of Financial Position date. The remaining balance is expected to be settled within one year.

The following segregated fund deferred acquisition costs are included in Insurance contract liabilities:

	2021	2020
Segregated funds deferred acquisition costs - beginning of year	**$ 78,412**	$ 84,058
Deferred during year	**28,170**	23,013
Amortized during year	**(29,342)**	(28,659)
Segregated funds deferred acquisition costs - end of year	**$ 77,240**	$ 78,412

Of the above total, $31,701 (2020 $30,863) is expected to be amortized during the next year.

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

(b) Change in insurance contract liabilities and reinsurance assets/liabilities

For the year ended December 31	2021			2020		
	Gross insurance contract liabilities	**Reinsurance (assets) liabilities**	**Net**	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance - beginning of year	**$ 7,145,461**	**$ 384,761**	**$ 7,530,222**	$ 6,073,868	$ 698,372	$ 6,772,240
Changes in methods and assumptions						
Non-participating policies						
Changes for expected mortality/ morbidity	**83,021**	**(57,640)**	**25,381**	65,030	(1,116)	63,914
Update of mortality table	**—**	**—**	**—**	185,705	(261,583)	(75,878)
Lapse/premium assumption updates	**150,691**	**(37,459)**	**113,232**	114,801	(15,614)	99,187
Update of investment return assumptions	**(79,112)**	**(3,352)**	**(82,464)**	120,160	(23,949)	96,211
Model enhancements and other changes	**2,480**	**2**	**2,482**	(37,030)	25,363	(11,667)
Reinsurance recapture	**(11,357)**	**—**	**(11,357)**	(7,491)	(12,093)	(19,584)
Deferred future tax liability modeling updates	**—**	**—**	**—**	(108,116)	(8,527)	(116,643)
Participating policies						
Model enhancements and other changes	**145**	**(53)**	**92**	(497)	191	(306)
Normal changes						
New business	**(31,000)**	**213**	**(30,787)**	(30,897)	(1,484)	(32,381)
In-force business	**(169,276)**	**(33,142)**	**(202,418)**	769,928	(14,799)	755,129
Balance - end of year	**$ 7,091,053**	**$ 253,330**	**$ 7,344,383**	$ 7,145,461	$ 384,761	$ 7,530,222

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

Changes in 2021 related to expected mortality projections are primarily due to an update in the calculation of mortality improvement used in the valuation of liabilities. Changes made in 2020 were primarily related to revised assumptions for renewable term business.

In 2019 the universal life and non-participating individual insurance mortality tables were replaced by more recent industry tables. Actual/expected ratios were updated based on a combination of Empire Life and industry experience. Partial credit was taken for this change in 2019, with the remainder recognized in 2020.

In both 2020 and 2021 the lapse/premium assumption change is related to updates of assumed lapse rates on renewable term and universal life polices as experience continues to unfold.

The investment return assumption change in 2021 is primarily related to an increase to the initial reinvestment rate (IRR) used in the valuation of liabilities. Updates were made to the assumed reinvestment mix used in the calculation of valuation credit spreads and to the CALM risk-free reinvestment scenario. In addition, regular annual updates were made to the preferred share maturity value assumption.

In 2020 the investment return assumption change was primarily related to two updates. On the individual insurance lines, decreases in the initial reinvestment rate used in the valuation produced a liability increase. For segregated funds, liability increases were mainly due to fund mapping refinements as additional experience emerges.

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

In 2019, the Company enacted significant changes to its reinsurance programs. Specifically, the reinsurers of the Company's individual life policies were notified that in 2020 the Company will increase its individual life retention from $500,000 to $1.5 million and the recapture provisions of all eligible reinsurance treaties would be enacted. The recapture resulted in a substantial net liability decrease on both the universal life and non-participating blocks of business as the present value of future reinsurance premiums was greater than the estimated future claims. Additional amounts were recognized in 2020 and 2021 as provisions from the actuarial liabilities were released.

Actuarial standards allow for the capitalization of preferred tax treatment of dividends on Canadian equities that are supporting the actuarial liabilities. Prior to 2020, projections included 20 years of such benefit. The 20 years was changed to 80 years in 2020, resulting in a significant reserve reduction.

(c) Mix of assets allocated to insurance, annuity, investment contract liabilities and equity

	As at December 31, 2021				
	Insurance liabilities	**Annuity liabilities**	**Investment contract liabilities**	**Equity and other liabilities**	**Total**
Cash and cash equivalents & Short-term investments	**$ 154,696**	**$ 46,514**	**$ 2,499**	**$ (1,845)**	**$ 201,864**
Bonds	**5,102,016**	**587,909**	**198,079**	**2,261,456**	**8,149,460**
Mortgages	**25,885**	**114,628**	**5,877**	**7,174**	**153,564**
Preferred shares	**216,149**	**149,182**	**8,354**	**67,654**	**441,339**
Common shares	**961,671**	**—**	**37**	**57,726**	**1,019,434**
Derivative assets	**2,670**	**—**	**—**	**3,632**	**6,302**
Loans on policies	**56,197**	**—**	**720**	**—**	**56,917**
Policy contract loans	**256**	**16,852**	**—**	**35,700**	**52,808**
Other	**27,041**	**4,893**	**971**	**158,772**	**191,677**
Total	**$ 6,546,581**	**$ 919,978**	**$ 216,537**	**$ 2,590,269**	**$ 10,273,365**

	As at December 31, 2020				
	Insurance liabilities	Annuity liabilities	Investment contract liabilities	Equity and other liabilities	Total
Cash and cash equivalents & Short-term investments	$ 153,996	$ 38,891	$ 1,647	$ 7,830	$ 202,364
Bonds	5,187,229	614,552	175,894	2,050,105	8,027,780
Mortgages	22,503	128,709	6,002	—	157,214
Preferred shares	234,436	187,723	7,744	186,999	616,902
Common shares	870,965	—	—	47,735	918,700
Derivative assets	3,344	—	—	2,033	5,377
Loans on policies	55,805	—	653	—	56,458
Policy contract loans	648	20,120	—	39,639	60,407
Other	24,930	4,918	760	182,526	213,134
Total	$ 6,553,856	$ 994,913	$ 192,700	$ 2,516,867	$ 10,258,336

Provisions made for anticipated future losses of principal and interest on investments and included as a component of policy liabilities are $259,200 (2020 $256,800).

(d) Fair value of insurance and investment contract liabilities and reinsurance assets/liabilities

In the absence of an active market for the sale of insurance and investment contract liabilities and reinsurance assets/liabilities, the actuarially determined values provide a reasonable approximation of their fair value. Investment contract liabilities are term certain annuities with a relatively short duration.

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

(e) Liquidity

The Company defines liquid assets as high quality marketable investments that may be easily sold, meaning there exists an active market and observable prices for the investments. Liquid asset values are based on fair value as at the reporting date.

The Company defines cash demands or demand liabilities as those policyholder obligations that may be called on immediately at the discretion of the policyholder. More specifically, demand liabilities include cash surrender values under whole life insurance products as well as current accumulated values of annuity products. Amounts would be gross of any surrender charge or market value adjustment allowed under the terms of the contract. Demand liabilities are determined as though all such policyholders made their call at the same time and as such cannot be readily compared to insurance contract liabilities that are determined based on actuarial assumptions associated with lapse as well as other decrements.

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 December 31		2021		2020
Assets:				
Cash and cash equivalents & Short-term investments	**$**	**201,864**	$	202,364
Canadian federal and provincial bonds		**4,082,043**		4,359,071
Other readily-marketable bonds and stocks		**4,816,579**		4,335,512
Total liquid assets	**$**	**9,100,486**	$	8,896,947
Liabilities:				
Demand liabilities with fixed values	**$**	**875,418**	$	807,656
Demand liabilities with market value adjustments		**1,227,633**		1,217,439
Total liquidity needs	**$**	**2,103,051**	$	2,025,095

11. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

As at December 31		2021		2020
Accounts payable	**$**	**46,406**	$	45,610
Post-employment benefit liability (Note 12)		**23,503**		68,527
Accrued interest on subordinated debt		**4,735**		2,554
Derivative liabilities (Note 3d)		**2,429**		1,410
Lease liabilities		**5,690**		6,798
Other		**12,820**		6,072
Accounts payable and other liabilities	**$**	**95,583**	$	130,971

Of the above total, $28,236 (2020 $74,094) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. In the absence of an active market for post-employment benefit liabilities, the actuarially determined value provides a reasonable approximation of fair value. Derivative liabilities are carried at fair value, as disclosed in Note 3(d). All other amounts are short-term in nature and their fair value approximates carrying value.

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

12. Employee Benefit Plans

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

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

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

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

A pension committee, composed of selected senior members of Empire Life's management and that of its parent, E-L Financial Corporation, oversees the Pension Plan of the Company. The Pension Committee reports to the Human Resources Committee of the Board three times each year. The Audit Committee of the Board approves the audited annual financial statements of the Pension Plan.

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

The following tables present financial information for the Company's defined benefit plans:

	Pension benefits		Other post-employment benefits	
As at December 31	**2021**	2020	**2021**	2020
Present value of obligations	**$ 247,223**	$ 280,587	**$ 8,706**	$ 8,919
Fair value of plan assets	**232,426**	220,979	**—**	—
Post-employment benefit asset (liability)	**$ (14,797)**	$ (59,608)	**$ (8,706)**	$ (8,919)

The post-employment benefit asset (liability), net of the cumulative impact of the asset ceiling, is included in the Consolidated Statements of Financial Position in Accounts payables and other liabilities (Note 11).

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

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

	Pension benefits		Other post-employment benefits	
As at December 31	**2021**	2020	**2021**	2020
Present value of defined benefit obligation - beginning of year	**$ 280,587**	$ 249,494	**$ 8,919**	$ 8,656
Current service cost	**6,811**	7,562	**—**	—
Past service cost	**—**	—	**—**	—
Interest expense	**6,936**	7,731	**207**	256
Decrease (increase) in net income before tax	**13,747**	15,293	**207**	256
Remeasurements				
(Gain) loss from changes in demographic assumptions	**—**	4,404	**155**	—
(Gain) loss from changes in financial assumptions	**(25,650)**	20,219	**(563)**	599
Actuarial (gain) loss from member experience	**(112)**	1,659	**377**	(229)
Change in effect of asset limit	**1,630**	—		
Decrease (increase) in OCI before tax	**(24,132)**	26,282	**(31)**	370
Employee contributions	**1,249**	1,334	**—**	—
Benefits paid	**(24,228)**	(11,816)	**(389)**	(363)
Present value of defined benefit obligation - end of year	**$ 247,223**	$ 280,587	**$ 8,706**	$ 8,919

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

	Pension benefits	
As at December 31	**2021**	2020
Fair value of defined benefit assets - at beginning of year	**$ 220,979**	$ 215,534
Interest income	**5,519**	6,730
Administrative expense	**(291)**	(291)
Increase (decrease) in net income before tax	**5,228**	6,439
Remeasurements		
Return on plan assets, excluding amounts included in interest income	**21,969**	3,797
Gain (loss) from changes in demographic assumptions	**—**	—
Gain (loss) from changes in financial assumptions	**—**	—
Actuarial gain (loss) from member experience	**—**	—
Change in effect of asset limit	**—**	—
Increase (decrease) in OCI before tax	**21,969**	3,797
Plan transfers / curtailments		
Employer contributions	**7,229**	5,691
Employee contributions	**1,249**	1,334
Benefits paid	**(24,228)**	(11,816)
Fair value of defined benefit assets - end of year	**$ 232,426**	$ 220,979

The actual return on defined benefit assets net of administrative expense, for the year ended December 31, 2021 was a gain of $27,197 (2020 gain of $10,236).

Defined benefit plan expense is recognized in Operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include $2,488 (2020 $2,189) of employer contributions related to the defined contribution component of the Plan.

Expected contributions (including both employer and employee amounts) to the Company's defined benefit pension plans for the year ending December 31, 2021 are approximately $7,916.

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

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

As at December 31	2021		2020	
Equity				
Canadian	**$ 82,532**	**36%**	$ 70,609	32%
Foreign	**57,173**	**24%**	57,521	26%
Total equity	**139,705**	**60 %**	128,130	58 %
Debt				
Canadian	**71,278**	**31%**	68,043	31%
Cash, cash equivalent, accruals	**3,551**	**2%**	5,946	3%
Mutual funds	**9,229**	**4%**	9,516	4%
Other	**8,663**	**3 %**	9,344	4 %
Total fair value of assets	**$ 232,426**	**100%**	$ 220,979	100%

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

The following weighted average assumptions were used in actuarial calculations:

	Pension benefits		Other post-employment benefits	
As at December 31	2021	2020	2021	2020
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	**3.15%**	2.55%	**3.00%**	2.40%
Discount rate - net interest	**2.55%**	3.15%	**2.40%**	3.05%
Rate of compensation increase	**3.00%**	3.00%	**n/a**	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	**n/a**	n/a	**5.4%**	5.5%
Cost trend rate declines to	**n/a**	n/a	**4.0%**	4.0%
Year ultimate health care cost trend rate is reached	**n/a**	n/a	**2040**	2040

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

As at December 31	2021	2020
Males aged 65 at measurement date	**22.13**	22.05
Females aged 65 at measurement date	**24.81**	24.74
Males aged 40 at measurement date	**23.97**	23.90
Females aged 40 at measurement date	**26.47**	26.41

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

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

		Impact on Pension Benefit Obligation		**Impact on Other Post Employment Benefit Obligations**	
As at December 31, 2021	**Change in assumption**	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate	**1%**	**$ (24,760)**	**$ 31,816**	**$ (968)**	**$ 820**
Rate of compensation increase	**1%**	**$ 10,665**	**$ (10,099)**	**n/a**	**n/a**
Health care cost increase	**1%**	**n/a**	**n/a**	**$ 760**	**$ (932)**
Life expectancy	**1 year**	**$ 5,121**	**$ (5,197)**	**$ 285**	**$ (575)**

		Impact on pension benefits		Impact on other post employment benefits	
As at December 31, 2020	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	1%	$ (30,131)	$ 38,490	$ (1,064)	$ 880
Rate of compensation increase	1%	$ 12,653	$ (10,484)	n/a	n/a
Health care cost increase	1%	n/a	n/a	$ 870	$ (1,064)
Life expectancy	1 year	$ 5,958	$ (6,014)	$ 270	$ (614)

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

As at December 31	**2021**	2020
Staff pension plan	**12**	12
Supplemental employee retirement plan	**9**	10
Other post-employment benefits	**10**	11

Risks

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

Asset volatility

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

Changes in bond yields

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

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

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

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

The last triennial valuation on the Staff Pension Plan was completed in November 2020, as at December 31, 2019. The next triennial valuation will be completed in 2023, as at December 31, 2022.

13. Subordinated Debt

The table below presents the obligations included in Subordinated debt as at December 31.

As at December 31				2021	2020
	Interest rate	Earliest par call or redemption Date	Maturity	Carrying value	Carrying value
Series 2016-1[1]	3.383 %	December 16, 2021	2026	—	199,820
Series 2017-1[2]	3.664 %	March 15, 2023	2028	199,790	199,622
Series 2021-1[3]	2.024 %	September 24, 2026	2031	199,068	—
Total Subordinated Debt				$ 398,858	$ 399,442
Fair Value				$ 401,850	$ 416,654

(1) All of the outstanding Series 2016-1 Subordinated 3.383% Unsecured Debentures were redeemed on December 16, 2021.
(2) Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.
(3) Series 2021-1 Subordinated 2.024% Unsecured Debentures due 2031. From September 24,2026, interest is payable at 0.67% over CDOR

14. Insurance Premiums

For the year ended December 31	2021			2020		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	$ 583,034	$ (132,918)	$ 450,116	$ 544,534	$ (120,865)	$ 423,669
Health premiums	525,119	(134,295)	390,824	442,322	(100,331)	341,991
Total life and health premiums	1,108,153	(267,213)	840,940	986,856	(221,196)	765,660
Annuity premiums	74,746	(143)	74,603	94,774	(193)	94,581
Total insurance premiums	$ 1,182,899	$ (267,356)	$ 915,543	$ 1,081,630	$ (221,389)	$ 860,241

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

15. Fee Income

For the year ended December 31		2021		2020
Investment management, policyholder administration and guarantee fees	**$**	**260,409**	$	239,473
Surrender charges and other miscellaneous fees		**12,365**		11,870
Fee income	**$**	**272,774**	$	251,343

16. Benefits and Expenses

(a) Insurance contract benefits and claims paid

For the year ended December 31		2021						2020				
		Gross		**Reinsurance ceded**		**Net**		Gross		Reinsurance ceded		Net
Life claims	**$**	**260,545**	**$**	**(77,663)**	**$**	**182,882**	$	259,655	$	(82,233)	$	177,422
Health claims		**356,449**		**(80,514)**		**275,935**		280,732		(54,237)		226,495
Total life and health claims		**616,994**		**(158,177)**		**458,817**		540,387		(136,470)		403,917
Annuity benefits		**172,056**		**(755)**		**171,301**		175,379		(1,005)		174,374
Benefits and claims paid	**$**	**789,050**	**$**	**(158,932)**	**$**	**630,118**	$	715,766	$	(137,475)	$	578,291

(b) Change in insurance contract liabilities and reinsurance ceded

For the year ended December 31		2021						2020				
		Gross		**Reinsurance ceded**		**Net**		Gross		Reinsurance ceded		Net
Life	**$**	**144,478**	**$**	**(103,124)**	**$**	**41,354**	$	868,145	$	(289,466)	$	578,679
Health		**44,314**		**(29,838)**		**14,476**		66,839		(24,176)		42,663
Total life and health		**188,792**		**(132,962)**		**55,830**		934,984		(313,642)		621,342
Annuity		**(243,200)**		**1,531**		**(241,669)**		136,609		31		136,640
Change in insurance contract liabilities	**$**	**(54,408)**	**$**	**(131,431)**	**$**	**(185,839)**	$	1,071,593	$	(313,611)	$	757,982

17. Operating Expenses

Operating expenses include the following:

For the year ended December 31		2021		2020
Salary and benefits expense	**$**	**104,923**	$	100,907
Professional services		**15,492**		14,864
Rent, maintenance and amortization of right-of-use assets		**18,306**		18,346
Amortization of property and equipment and intangibles		**13,396**		11,226
Other		**24,396**		22,962
Total	**$**	**176,513**	$	168,305

Significant components of other expenses include travel, advertising, and office supplies and services.

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

18. Income Taxes

(a) Income tax expense

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

For the year ended December 31		2021		2020
Current income tax expense	$	**66,751**	$	11,381
Deferred income tax expense (benefit)				
Relating to the origination and reversal of temporary differences		**(2,342)**		32,951
Income tax expense	$	**64,409**	$	44,332

During 2021 the Company paid income tax installments totaling $22,790 (2020 $114,490).

(b) Variance from statutory provision

Income taxes provided varies from the expected statutory provision as follows:

For the year ended December 31		2021		2020
Net income before income taxes	$	**323,343**	$	201,563
Income tax provision at statutory rates		**85,310**		53,310
Increase (decrease) resulting from:				
Tax paid on dividends		**(12,132)**		(12,630)
Miscellaneous		**(8,769)**		3,652
Income tax expense	$	**64,409**	$	44,332

The current enacted corporate tax rates as they impact the Company in 2021 stand at 26.38% (2020 26.45%). Expected future tax rates are as follows:

2022	26.38 %
2023	26.38 %
2024	26.38 %
2025	26.38 %
2026	26.38 %

The impact of future enacted corporate tax rates has been taken into consideration in the deferred tax calculation.

(c) Deferred income taxes

In certain instances the tax basis of assets and liabilities differs from the carrying amount. These differences will give rise to deferred income taxes, which are reflected on the Consolidated Statements of Financial Position. These differences arise in the following items:

As at December 31		2021		2020
Insurance contracts	$	**(39,452)**	$	(43,851)
Portfolio investments		**(9,553)**		(4,627)
Post-employment benefit plans		**6,786**		17,183
Other, net		**(3,320)**		(4,416)
Deferred income tax asset (liability)	$	**(45,539)**	$	(35,711)

Of the above total, $44,663 is expected to be paid (2020 $34,523 paid) more than one year after the Consolidated Statements of Financial Position date.

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

The net movement on the deferred income tax account is as follows:

For the year ended December 31		2021		2020
Deferred income tax asset (liability) - beginning of year	**$**	**(35,711)**	$	(8,805)
Deferred income tax benefit (expense)				
Statement of operations		**2,342**		(32,951)
Other comprehensive income		**(12,170)**		6,045
Deferred income tax asset (liability) - end of year	**$**	**(45,539)**	$	(35,711)

(d) Income taxes included in other comprehensive income

Other comprehensive income (loss) is presented net of income taxes.

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

For the year ended December 31		2021						2020				
		Before tax		**Tax provision (recovery)**		**After tax**		Before tax		Tax provision (recovery)		After tax
Unrealized fair value change on available for sale investments	**$**	**(77,892)**	**$**	**(20,664)**	**$**	**(57,228)**	$	107,384	$	28,490	$	78,894
Fair value change on available for sale investments reclassified to net income, including impairment write downs		**1,477**		**276**		**1,201**		(29,414)		(7,794)		(21,620)
Remeasurements of post-employment benefit liabilities		**46,132**		**12,171**		**33,961**		(22,855)		(6,046)		(16,809)
Total other comprehensive income (loss)	**$**	**(30,283)**	**$**	**(8,217)**	**$**	**(22,066)**	$	55,115	$	14,650	$	40,465

The following income tax amounts are included in each component of **shareholders' OCI:**

For the year ended December 31		2021						2020				
		Before tax		**Tax provision (recovery)**		**After tax**		Before tax		Tax provision (recovery)		After tax
Unrealized fair value change on available for sale investments	**$**	**(77,152)**	**$**	**(20,468)**	**$**	**(56,684)**	$	103,147	$	27,365	$	75,782
Fair value change on available for sale investments reclassified to net income, including impairment write downs		**2,360**		**512**		**1,848**		(26,282)		(6,964)		(19,318)
Remeasurements of post-employment benefit liabilities		**42,979**		**11,339**		**31,640**		(21,858)		(5,782)		(16,076)
Shareholder portion of policyholder other comprehensive income (loss)	**$**	**(116)**	**$**	**(31)**	**$**	**(85)**	$	120	$	32	$	88
Total other comprehensive income (loss)	**$**	**(31,929)**	**$**	**(8,648)**	**$**	**(23,281)**	$	55,127	$	14,651	$	40,476

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

The following income tax amounts are included in each component of **policyholders' OCI:**

For the year ended December 31	2021			2020		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	**$ (740)**	**$ (196)**	**$ (544)**	$ 4,237	$ 1,125	$ 3,112
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(883)**	**(236)**	**(647)**	(3,132)	(830)	(2,302)
Remeasurements of post-employment benefit liabilities	**3,153**	**832**	**2,321**	(997)	(264)	(733)
Shareholder portion of policyholder other comprehensive income (loss)	**116**	**31**	**85**	(120)	(32)	(88)
Total other comprehensive income (loss)	**$ 1,646**	**$ 431**	**$ 1,215**	$ (12)	$ (1)	$ (11)

19. Earnings Per Share

Earnings per share is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred shares issued (refer to Note 20) 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 year ended December 31	2021	2020
Basic and diluted EPS		
Common shareholders' net income	**$ 239,036**	$ 139,688
Weighted average number of common shares outstanding	**985,076**	985,076
Basic and diluted EPS	**$ 242.66**	$ 141.80

20. Capital Stock

As at	December 31, 2021			December 31, 2020		
	Shares authorized	**Shares issued and outstanding**	**Amount**	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 1	**unlimited**	**—**	**$ —**	unlimited	5,980,000	$ 149,500
Series 3	**unlimited**	**4,000,000**	**$ 100,000**	unlimited	4,000,000	$ 100,000
Limited recourse capital notes		**200,000**	**$ 200,000**		—	$ —
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 three-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.

On February 17, 2021, the Company issued $200 million of Limited Recourse Capital Notes Series 1 (LRCN Series 1) with recourse limited to assets held by a third party trustee in a trust which is consolidated in these financial statements. Payments of interest and principal in cash on the LRCN Series 1 are made at the discretion of the Company and non-payment of interest and principal in cash does not constitute an event of default. In the event of a non-payment of interest, the sole remedy of noteholders shall be the delivery of the holders' proportionate share of the trust assets. In such an event, the delivery of the trust assets will represent the full and complete extinguishment of the Company's obligations under the LRCN Series 1.

The trust assets consist of $200 million of Empire Life Non-Cumulative 5-year Fixed Rate Reset Preferred Shares, Series 5 which were issued concurrently with the LRCN Series 1 at a rate of $1,000 per Series 5. Holders of the LRCN Series 1 are entitled to receive semi-annual payments at a rate of 3.625% per annum until April 17, 2026. Thereafter, the yield will reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.082%.

On April 17, 2021, the Company redeemed all of the outstanding Preferred Shares, Series 1 at the price of $25.00 per share for an aggregate total of $149.5 million plus declared dividends.

21. 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 28, 2021	985,076	$ 14.212010	$ 13,998	December 7, 2021
	July 29, 2021	985,076	$ 14.212101	$ 14,000	September 8, 2021
	April 29, 2021	985,076	$ 14.212101	$ 14,000	June 8, 2021
	February 24, 2021	985,076	$ 10.635322	$ 10,477	April 1, 2021
	October 29, 2020	985,076	$ 22.072300	$ 21,743	December 8, 2020
	July 29, 2020	985,076	$ 44.144700	$ 43,486	September 9, 2020
	February 26, 2020	985,076	$ 113.435853	$ 111,743	April 8, 2020
Preferred shareholder dividends					
Series 1	February 24, 2021	5,980,000	$ 0.359375	$ 2,149	April 17, 2021
	October 29, 2020	5,980,000	$ 0.359375	$ 2,149	January 17, 2021
	July 29, 2020	5,980,000	$ 0.359375	$ 2,149	October 17, 2020
	April 30, 2020	5,980,000	$ 0.359375	$ 2,149	July 17, 2020
	February 26, 2020	5,980,000	$ 0.359375	$ 2,149	April 17, 2020
Series 3	October 28, 2021	4,000,000	$ 0.306250	$ 1,225	January 17, 2022
	July 29, 2021	4,000,000	$ 0.306250	$ 1,225	October 17, 2021
	April 29, 2021	4,000,000	$ 0.306250	$ 1,225	July 17, 2021
	February 24, 2021	4,000,000	$ 0.306250	$ 1,225	April 17, 2021
	October 29, 2020	4,000,000	$ 0.306250	$ 1,225	January 17, 2021
	July 29, 2020	4,000,000	$ 0.306250	$ 1,225	October 17, 2020
	April 30, 2020	4,000,000	$ 0.306250	$ 1,225	July 17, 2020
	February 26, 2020	4,000,000	$ 0.306250	$ 1,225	April 17, 2020

On February 23, 2022, the Board approved the following cash dividends:

- $18,175 ($18.45 per share) on the issued and outstanding Common Shares, payable on March 31, 2022.
- $1,225 ($0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on April 17, 2022.

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

22. Shareholders' Equity Entitlement

Shareholders' entitlement to $4,328 (2020 $3,594) of shareholders' equity is contingent upon future payment of dividends to participating policyholders.

23. 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' and participating policyholders' equity accounts 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:

	For the year ended December 31, 2021				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 74,603	$ 407,328	$ 433,612	$ —	$ 915,543
Interest income	27,768	7,416	182,072	54,135	271,391
Total investment income	35,519	3,511	226,531	64,132	329,693
Fair value change in fair value through profit or loss assets	(9,725)	(4,030)	(344,918)	(4,742)	(363,415)
Realized gain (loss) on fair value through profit or loss assets	777	5	122,588	(17,761)	105,609
Realized gain (loss) on available for sale assets including impairment write downs	471	430	423	(2,801)	(1,477)
Fee income from external customers	258,532	13,604	536	102	272,774
Net benefits and claims	171,301	285,579	173,238	—	630,118
Net change in insurance contract liabilities	(241,669)	25,521	30,309	—	(185,839)
Change in investment contract provision	471	—	—	—	471
Policy dividends	—	—	36,820	—	36,820
Amortization of property and equipment and intangibles	2,394	4,700	6,302	—	13,396
Total operating expenses	58,355	54,948	61,818	1,392	176,513
Net commission expense	84,874	48,469	100,435	—	233,778
Interest expense	—	—	—	21,472	21,472
Premium tax	—	10,520	7,709	—	18,229
Investment and capital tax	—	—	3,822	—	3,822
Income tax expense (recovery)	71,897	(1,657)	(7,287)	1,456	64,409
Net income (loss) after tax	214,948	(2,532)	31,908	14,610	258,934

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

	For the year ended December 31, 2020				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 94,581	$ 357,039	$ 408,621	$ —	$ 860,241
Interest income	28,424	6,208	181,905	54,734	271,271
Total investment income	37,825	3,993	221,932	65,673	329,423
Fair value change in fair value through profit or loss assets	31,218	5,348	320,531	(342)	356,755
Realized gain (loss) on fair value through profit or loss assets	4,068	3,551	154,499	(7,192)	154,926
Realized gain (loss) on available for sale assets including impairment write downs	(1,130)	(950)	3,266	28,228	29,414
Fee income from external customers	238,186	12,626	368	163	251,343
Net benefits and claims	174,374	235,063	168,854	—	578,291
Net change in insurance contract liabilities	136,640	21,384	599,958	—	757,982
Change in investment contract provision	989	—	—	—	989
Policy dividends	—	—	35,166	—	35,166
Amortization of property and equipment and intangibles	2,169	3,567	5,490		11,226
Total operating expenses	60,861	50,612	55,335	1,497	168,305
Net commission expense	74,636	46,792	81,133	—	202,561
Interest expense	—	—	—	14,437	14,437
Premium tax	—	9,225	9,517	—	18,742
Investment and capital tax	—	—	4,066	—	4,066
Income tax expense (recovery)	(13,497)	4,866	36,332	16,631	44,332
Net income (loss) after tax	(29,255)	13,665	118,856	53,965	157,231

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

	For the year ended December 31, 2021				
	Wealth Management	**Group Solutions**	**Individual Insurance**	**Capital & Surplus**	**Total**
Assets excluding segregated funds	**$ 919,978**	**$ 216,545**	**$ 6,546,573**	**$ 2,590,269**	**$ 10,273,365**
Segregated funds	**9,237,282**	**—**	**20,016**	**—**	**9,257,298**
Total assets	**$ 10,157,260**	**$ 216,545**	**$ 6,566,589**	**$ 2,590,269**	**$ 19,530,663**

	For the year ended December 31, 2020				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	$ 994,913	$ 192,700	$ 6,553,856	$ 2,516,867	$ 10,258,336
Segregated funds	8,439,229	—	18,188	—	8,457,417
Total assets	$ 9,434,142	$ 192,700	$ 6,572,044	$ 2,516,867	$ 18,715,753

While specific general fund assets are nominally matched against specific types of general fund liabilities or held in the shareholders' and policyholders' equity 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.

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

24. Commitments and Contingencies

Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. There was $21,742 (December 31, 2020, $40,012) of outstanding commitments as at December 31, 2021. The outstanding commitments are payable at any time up to and including December 31, 2023.

Other contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

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

In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

25. Related Party Transactions

The Company is a 98.3% owned subsidiary of E-L Financial Services Limited (ELFS) which in turn is a 100.0% owned subsidiary of E-L Financial Corporation Limited (E-L). E-L owns, directly and indirectly through ELFS, 99.4% of the common shares of Empire Life. The Company's ultimate controlling party is The Honourable Henry N. R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman. In the normal course of business, the Company enters into transactions with E-L and other companies under common control or common influence involving the leasing of office property, investment management services and miscellaneous office services. The amounts earned and expensed were not significant. Some directors and officers have insurance and investment policies underwritten by the Company.

In the fourth quarter of 2017, the Company issued 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 to E-L Financial Corporation Limited at $25 per share. Refer to Note 20 for further details.

Compensation of key management personnel

Key management personnel are comprised of directors and executive officers of the Company. The remuneration of key management personnel is as follows:

For the year ended December 31		2021		2020
Salaries and other short-term and long-term employee benefits	**$**	**7,260**	$	7,086
Post-employment benefits		**468**		525
Total	**$**	**7,728**	$	7,611

Post-employment benefits are comprised of employer current service costs for pension and other post-employment benefits.

26. Capital Management

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the Insurance Companies Act (Canada) as established and monitored by OSFI. OSFI has implemented the Life Insurance Capital Adequacy Test (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 December 31, 2021 and December 31, 2020 the Company was in compliance with the applicable regulatory capital ratios.

27. 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.

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 factor, assuming that all other risk variables remain constant. Actual results can differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for the Company's future Net income, OCI, and capital sensitivities. 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.

(a) Market risk
Market risk is the risk of loss arising from adverse changes in market rates and prices such as interest rates, trading prices of equities, real estate and other securities, credit spreads and foreign exchange rates.

Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. Under the Canadian insurance accounting and regulatory regime the Company's results for any period reflect equity market values and interest rates at the end of the period through mark-to-market accounting. Consequently, a decline in public equity market values or changes in interest rates or spreads could result in material changes to net income attributed to shareholders, increases to regulatory capital requirements and reduction in the Company's capital ratios.
The Company buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of the Company. The Company's investment strategy also includes the use of publicly-listed common stocks or exchange-traded funds (ETFs) to support the liabilities under its insurance policies. Cash flows arising from these investments are intended to match the liquidity requirements of the Company's policies, within the limits prescribed by the Company. However, if the

Company does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected.

Furthermore, a decrease in the fair value of the Company's common stock portfolio results in reduced shareholders' equity, reduced policyholders' surplus and a reduced LICAT position. Regulatory pressure to increase capital escalates as the LICAT position approaches OSFI's supervisory minimum. Net income would also be reduced if the declines in value are realized through dispositions or recognized in provisions for impairment.

The Company manages this risk exposure mainly through investment limits and oversight of its investment managers by the Chief Investment Officer, the Asset Management Committee, and the Investment Committee of the Board. The Investment Committee actively monitors the investment portfolio and asset mix.

The Company's general fund investments are subject to limits established by the *Insurance Companies Act* and to investment guidelines established by the Investment Committee of the Board. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments by segment. The Investment Committee receives reporting on general fund asset mix and performance by segment, derivatives matching, segregated fund asset mix and performance, and investment transactions for all funds. In addition, on at least a quarterly basis, management and the Company's investment managers report to the Investment Committee, and through the Investment Committee to the Board, on portfolio content, asset mix, the Company's matched position, the performance of general and segregated funds and compliance with the investment guidelines.

The Company has an Asset Management Committee, which meets regularly and reports at least quarterly to the Investment Committee of the Board. The mandate of the Asset Management Committee includes monitoring of the matched position of Empire Life's investments in relation to its liabilities within the various segments of the Company's operations. The matching process is designed so that assets supporting policy liabilities closely match the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Investments and asset/liability management guidelines, which are reviewed regularly with the Investment Committee, have been established to govern these activities. The Asset Management Committee reports regularly to the Investment Committee on the Company's matched positions, asset mixes, and investment allocation decisions relative to the Company's asset segments.

The Company has established a Capital Management Policy, capital management levels that exceed regulatory minimums and Financial Condition Testing (FCT) that takes into account the potential effect of adverse risk scenarios (including adverse market conditions and adverse interest rates) on the Company's capital position and liquidity. Management monitors its LICAT position on a regular basis and reports at least quarterly to the Board on the Company's LICAT.

For the Company, the most significant market risks are equity risk, interest rate risk and foreign exchange rate risk.

(1) Equity risk

The Company's investment portfolio consists primarily of bonds and equity securities and the fair value of its investments varies according to changes in general economic and securities market conditions, including volatility and declines in equity markets. Equity market volatility could occur as a result of general market volatility or as a result of specific social, political or economic events. A decline in securities markets could have an adverse impact on the return on assets backing capital, capital adequacy, and the management fees collected on segregated fund contracts, mutual funds and on index funds within universal life contracts and insurance policy liabilities and capital requirements, particularly in respect of segregated fund guarantees.

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

The risk of fluctuation of the market value of the Company's segregated funds and mutual funds is generally assumed by the policyholders and unit holders, respectively. Market value variations of such assets will result in variations in the income of the Company to the extent management fees are determined in relation to the value of such funds. A significant and steady decline of the securities markets may result in net losses on such products which could adversely affect the Company. Additionally, certain of the Company's segregated fund products contain guarantees upon death, maturity or withdrawal, where the guarantee may be triggered by the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on the Company's financial position, LICAT position and results of operations. The Company has reinsured a portion of its segregated fund death benefit guarantee. The Company also has a semi-static, economic hedging program. The objective of the economic hedging program is to partially protect the Company from possible future LICAT ratio declines that might result from adverse stock market price changes. The program presently employs put options and futures on key equity indices. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed.

The Company has an Equity Risk Hedging Policy to support general fund economic hedging programs. The policy outlines objectives, risk limits and authorities associated with its economic hedging activities. Management monitors its economic hedging activities on a regular basis and reports, at least quarterly, to the Risk and Capital Committee of the Board on the status of the economic hedging program.

The Company uses stochastic models to monitor and manage risk associated with segregated fund guarantees and establishes policyholder liability provisions in accordance with the Standards of Practice of the CIA. Product development and pricing policies also require consideration of portfolio risk and capital requirements in the design, development and pricing of the products. The Chief Actuary reports quarterly to the Risk and Capital Committee of the Board on the nature and value of the Company's segregated fund guarantee liabilities, including capital requirements.

The following table summarizes the estimated potential impact on the Company of a change in global equity markets. The Company uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. The Company has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. The amounts in the following table include the effect of Empire Life's general fund equity risk economic hedging program (described above). For segregated fund guarantees the level of sensitivity is highly dependent on the level of the stock market at the time of performing the sensitivity test. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased.

	As at December 31, 2021			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' net income (including segregated fund guarantees)*	**$ 17,836**	**$ (23,535)**	**$ 38,214**	**$ (205,652)**
Policyholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
Shareholders' other comprehensive income	**$ 4,250**	**$ (4,250)**	**$ 8,500**	**$ (8,500)**
Policyholders' other comprehensive income	**$ nil**	**$ nil**	**$ nil**	**$ nil**

	As at December 31, 2020			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	$ 117,189	$ (23,331)	$ 136,863	$ (103,028)
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ 3,511	$ (3,511)	$ 7,022	$ (7,022)
Policyholders' other comprehensive income	$ nil	$ nil	$ nil	$ nil

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

For the life insurance business, the Company's policy is to use equity investments to cover a portion of the estimated insurance liability cash flows of non-participating life and universal life products beyond 20 years following the balance sheet date. The value of the liabilities supported by these equity investments depends on assumptions about the future level of equity markets. The best-estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 9.2% (2020 9.0%). The Company uses an assumption of 7.2% (2020 7.7%) to include provisions for moderate changes in equity rates of return determined in accordance with Canadian actuarial standards of practice. The returns are then reduced by margins to determine the net returns used in the valuation. Changes in the current market would result in changes to these assumptions.

The impact of an immediate change in equity markets is described above. If the change in equity markets persisted for one year, then a change to the actuarial future equity market return assumption would be made. For non-participating insurance business, a 1.0% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing Net income by approximately $129,800 (2020 $166,100).

The following table identifies the concentration of the Company's common equity holdings in Empire Life's investment portfolios:

As at December 31	2021	2020
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	**$ 709,451**	$ 675,244
Percentage of total cash and investments	**7.0%**	6.7%
Exposure to the largest single issuer of common equities	**$ 454,457**	$ 447,166
Percentage of total cash and investments	**4.5%**	4.5%

(2) Interest rate risk

Interest rate risk arises when economic losses are incurred due to the need to reinvest or divest during periods of changing interest rates. Changes in interest rates, as a result of the general market volatility or as a result of specific social, political or economic events, could have an adverse effect on the Company's business and profitability in several ways. Certain of the Company's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, the Company may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited to customers, thereby adversely affecting the Company's operating results.

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

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

The following tables summarize the estimated immediate financial impact on Net income and OCI as a result of an immediate change in interest rates.

	As at December 31, 2021			
	50 bps Increase	**50 bps Decrease**	**100 bps Increase**	**100 bps Decrease**
Shareholders' net income	**$ 6,366**	**$ (7,068)**	**$ 12,109**	**$ (14,929)**
Policyholders' net income	**$ 281**	**$ (310)**	**$ 538**	**$ (651)**
Shareholders' other comprehensive income	**$ (52,995)**	**$ 62,918**	**$ (96,042)**	**$ 135,784**
Policyholders' other comprehensive income	**$ (1,363)**	**$ 1,447**	**$ (2,647)**	**$ 2,974**

	As at December 31, 2020			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	$ 11,547	$ (12,325)	$ 22,406	$ (25,520)
Policyholders' net income	$ 271	$ (298)	$ 519	$ (625)
Shareholders' other comprehensive income	$ (52,175)	$ 61,963	$ (94,562)	$ 133,713
Policyholders' other comprehensive income	$ (556)	$ 583	$ (1,086)	$ 1,192

The computation of policy liabilities takes into account projected investment income net of investment expenses from the assets supporting policy liabilities, and investment income expected to be earned on reinvestments. The assets supporting the policy liabilities are segmented from the assets backing shareholders' and policyholders' equity. For life and health insurance, the projected cash flows from the assets supporting policy liabilities are combined with estimated future reinvestment rates based on both the current economic outlook and the Company's expected future asset mix. In order to provide a margin that recognizes the mismatch of assets and liabilities, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the policy liabilities are then adjusted to provide for credible adverse future scenarios.

In order to match the savings component of policy liabilities that vary with a variety of indices and currencies, the Company maintains certain equity, bond and currency financial instruments as part of its general fund assets. Asset-liability mismatch risk for these liabilities is monitored regularly.

For the life insurance business, where the Insurance contract liabilities have a longer term than most available bonds and mortgages, the Company will need to reinvest net cash flows arising in the future to extend the duration of its assets. Under the Standards of Practice of the CIA, the yields assumed for these future reinvestments are related to current interest rates, the current economic outlook and the Company's expected future asset mix. The reinvestment assumption grades from the initial reinvestment rate (IRR) assumption to the ultimate reinvestment rate (URR) assumption over the rolling 40-year period following the balance sheet date.

The estimated impact of an immediate change in interest rates is described above. If interest rates increase or decrease during the next year, then a change to the IRR assumption would be required to take into account the then-current economic outlook. For non-participating insurance business, a 1.0% decrease in interest rates would cause a decrease in reinvestment assumption for the next 40-years, resulting in an increase to policy liabilities thereby reducing net income by approximately $50,800 (2020 $47,100). This assumes no change in the URR assumption.

For investment income expected to be earned on reinvestments beyond the rolling 40-year period, the Company uses an URR assumption. Under the Canadian Asset Liability Method, the URR assumption is prescribed as a long-term ultimate risk-free reinvestment rate of 2.9% (2020 3.1%) plus a maximum amount for credit spreads minus asset default rates of 0.9% (2020 0.8%). The prescribed level of the URR assumption may be periodically changed by the Actuarial Standards Board. As interest rates are currently lower than they were when the current URR assumptions were set, there may be a downward bias if the rates were to be updated.

In order to provide a margin that recognizes the longer-term mismatch, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the insurance contract liabilities are then adjusted to provide for credible adverse future scenarios. The Company uses an URR of 3.8% (2020 3.9%) to adjust for credible adverse scenarios.

For annuity business, where the timing and amount of the benefit obligations can be more readily determined, much closer matching of the asset and liability cash flows is possible, and applied, which helps mitigate the potential impact on the business from a sudden increase or decrease in interest rates. For annuity business, the impact a 1.0% decrease in assumed IRR has on policy liabilities and subsequently on Net income is negligible as a result of the matching process described above.

Interest rate risk in Empire Life's investment portfolio is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Company's investment guidelines establish investment objectives and eligible interest rate sensitive investments, as well as establish diversification criteria, exposure, concentration and asset quality limits for these investments. The Asset Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable levels and within risk tolerances. Product development and pricing policies and practices also require consideration of interest rate risk in the design, development and pricing of the products.

(3) Foreign exchange rate risk

Foreign exchange rate risk arises when the fair value of cash flows of a financial instrument fluctuate due to changes in exchange rates. This can create an adverse effect on earnings and equity when measured in the Company's functional currency.

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. A 10% fluctuation in the US dollar would have an impact of approximately $ nil (2020 $ nil) on shareholders' Net income, $ nil (2020 $ nil) on policyholder's Net income, $ nil (2020 $ nil) on shareholders' OCI and $ nil (2020 $ nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

The Company uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage foreign exchange risks. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed.

The Company has a Foreign Exchange Risk Management Policy which outlines objectives, risk limits and authority associated with any foreign exchange rate exposure. Oversight and management of this policy falls under the responsibility of the Asset Management Committee, which reports exposures and any breaches to the Risk and Capital Committee of the Board.

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

(b) Liquidity risk

Liquidity risk is the risk that an entity will not be able to fund all cash outflow commitments or obligations as they fall due or that, in order to fund commitments, an entity may have to sell assets at depressed prices resulting in losses at time of sale. Cash outflows could be in the form of benefit payments to policyholders, expenses, asset purchases and interest on debt. The majority of the Company's obligations relate to its policy liabilities, the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, and morbidity). The remaining obligations of the Company relate to the subordinated debt (refer to Note 13 - Subordinated Debt) and the Limited Recourse Capital Notes. to ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

The Company's liquidity risk management program is monitored by management and by the Board of the Company through regular reporting to the Investment Committee. The Company monitors its cash flow obligations and meets its liquidity needs by holding high quality marketable investments that may be easily sold, if necessary, and by maintaining a portion of investments in cash and short-term investments.

The Company maintains a liquidity policy requiring an assessment of the Company's liquidity risk and specific procedures so that liquidity needs are met. Compliance with the policy is monitored by the Asset Management Committee and exposures and breaches are reported to the Investment Committee of the Board. The Company's current liquidity position as at December 31 is provided in a table in Note 10(e). Based on the Company's historical cash flows and current financial performance, management believes that the cash flows from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

The following table shows details of the expected maturity profile of the Company's undiscounted obligations with respect to its financial liabilities and estimated cash flows of policy liabilities. Subordinated debt that are not due at a single maturity date are included in the tables in the year of final maturity. Actual maturities could differ from contractual maturities because of the borrower's right to call or extend prepay obligations, with or without prepayment penalties. Policy liability cash flows include estimates related to the timing and payment of death and disability claims, policy maturities, annuity payments, policyholder dividends, amounts on deposit, commission and premium taxes offset by contractual future premiums and fees on in-force business. Recoverables from reinsurance agreements are also reflected. Segregated fund liabilities are excluded from this analysis. These estimated cash flows are based on the best estimate assumptions, with margins for adverse deviations, used in the determination of policy liabilities. The actuarial and other policy liability amounts included in the Company's 2021 Consolidated Financial Statements are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

	As at December 31, 2021				
	1 year or less	**1 - 5 years**	**5 - 10 years**	**Over 10 years**	**Total**
Insurance contract liabilities	$ **69,210**	$ **175,021**	$ **706,802**	$ **25,147,726**	$ **26,098,759**
Investment contract liabilities	**3,365**	**13,457**	**10,686**	**7,840**	**35,348**
Subordinated debt	**11,548**	**228,852**	**206,760**	**—**	**447,160**
Preferred shares	**4,900**	**101,225**	**—**	**—**	**106,125**
Accounts payable and Other liabilities	**266,240**	**40,104**	**24,339**	**—**	**330,683**
Total	$ **355,263**	$ **558,659**	$ **948,587**	$ **25,155,566**	$ **27,018,075**

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

	As at December 31, 2020				
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 69,513	$ 157,882	$ 599,674	$ 23,853,965	$ 24,681,034
Investment contract liabilities	4,081	12,491	12,209	8,996	37,777
Subordinated debt	14,094	31,960	413,800	—	459,854
Preferred shares	156,549	93,082	—	—	249,631
Accounts payable and Other liabilities	$ 249,898	32,242	70,421	—	352,561
Total	$ 494,135	$ 327,657	$ 1,096,104	$ 23,862,961	$ 25,780,857

The Asset Management Committee, which meets regularly, monitors the matched position of the Company's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match, to the extent possible, the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. The Company maintains a portion of its investments in cash, cash equivalents and short-term investments to meet its short-term funding requirements. As at December 31, 2021, 2.0% (2020 2.0%) of cash and investments were held in these shorter duration investments.

(c) Credit risk

Credit risk is the possibility of loss from amounts either owed by financial counterparties, such as debtors, reinsurers and other financial institutions, or in connection with issuers of securities held in an asset portfolio. The Company is subject to credit risk which arises from debtors or counterparties who are unable to meet their obligations under debt or derivative instruments. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, cash and cash equivalents, mortgages and from reinsurers under reinsurance agreements.

The Company manages this risk by applying its investment guidelines and reinsurance risk management policy established by the Investment Committee and Risk and Capital Committee of the Board respectively. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of the Company's Board on the credit risk to which the portfolio is exposed. The Reinsurance Risk Management Policy (along with supporting material in the Product Design and Pricing Risk Management Policy) establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. The Company enters into long-term reinsurance agreements only with reinsurance companies that have a credit rating of "A-" or better.

Credit risk analysis includes the consideration of credit spreads. From an investment perspective, when buying credit the Company is guided by two principles; first that there is a high likelihood of return of principal and second that there is an acceptable return on investment. The Company looks to obtain a risk/reward balance that aligns with its objectives and risk philosophy. When determining Insurance contract liabilities, credit spreads and changes in credit spreads are reflected in the interest rate assumption.

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

The Company has the following assets that are exposed to credit risk:

As at December 31		2021		2020
Cash and cash equivalents	**$**	**193,217**	$	189,356
Short-term investments		**8,647**		13,008
Bonds		**8,149,460**		8,027,780
Preferred shares		**441,339**		616,902
Derivative assets		**6,302**		5,377
Mortgages		**153,564**		157,214
Reinsurance		**175,933**		141,136
Loans on policies		**56,917**		56,458
Policy contract loans		**52,808**		60,407
Accrued investment income		**42,379**		38,932
Insurance receivables		**48,700**		46,533
Trade accounts receivable		**6,696**		7,245
Total	**$**	**9,335,962**	$	9,360,348

Mortgages, Loans on policies and Policy contract loans are fully or partially secured.

The Company has made provision in its Consolidated Statements of Financial Position for credit losses. Provisions have been made partly through reduction in the value of the assets (see Note 3(b)) and partly through a provision in policy liabilities (see Note 10(c)).

Concentration of credit risk

(1) Bonds and debentures

The concentration of the Company's bond portfolio by investment grade is as follows:

As at December 31		2021			2020	
		Fair value	**% of Fair value**		Fair value	% of Fair value
AAA	**$**	**484,746**	**6 %**	$	394,570	5%
AA		**2,059,678**	**25 %**		2,289,540	28%
A		**3,879,522**	**47 %**		3,910,974	49%
BBB		**1,681,358**	**21 %**		1,429,025	18%
BB (and lower ratings)		**44,156**	**1 %**		3,671	—%
Total	**$**	**8,149,460**	**100 %**	$	8,027,780	100%

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

Provincial bonds represent the largest concentration in the bond portfolio, as follows:

As at December 31		2021		2020
Provincial bond holdings	**$**	**3,739,035**	$	4,098,339
Percentage of total bond holdings		**45.9%**		51.1%

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

The following table profiles the bond portfolio by contractual maturity, using the earliest contractual maturity date:

As at December 31	2021		2020	
	Fair value	**% of Fair value**	Fair value	% of Fair value
1 year or less	**$ 150,713**	**2%**	$ 188,385	2%
1 - 5 years	**991,282**	**12%**	678,391	8%
5 - 10 years	**757,588**	**9%**	696,271	9%
Over 10 years	**6,249,877**	**77%**	6,464,733	81%
Total	**$ 8,149,460**	**100 %**	$ 8,027,780	100%

The following table discloses the Company's holdings of fixed income securities in the 10 issuers (excluding the federal government) to which the Company had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds.

As at December 31	2021	2020
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	**$ 4,416,034**	$ 4,886,504
Percentage of total cash and investments	**43.8%**	48.5%
Exposure to the largest single issuer of corporate bonds	**$ 269,638**	$ 236,086
Percentage of total cash and investments	**2.7%**	2.3%

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

(2) Preferred shares
The Company's preferred share investments are all issued by Canadian companies, with 1% (2020 1%) rated as P1, 96% rated as P2 (2020 97%) and the remaining 3% (2020 2%) rated as P3.

(3) Mortgages
Mortgages in the province of Ontario represent the largest concentration with $153,564 or 100% (2020 $156,445 or 99%) of the total mortgage portfolio.

(d) Product risk

The Company provides a broad range of life insurance, health insurance and wealth management products, employee benefit plans, and financial services that are concentrated by product line as follows:

(millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital & Surplus		Total	
For the year ended December 31	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Net premium income	**$ 74.6**	$ 94.6	**$ 407.3**	$ 357.0	**$ 433.6**	$ 408.6	**$ —**	$ —	**$ 915.5**	$ 860.2
Fee and other income	**258.5**	238.2	**13.6**	12.6	**0.5**	0.4	**0.1**	0.1	**272.7**	251.3
Total	**$ 333.1**	$ 332.8	**$ 420.9**	$ 369.6	**$ 434.1**	$ 409.0	**$ 0.1**	$ 0.1	**$1,188.2**	$1,111.5

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 product risks, does not emerge as expected. The Company is exposed to various product risks as a result of the business it writes, including: mortality, policyholder behaviour (termination or lapse), expenses, morbidity, longevity, product design and pricing risk, underwriting and claims risk and reinsurance risk.

Economic and environmental events, such as natural disasters, human-made disasters as well as pandemics, could occur in regions where Empire Life has significant insurance coverage, impacting financial results.

The Company regularly evaluates its exposure to foreseeable risks through stress testing techniques including FCT analysis.

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

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

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

Policy liability assumptions are reviewed and updated at least annually by the Company’s Appointed Actuary. The impact of changes in those assumptions is reflected in earnings in the year of the change. Details related to the changes in assumptions are also discussed with the Audit Committee of the Board. The methods for arriving at the most material of these assumptions are outlined below. Also included are measures of the Company’s estimated net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities, based on a starting point and business mix as of December 31, 2021. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

(1) Mortality

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

For non-participating insurance business, a 2.0% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately $18,600 (2020 $17,100).

For annuity business, lower mortality (or longevity) is financially adverse so a 2.0% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately $3,200 (2020 $9,000).

(2) Policyholder behaviour (termination or lapse)

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

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

For non-participating insurance and annuity business, a 10.0% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing Net income by approximately $173,500 (2020 $183,500). For products where fewer terminations would be financially adverse to the Company, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to the Company, the change is applied as an increase to the lapse assumption.

(3) Expenses

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

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

For non-participating insurance business and annuity business combined, a 5% increase in the maintenance expense assumption would result in an increase to policy liabilities thereby reducing net income by approximately $6,800 (2020 $9,800).

(4) Morbidity

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

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

For non-participating insurance business where morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing Net income by approximately $9,100 (2020 $8,400).

(5) Product design and pricing risk

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

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

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

(6) Underwriting and claims risk

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

In addition to the risk management controls described above under Product Design and Pricing Risk, the Company also manages underwriting and claims risk through its Underwriting and Liability Risk Management Policy which governs each of its major product lines. This policy is established by the PMRC and approved by the Risk and Capital Committee of the Board. It defines the Company’s underwriting and claims management philosophy and sets out principles for prudent underwriting and claims management including, underwriting classification, claims requirements, approval authorities and limits, and ongoing risk monitoring. The Company uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. The PMRC reviews and establishes retention limits for its various product lines and the Risk and Capital Committee of the Board recommends changes to these retention limits for approval by the board.

(7) Reinsurance risk

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

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. The PMRC reports annually to the Risk and Capital Committee of the Board on reinsurance activities. Most of Empire Life’s reinsurance is on an excess basis, meaning Empire Life retains 100% of the risk up to its retention level. Effective April 1, 2020, Empire Life updated its single life retention limit for new business to $1,500 in face amount (previously $500). For some insurance risk categories and/or products, retention levels below this maximum are applied. Reinsurance is used to limit losses, minimize exposure to significant risks and to provide capacity for growth. As a result of the retention limit increase, recapture provisions of all eligible reinsurance treaties were exercised commencing April 1, 2020. These activities result in an increase in product risk for Empire Life, which it deems acceptable.

The Company does not have any assumed reinsurance business.

(e) COVID-19 Pandemic

In March 2020, the World Health Organization declared a pandemic related to the COVID-19 virus. The spread of the pandemic, given its severity and scale has affected and may continue to affect the Company's financial results, its customers and the Canadian economy. The Company continues to adjust its operations, where necessary, as government restrictions and measures evolve.

The duration and impact of the COVID-19 pandemic is difficult to determine. If the pandemic is prolonged, including the possibility of further waves, or new diseases emerge that give rise to similar effects, the adverse impact on the economy could deepen and result in further volatility and declines in equity markets and interest rates, increases in credit risk, insurance claims, or disruptions in business operations. These economic conditions may contribute to uncertainty over the carrying value of certain assets and liabilities in these financial statements. The Company has considered these events and their effects when applying the measurement techniques for critical accounting estimates and judgments provided in Note 2(c). The potential effect on the Company's financial results due to fluctuations in equity markets and interest rates are provided in Note 27(a).

GLOSSARY OF TERMS (unaudited)

Accumulated Other Comprehensive Income (AOCI)
A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, unrealized foreign currency translation gains and losses and 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 anytime and prices are available to the public.

Available For Sale (AFS) Finance Assets
Non-derivative financial assets that are designated as AFS or that are not classified as loans and receivables, held to maturity investments, or held for trading. Most financial assets supporting capital and surplus are classified as AFS.

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

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

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

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

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

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

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

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

GLOSSARY OF TERMS (unaudited)

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. Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as FVTPL.

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

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

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

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

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

Participating Policies
The participating account includes all policies issued by 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.

This page has been left blank intentionally.

Empire Life Consolidated Financial Statements 2021

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

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 Empire Life on Twitter @EmpireLife or visit empire.ca for more information, including current ratings and financial results.

Transfer Agent and Registrar
TSX Trust Company
1 Toronto Street, Suite 1200
Toronto, Ontario, M5C 2V6
Phone 416-682-3860
Toll Free 800-387-0825
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.

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

A-0004-ENG-02/22