

# The Empire Life Insurance Company Management's Discussion and Analysis

For the year ended December 31, 2022



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# MANAGEMENT'S DISCUSSION AND ANALYSIS

**Dated as of February 24, 2023**

This document provides Management's Discussion and Analysis (MD&A) of the operating results and financial condition of The Empire Life Insurance Company (Empire Life or the Company) for the years ended December 31, 2022 and 2021. This MD&A should be read in conjunction with the Company's December 31, 2022 consolidated financial statements, which form part of The Empire Life Insurance Company 2022 Annual Report dated February 24, 2023. Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components due to rounding.

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

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

## Financial Analysis Overview

(in millions of dollars except per share amounts)	Fourth quarter		Year	
	2022	2021	2022	2021
Common shareholders' net income	\$ 87	\$ 17	\$ 204	\$ 239
Earnings per share - basic and diluted	\$ 88.93	\$ 16.96	\$ 207.32	\$ 242.66

Empire Life reported fourth quarter common shareholders' net income of \$87 million for 2022, compared to \$17 million for 2021. Full year common shareholders' net income was \$204 million compared to \$239 million in 2021. The increase in fourth quarter earnings was due to the effect of assumption updates applied in the Individual Insurance line which had a favourable impact on fourth quarter earnings in 2022 compared to an unfavourable impact in 2021. For the year, earnings were lower than 2021, primarily due to the non-recurring release of segregated fund guarantee related policy liabilities which occurred in the first quarter of 2021. In addition, the increase in the yield curves through the year has had a positive impact on 2022 results.

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

Sources of Earnings (in millions of dollars)	Fourth quarter		Year	
	2022	2021	2022	2021
Expected profit on in-force business	\$ 56	\$ 51	\$ 217	\$ 199
Impact of new business	(3)	(4)	(5)	(20)
Experience gains (losses)	1	15	(53)	159
Management actions and changes in assumptions	52	(55)	107	(38)
Earnings on operations before income taxes	106	6	266	299
Earnings on surplus	7	7	3	14
Income before income tax	113	13	269	313
Income taxes	25	(5)	60	67
Shareholders' net income	88	18	209	246
Dividends on preferred shares	(1)	(1)	(5)	(7)
Common shareholders' net income	\$ 87	\$ 17	\$ 204	\$ 239

The expected profit on in-force business for the fourth quarter and for the year increased primarily due to higher expected levels of assets under management and higher levels of in-force business at the start of the year for all three business lines.

Experience gains for the fourth quarter were lower than the comparable period primarily due to the negative impacts of equity market performance. For the year, experience gains (losses) were significantly lower in 2022 as the comparable period in 2021 included a non-recurring release of segregated fund guarantee related policy liabilities which occurred in the first quarter of 2021. Experience in 2022 included the impact of the current market conditions; positive yield curve impacts offset by poor equity market performance. In addition, the full year line of business experience included increased expenses in the Wealth Management line from an enhanced commission program on large deposits, Individual Insurance had small lapse gains offset by mortality losses and poor Group Solutions experience caused by both adverse LTD claim experience and the impact of inflation on pricing for Health and Dental lines.

Management actions and changes in assumptions in the fourth quarter of 2022 were more favourable than 2021, primarily due to the impact of increasing yield curves during the year on the discount rate and actuarial assumptions reflected in the third and fourth quarter of 2022.

Earnings on surplus were lower for the full year primarily due to lower realized gains on Available for Sale (AFS) assets caused by the increasing yield curve.

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## Selected Financial Information

Income Statement Financial Information (in millions of dollars)	For the years ended December 31		
	2022	2021	2020
Revenue			
Net premium income	\$ 1,043	\$ 916	\$ 860
Fee income	282	273	251
Investment income	358	330	329
Realized gain on FVTPL investments	21	106	155
Realized gain (loss) on AFS investments including impairment write downs	(34)	(1)	29
Fair value change in FVTPL investments	(1,737)	(363)	357
Total revenue	(67)	1,259	1,982
Expenses			
Benefits and expenses	\$ (356)	\$ 913	\$ 1,758
Income and other taxes	79	86	67
Total expenses	(277)	1,000	1,825
Net income (loss) after tax	210	259	157
Participating policyholders' portion	1	13	4
Shareholders' net income	\$ 209	\$ 246	\$ 153
Dividends on preferred shares	5	7	13
Common shareholders' net income	\$ 204	\$ 239	\$ 140
Return on common shareholders' equity	11.9%	13.8%	8.5%

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

Balance Sheet Financial Information (in millions of dollars)	As at December 31		
	2022	2021	2020
Assets			
Total cash and investments	\$ 8,398	\$ 10,082	\$ 10,045
Other assets	340	192	214
Segregated fund assets	8,566	9,257	8,457
Total assets	\$ 17,304	\$ 19,531	\$ 18,716
Liabilities			
Insurance contract liabilities	\$ 5,640	\$ 7,091	\$ 7,145
Reinsurance liabilities	163	253	385
Subordinated debt	399	399	399
Other liabilities	399	359	382
Segregated fund policy liabilities	8,566	9,257	8,457
Total liabilities	15,167	17,359	16,769
Total equity	2,137	2,172	1,947
Total liabilities and equity	\$ 17,304	\$ 19,531	\$ 18,716

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<b>Other Financial Information</b> (in millions of dollars)	<b>As at December 31</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Assets under management<sup>1</sup></b>			
General fund assets <sup>1</sup>	\$ 8,738	\$ 10,273	\$ 10,259
Segregated fund assets <sup>1</sup>	8,566	9,257	8,457
Subordinated debt	399	399	399
Preferred shares and other equity	297	297	250
<b>Available regulatory capital</b>			
Tier 1	\$ 1,776	\$ 1,898	\$ 1,623
Tier 2	600	591	677
<b>Total</b>	<b>2,376</b>	<b>2,489</b>	<b>2,300</b>
<b>Surplus allowance and eligible deposits</b>	\$ 916	\$ 1,115	\$ 1,156
<b>Base solvency buffer</b>	\$ 2,393	\$ 2,508	\$ 2,541
<b>LICAT total ratio</b>	<b>138%</b>	<b>144%</b>	<b>136%</b>
<b>LICAT core ratio</b>	<b>101%</b>	<b>107%</b>	<b>96%</b>
	<b>For the years ended December 31</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Cash dividends per share</b>			
Preferred shares series 1	\$ —	\$ 0.72	\$ 1.44
Preferred shares series 3	\$ 1.23	\$ 1.23	\$ 1.23
Common shares	\$ 73.80	\$ 53.27	\$ 179.65

<sup>1</sup> See Non-IFRS Measures

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months and for the year ended December 31, 2022 and 2021. A discussion of results is provided in the Product Line section of the MD&A.

For the three months ended December 31 (in millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital and Surplus		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<b>Revenue</b>										
Net premiums	\$ 54	\$ 20	\$ 116	\$ 109	\$ 117	\$ 112	\$ —	\$ —	\$ 287	\$ 240
Investment income	9	7	2	1	67	60	20	18	98	86
Fair value change in FVTPL investments	(9)	2	(1)	—	(73)	244	(4)	(2)	(87)	245
Realized gain (loss) on FVTPL investments	—	1	—	—	4	14	(2)	(3)	2	12
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	(4)	1	(4)	1
Fee income	58	66	3	4	—	—	5	—	66	70
Total revenue	112	96	120	114	115	431	15	14	362	655
<b>Expenses</b>										
Net benefits and claims	34	42	85	80	47	39	—	—	166	161
Net change in insurance and investment contract liabilities	10	(29)	1	11	(65)	367	—	—	(54)	350
Policy dividends	—	—	—	—	12	11	—	—	12	11
Operating, commission and interest expenses	39	39	30	27	44	40	10	7	123	114
Income and other taxes	8	9	3	—	18	(14)	(1)	1	28	(3)
Total expenses	91	61	119	118	56	444	9	8	275	631
<b>Net income (loss) after tax</b>	\$ 21	\$ 35	\$ 1	\$ (4)	\$ 59	\$ (13)	\$ 6	\$ 6	\$ 87	\$ 24
Participating policyholders' portion									1	(6)
Dividends on preferred shares									(1)	(1)
Common shareholders' net income									\$ 87	\$ 17

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For the years ended December 31 (in millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital and Surplus		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<b>Revenue</b>										
Net premiums	\$ 140	\$ 75	\$ 452	\$ 407	\$ 451	\$ 434	\$ —	\$ —	\$ 1,043	\$ 916
Investment income	33	36	8	4	250	226	67	64	358	330
Fair value change in FVTPL investments	(102)	(10)	(23)	(4)	(1,613)	(344)	1	(5)	(1,737)	(363)
Realized gain (loss) on FVTPL investments	—	1	—	—	30	123	(9)	(18)	21	106
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	(34)	(3)	(34)	(1)
Fee income	251	259	15	14	—	—	16	—	282	273
Total revenue	322	360	452	421	(882)	439	41	39	(67)	1,259
<b>Expenses</b>										
Net benefits and claims	149	171	329	286	195	173	—	—	673	630
Net change in insurance and investment contract liabilities	(88)	(241)	(3)	26	(1,449)	30	—	—	(1,540)	(185)
Policy dividends	—	—	—	—	40	37	—	—	40	37
Operating, commission and interest expenses	152	143	117	103	164	162	38	23	471	432
Income and other taxes	27	72	11	9	42	4	(1)	1	79	86
Total expenses	240	145	454	423	(1,008)	407	37	24	(277)	1,000
<b>Net income (loss) after tax</b>	<b>\$ 82</b>	<b>\$ 215</b>	<b>\$ (2)</b>	<b>\$ (3)</b>	<b>\$ 126</b>	<b>\$ 32</b>	<b>\$ 4</b>	<b>\$ 15</b>	<b>\$ 210</b>	<b>\$ 259</b>
Participating policyholders' portion									(1)	(13)
Dividends on preferred shares									(5)	(7)
Common shareholders' net income									\$ 204	\$ 239

## Total Revenue

Net premiums for the fourth quarter and the year were higher relative to the same periods in 2021 primarily due to growth in Wealth Management.

Investment income for the fourth quarter and the year was generally consistent with the amounts recorded in the same periods in 2021.

Fair value losses on assets classified as FVTPL were higher in 2022 primarily due to increasing interest rates which drive down the fair value of bonds. These assets back policy liabilities which tend to experience offsetting changes within the Net change in insurance and investment contract liabilities in the Expenses section of the results.

## Total Expenses

A substantial portion of Total expenses is driven by the impact that equity market movements and market interest rate movements have on the Net change in insurance contract liabilities. This change in expenses is significantly offset by corresponding changes in the Fair value change in FVTPL investments, as noted in the Revenue section. In the first quarter of 2021, the net change in insurance and investment contract liabilities included a non-recurring release of \$147 million for segregated fund guarantee related policy liabilities.



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Net benefits and claims for the year to date were higher than the comparative period in 2021, primarily from higher claims in the Individual Insurance and Group Solutions lines. Net benefits and claims variability is dependent on the claims incurred. Generally, claims rise year over year due to growth of the insurance blocks. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released may be larger or smaller than the claims incurred depending on whether claims experience has been more or less than what was estimated in the insurance contract liabilities. Claims experience gains and losses are a combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities.

Operating expenses, commissions and interest expenses increased for the fourth quarter and for the year compared to 2021 primarily due to higher commissions incurred as a result of higher premiums across all lines.

## Product Line Results - Wealth Management

(in millions of dollars)	Fourth quarter		Year	
	2022	2021	2022	2021
<b>Fixed Annuities</b>				
Assets under management <sup>1</sup>	\$ 754	\$ 853	\$ 754	\$ 853
Gross sales	62	75	148	130
Net sales	32	(40)	44	(71)
<b>Segregated Funds</b>				
Assets under management <sup>1</sup>	8,566	9,257	8,566	9,257
Gross sales	198	268	841	959
Net sales	(26)	(145)	(91)	(259)
Fee income	57	65	249	256
<b>Net income after tax</b>	<b>\$ 21</b>	<b>\$ 35</b>	<b>\$ 82</b>	<b>\$ 215</b>

Fixed annuity assets under management decreased by 12% from their levels at the end of 2021, as a result of the increase in market interest rates which resulted in a reduction of the value of fixed income securities. Gross sales were lower in the fourth quarter but higher for the year.

Segregated fund assets under management are lower relative to the same period in 2021, reflecting the poor equity market conditions. For the fourth quarter and the year, gross sales were lower than the same period in 2021. Segregated fund fee income was lower to the comparable period in 2021, due to lower average assets under management. Fee income from segregated funds is calculated daily for most products.

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## Product Line Results - Group Solutions

(in millions of dollars)	Fourth quarter		Year	
	2022	2021	2022	2021
<b>Selected financial information</b>				
Core	15	11	59	74
Other	7	6	25	25
Annualized premium sales	\$ 22	\$ 17	\$ 84	\$ 99
<b>Net premiums</b>	\$ 116	\$ 109	\$ 452	\$ 407
<b>Net income (loss) after tax</b>	\$ 1	\$ (4)	\$ (2)	\$ (3)

For the fourth quarter, total annualized premium sales for Group Solutions increased relative to 2021, primarily due to a small block transfer acquired during the quarter. For the year, annualized premium sales were 18% lower than 2021, as Group Solutions took a prudent approach to pricing of renewal caps on the health and dental product lines in response to the current high inflation environment. Over the last several years, Empire Life has entered into a number of strategic arrangements to expand market share in this space.

Net premiums for the fourth quarter and year increased by 8% and 11% respectively, compared to the same periods in 2021, as premium growth in new distribution channels and strong renewal increases on inforce business more than offset lower sales versus prior year. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Group Solutions delivered a modest profit in the quarter as improvements in long-term disability claims experience were partially offset by unfavourable extended health claim costs in the quarter. Losses for the full year were primarily due to unfavourable claims experience in long-term disability and extended health care benefits.

## Product Line Results - Individual Insurance

(in millions of dollars)	Fourth quarter		Year	
	2022	2021	2022	2021
<b>Shareholders'</b>				
Shareholders' annualized premium sales	\$ 9	\$ 7	\$ 32	\$ 34
Shareholders' net premiums	74	73	294	291
Net income (loss) after tax	58	(18)	125	21
<b>Policyholders'</b>				
Policyholders' annualized premium sales	4	4	15	16
Policyholders' net premiums	42	39	156	143
Net income (loss) after tax	1	5	1	11
Net income after tax	\$ 59	\$ (13)	\$ 126	\$ 32

Shareholders' annualized premium sales and Shareholders' net premiums were flat compared with 2021, sales growth was not as strong as expected in 2022 due to unfavourable market conditions. Policyholders' annualized premium sales for the full year were consistent with 2021 from the Company's core participating life products, while Policyholders' net premiums grew by 9%.

Total net income for Individual Insurance was \$125 million for year-to-date 2022 compared to \$32 million in 2021, mostly driven by actuarial assumption updates, specifically the net investment assumption update.

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(in millions of dollars)	Year	
	2022	2021
<b>Components of pre-tax income increase from update of policy liability assumptions</b>		
Lapse/premium assumptions	\$ (35)	\$ (113)
Net investment assumptions	96	82
Mortality experience	22	(25)
Reinsurance recapture	—	11
Other	(14)	(2)
<b>Total gain (loss) from update of policy liability assumptions (excludes policyholders' portion)</b>	<b>\$ 69</b>	<b>\$ (47)</b>

The lapse/premium assumption change for both 2022 and 2021 is related to updates of assumed lapse rates on renewable term and universal life policies, reflecting current Company and industry experience.

The net investment assumption change for 2022 includes the positive impact of a net increase in the reinvestment rates used in the valuation of policy liabilities, reflecting current interest rates. The primary driver of the net investment assumption change for 2021 was a decrease in segregated fund liabilities related to equity returns for the year. In addition, updates were made to the future reinvestment asset mix, which adds to expected credit spreads, resulting in a decrease in policy liabilities.

The mortality assumption change for 2022 is due to a normal update of our studies which combine industry and Company experience. In 2021, there was an additional update (unfavorable) related to the calculation of mortality improvement used in the valuation of policy liabilities.

In 2021, provisions related to the 2019 reinsurance recapture models were released. In 2019, the Company enacted significant changes to its reinsurance programs which resulted in an increase in its individual life retention.

## Results - Capital and Surplus

(in millions of dollars)	Fourth quarter		Year	
	2022	2021	2022	2021
Net income (loss) after tax shareholders' portion	\$ 7	\$ 6	\$ 3	\$ 13
Net income (loss) after tax policyholders' portion	(1)	1	1	2
<b>Net income (loss) after tax</b>	<b>\$ 6</b>	<b>\$ 7</b>	<b>\$ 4</b>	<b>\$ 15</b>

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Shareholders' Capital and Surplus and to Policyholders' Surplus.

Net income decreased in 2022 in the capital and surplus segment primarily due to realized losses on sales of fixed income assets recorded as AFS, due to the increasing yield curve.

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## Shareholder Dividends

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

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

On February 23, 2023, the Board of Directors declared a dividend of \$18.45 per common share of Empire Life. The following table provides details of the amounts and dates for Empire Life's per share common and preferred share dividends.

	Amount of Dividend per share	Payable Date	Record Date
Common shares	\$ 18.45	April 4, 2023	March 10, 2023
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.3866875	April 17, 2023	March 17, 2023

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

## Total Cash Flow

(in millions of dollars)	Year	
	2022	2021
<b>Cash flow provided from (used for)</b>		
Operating activities	\$ 376	\$ 317
Investing activities	(298)	(282)
Financing activities	(96)	(31)
Net change in cash and cash equivalents	\$ (18)	\$ 4

Cash flows from operating activities include insurance premiums, net investment income and fee income. These funds are primarily used to pay policy benefits, commissions, operating expenses and policyholder dividends. Cash flows from investing activities primarily relate to purchases and sales of investments supporting policy liabilities and the capital and surplus accounts. Cash flows related to financing activities include issuance and redemption of capital instruments and related dividend and interest payments.

For the year, cash and cash equivalents decreased by \$18 million. Cash flows provided by operating activities increased by \$59 million primarily due to lower cash outflows related to changes in working capital levels, as compared to 2021. Cash used for investing activities increased by \$16 million compared to 2021 as the prior period included a non-recurring investment of the proceeds from financing activities which was partially offset by business acquisitions in 2022. Cash used for financing activities was \$65 million higher compared to 2021, primarily due to the net effect of non-recurring transactions in 2021, when the Company issued Limited Recourse Capital Notes (\$197 million) and redeemed preferred shares (\$149.5 million).

For an analysis of liquidity for Empire Life, see note 11(e) and note 28(b) in the audited consolidated financial statements for the year ended December 31, 2022.

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## Financial Instruments

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

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

Empire Life manages credit risk with respect to derivatives by applying limits and credit rating restrictions established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed. Additional information regarding financial instruments is included in notes 2(d), 3, 11(c), and 28 to the consolidated financial statements for the year ended December 31, 2022.

## Sources of Capital

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

(in millions of dollars)	As at	
	December 31, 2022	December 31, 2021
Subordinated debentures	\$ 399	\$ 399
Equity		
Preferred shares and other equity instruments	\$ 297	\$ 297
Common shares	\$ 1	\$ 1
Total Equity	\$ 298	\$ 298

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

(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	As at	
				December 31, 2022	December 31, 2021
Subordinated debentures, Series 2017-1 <sup>(1)</sup>	September 2017	March 15, 2023	3.664 %	\$ 200	\$ 200
Subordinated debentures, Series 2021-1 <sup>(2)</sup>	September 2021	September 24, 2026	2.024 %	\$ 199	\$ 199

<sup>(1)</sup> Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over the 3-month CDOR.

<sup>(2)</sup> Series 2021-1 Subordinated 2.024% Unsecured Debentures due 2031. From September 24, 2026, interest is payable at 0.67% over the 3-month CDOR.

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Preferred Shares and Other equity Instruments (in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	As at	
				December 31, 2022	December 31, 2021
Preferred shares, Series 3	November 2017	January 17, 2023	4.900 % \$	100 \$	100
Limited Recourse Capital Notes, Series 1	February 2021	April 17, 2026	3.625 % \$	197 \$	197

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

## Debenture Issue

On January 13, 2023, the Company issued \$200 million principal amount of unsecured debentures with a maturity date of January 13, 2033. The net proceeds of the issue will be used for regulatory capital purposes and for general corporate purposes which may include the redemption of outstanding debt.

The interest rate from January 13, 2023 to January 13, 2028 is 5.503% payable semi-annually until the interest reset date, which is January 13, 2028. The interest rate from January 13, 2028 until January 13, 2033 is the daily compounded Canadian Overnight Repo Rate Average (CORRA) plus 2.26%, payable quarterly.

The Company may call for redemption of the debentures any time after January 13, 2028 subject to the prior written approval of OSFI.

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

## Debenture Redemption

On February 7, 2023, the Company announced that it intends to redeem, on March 15, 2023 (the "Redemption Date"), all of its outstanding \$200 million 3.664% Unsecured Subordinated Debentures, Series 2017-1 due March 15, 2028 (the "Notes"). Notice will be delivered to the Note holders in accordance with the terms and conditions set forth in the related trust indenture. Interest on the Notes will cease to accrue from and after the Redemption Date.

The redemption has been approved by the OSFI.

The securities issued by Empire Life are rated by DBRS Limited (DBRS). DBRS has assigned the following ratings to the Company's securities:

Evaluation Type	Rating	Trend	Date of last rating action
Financial Strength Rating	A	Stable	May 30, 2022
Issuer Rating	A	Stable	May 30, 2022
Subordinated Debt	A(low)	Stable	May 30, 2022
Preferred Shares	Pfd-2	Stable	May 30, 2022
Limited Recourse Capital Notes	BBB(high)	Stable	May 30, 2022

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Regulatory Capital

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

LICAT		Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
(in millions of dollars)		2022	2022	2022	2022	2021
<b>Available capital</b>						
Tier 1	(A)	\$ 1,776	\$ 1,729	\$ 1,695	\$ 1,775	1,898
Tier 2	(B)	600	587	576	573	591
Total	(C)	\$ 2,376	\$ 2,316	\$ 2,271	\$ 2,348	2,489
<b>Surplus allowance and eligible deposits</b>	(D)	916	933	1,001	1,074	1,115
<b>Base solvency buffer</b>	(E)	2,393	2,366	2,363	2,410	2,508
<b>LICAT total ratio</b>	$((C+D)/E * 100)$	138%	137%	139%	142%	144%
<b>LICAT core ratio</b>	$((A+70%D)/E * 100)$	101%	101%	101%	105%	107%

The modest increase in the LICAT ratios in the fourth quarter are due to strong net income offset by reduced surplus allowances and shareholder dividends. Surplus allowances are provisions for conservatism in the actuarial liabilities. Their value was reduced due to higher discount rates linked to higher market interest rates. This overall increase is offset by an increase in the base solvency buffer (BSB). The BSB value increased slightly in the quarter as new business is acquired, resulting in reducing the LICAT ratios.

## Other Comprehensive Income

(in millions of dollars)		Fourth quarter		Year	
		2022	2021	2022	2021
OCI, attributable to shareholders	\$	—	\$ 14	\$ (164)	\$ (23)
OCI, attributable to policyholders		1	—	(4)	1
Total other comprehensive income	\$	1	\$ 14	\$ (168)	\$ (22)

Other comprehensive income (OCI) decreased in 2022 primarily due to higher unrealized fair value losses on AFS investments. The loss on these components of OCI was primarily due to increases in interest rates and credit spreads during 2022. The OCI loss was partially offset by a gain on the remeasurement of the post-employment defined benefit plans.

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## IFRS 17 *Insurance Contracts* ("IFRS 17") and IFRS 9 *Financial Instruments* ("IFRS 9") to be Adopted in 2023

For periods beginning on or after January 1, 2023, the Company will be adopting IFRS 17, which replaces IFRS 4 *Insurance Contracts*. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Effective January 1, 2023, we will also be adopting IFRS 9, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

### IFRS 17

IFRS 17 replaces IFRS 4 for Insurance Contracts for annual periods beginning on January 1, 2023, with a transition date of January 1, 2022. Up to and including December 31, 2022, the insurance industry has been permitted to continue using IFRS 4 and the Canadian Asset Liability Method (CALM) to measure insurance contract liabilities. IFRS 17 will change the fundamental principles used by the Company for recognizing and measuring insurance contracts. In addition, IFRS 17 will change the presentation of the Company's financial statements and related note disclosures.

The primary principles of IFRS 17 are that the Company:

- Identifies insurance contracts as those under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
- Recognizes profit from a group of insurance contracts over the period that insurance coverage is provided, as the Company is released from risk. If a group of insurance contracts is expected to be onerous (loss making) over the remaining coverage period, losses are recognized immediately.
- Measures insurance contract liabilities as the total of the following measurement components:
  - a) the best-estimate liability (BEL);
  - b) a risk adjustment (RA); and
  - c) the contractual service margin (CSM)

### IFRS 9

Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 includes three measurement categories for financial assets:

1. Measured at amortized cost
2. Fair Value Other Comprehensive Income (FVOCI)
3. Fair Value Through Profit and Loss (FVTPL)

Most financial assets are designated as FVTPL under IAS 39 and will continue to be measured at FVTPL under IFRS 9.

Equity investments that are classified as available for sale under IAS 39 will be measured at FVTPL under IFRS 9.

Mortgages and loans measured at amortized cost under IAS 39 will be designated as FVTPL under IFRS 9. Some investment contracts that were treated as insurance under IFRS 4 will be treated as financial liabilities under IFRS 9. Investment contracts will be designated as FVTPL under IFRS 9.

Because the majority of financial assets are measured at fair value both before and after the transition to IFRS 9, the new classification requirements will not have a material impact on total equity upon adoption.

IFRS 9 replaces the incurred loss impairment model in IAS 39 with a forward-looking expected credit loss impairment model. After adoption of IFRS 9, the majority of financial assets will be reported at FVTPL so the expected credit loss model will not have a significant impact.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Transition

Changes in accounting policies resulting from the adoption of IFRS 17 will be applied using a full retrospective approach where practicable. If it is impracticable to apply the full retrospective approach, then the Company can choose between the modified retrospective approach and the fair value approach. For group insurance contracts the full retrospective approach was applied. For all other insurance business, the fair value approach was applied.

At the date of transition, the Company derived its actuarial liabilities and CSM in accordance with the requirements of the standard. The Company currently expects the CSM (expected future profits) to be in the range of \$1.1 billion to \$1.4 billion, and the impact on retained earnings to be a reduction in the range of \$300 million to \$500 million.

These assessments are preliminary as the Company is still finalizing implementation and testing of controls over financial reporting. The new accounting policies, judgements and estimations are subject to change until Q1 2023 financial statements are finalized.

For additional information on IFRS 17 refer to and note 2(w) in the audited consolidated financial statement for the year ended December 31, 2022.

## Industry Dynamics and Management's Strategy

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

Based on general fund and segregated fund assets, Empire Life is among the 10 largest life insurance companies in Canada. Empire Life has approximately 6% market share of segregated funds, 6% market share for employee benefits and 2% market share for new life insurance premiums. To be priced competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized company, must find a way to continue to be cost competitive with the larger companies that have some natural economy of scale advantages. Empire Life has focused exclusively on the Canadian marketplace and, within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with its distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to broadly focused competitors, management believes these solid relationships will enable profitable growth. Across all business lines, Empire Life is focused on growth and diversification of distribution as well digital enablement and adoption, all while maintaining personalized service.

The Wealth Management product line at Empire Life is comprised of segregated fund products, guaranteed interest products and mutual funds. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to customers. The value-oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management will continue to improve competitiveness by focusing on long-term performance, providing low-cost products to customers along with broadening distribution reach. Empire Life continues to achieve strong growth in assets under management from its segregated fund business as a result of net new sales and equity market appreciation. Empire Life is continuing to monitor and manage guaranteed minimum withdrawal benefit (GMWB) risk exposure and the competitive landscape for this product.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

## Risk Management

Empire Life is a financial institution offering wealth management, employee benefits and individual insurance products. The Company is exposed to a number of risks as a result of its business activities. The goal of the Company's risk management program is to ensure that risk-taking activities are aligned with its strategy, in order to achieve business goals and deliver acceptable shareholder returns. When making decisions about risk taking and risk management, Empire Life considers:

- The need to meet the expectations of its customers, employees, shareholders and creditors and to protect the commitments that have been made to them;
- The need to be adequately compensated for the capital it deploys to support business activities and strategic objectives;
- The need to protect its brand, which includes building and maintaining trust, fair treatment of its customers, consideration of corporate social responsibility, and embedding sustainability into its strategic plans; and
- The need to maintain (or improve) its external financial strength rating.

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

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

- Due to the long-term nature of the majority of its commitments, the Company accepts capital market risk provided it is managed within specific risk tolerances and limits. The Company takes a low-risk, value-oriented approach to managing its investments - it accepts credit and alternative asset risk provided it is rewarded through appropriately enhanced returns;
- The Company manages liquidity across the business to provide a high level of confidence that all obligations (to customers, employees, creditors and shareholders) will be met when they fall due;
- The Company accepts product risks provided they are properly priced and managed to deliver value to its customers and shareholders;
- The Company is forward-looking in its business planning and takes a prudent approach to capital management. It strives to have a high level of confidence that capital is sufficient to support planned future activities;
- Management is active in industry committees and, through a network of oversight functions, monitors the landscape so that the Company is appropriately positioned to manage regulatory, tax, accounting and actuarial changes;

# MANAGEMENT'S DISCUSSION AND ANALYSIS

- The Company accepts that operational risks are a part of doing business and knows that risk management is a key part of decision-making. It protects its business and customers by engaging in cost-effective risk mitigation, and
- The Company expects ethical conduct by all of its employees, and it acts with integrity at all times.

The Board of Directors oversees and monitors Empire Life's risk management framework, processes and practices, and reviews and approves the Company's Enterprise Risk Management Framework and overall risk appetite. Senior management shares responsibility and accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency of contact across the management team. The Company has an Asset Management Committee with responsibility for overseeing the management of corporate policies established by both the Investment Committee and Risk and Capital Committee of the Board, with specific focus on market, credit and liquidity risk including asset/liability management as well as capital management. The Product Management Review Committee is responsible for overseeing management of corporate policy established by the Risk and Capital Committee of the Board, with specific focus on product risk. Activities not delegated to one of these two committees remain under the oversight of senior management. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2022 Annual Report. The Chief Risk Officer is a member of the Asset Management Committee and Product Management Review Committee and has Board reporting responsibility with respect to risk and capital management, the latter of which is shared with the Chief Actuary. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers, security champions and the risk management department. There is senior management representation and oversight on various interdisciplinary risk committees. The Company formally establishes and documents its values and risk tolerances through several company-wide policies including a code of business conduct, corporate disclosure principles, enterprise risk management, capital management and whistleblower policies. The Company's strategic risk management policies (including those related to product design and pricing, investment and capital management) are also approved by its Board, or a Board committee. Subsidiaries have adopted practices for risks to which they are exposed, appropriate to their business plan, and have access to Empire Life's oversight functions to assist and support them.

## Caution Related to Sensitivities

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Significant Developments

The global economy saw a strong recovery through the first part of 2022, supported by gradual easing and reversal of public health restrictions related to the COVID pandemic, accommodating central bank monetary and fiscal policies, strong household and corporate balance sheets and large amounts of consumer demand. These factors led to large increases in inflation which triggered re-assessment of policy setting in many central banks, including Canada. Interest rates are now at levels not seen for over a decade. The second half of 2022 has been characterized by significant volatility across global markets. COVID risks remain, but many countries are now treating COVID as endemic, suggesting that further variants will be countered with far less stringent public health restrictions. The Company continues to adjust its operations, where necessary, as government restrictions and measures evolve.

Continued economic and political uncertainty, including international conflicts, may give rise to increased business and strategic risks. In addition, adverse economic conditions often arise in conjunction with volatile and deteriorating market conditions which may have an adverse impact on customer behaviour, sales and future financial results.

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 effects on the Company's financial results due to fluctuations in equity markets and interest rates are provided in Note 28(a).

## Acquisition

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

## Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life has a semi-static hedging program. The objective of the hedging program is to partially protect the Company from regulatory capital (LICAT) ratio declines that might result from adverse stock market price changes. The hedging program may employ derivatives positions including put options and futures. The extent of derivatives used is monitored and managed on an ongoing basis, giving consideration to equity market risk and the level of available capital.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes and policy liabilities on the statement of financial position related to segregated fund guarantees. A byproduct of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk as a result of the use of "zero floor", explained further below. For the year, Empire Life experienced a loss of \$6 million after tax primarily due to realized fair value losses. This compares to a hedge loss of \$15 million after tax for 2021.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2022, Empire Life had \$8.6 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.3 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

	Dec 31 2022	Dec 31 2021
Percentage of Segregated Fund Liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	8%	7%
75% maturity guarantee and a 100% death benefit guarantee	44%	44%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	7%	7%
Guaranteed minimum withdrawal benefit (GMWB)	41%	42%

All Empire Life segregated fund guarantees are policy-based (not deposit-based), thereby generally lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. Policy-based guarantees consider all the deposits in the customer's policy (whether the fund value is below or above the guaranteed amount) to arrive at an overall net guarantee payment, whereas deposit-based guarantees consider only the deposits where the fund value is below the guaranteed amount and ignore all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, policy-based guarantees generally pay less than deposit-based guarantees. For segregated fund guarantee insurance contract liabilities, the level of sensitivity is highly dependent on the level of the stock market at the time of performing the sensitivity test. If period-end stock markets are high relative to market levels at the time that segregated fund policies are issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies are issued, the sensitivity is increased.

The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e., negative liability amounts are not permitted so zero is used instead, as described below) and other regulatory constraints, and this often makes the sensitivity impacts non-linear. The liabilities are the greater of: (i) the average of the amounts determined by averaging the results from adverse economic scenarios; and (ii) zero.

Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at December 31, 2022 and December 31, 2021, the sensitivity of Empire Life shareholders' net income and LICAT Total ratio resulting from stock market increases and decreases is provided in the following table.

Sensitivity to equity risk: Impact on net income (in millions of dollars after tax)	Increase		Decrease		
	20 %	10 %	10 %	20 %	30 %
<b>As at December 31, 2022</b>					
Segregated fund guarantees	\$ 2	\$ 2	\$ (11)	\$ (87)	\$ (200)
Other equity risk	22	10	(8)	(15)	(35)
Equity hedge	(4)	(3)	6	20	40
<b>Total</b>	<b>\$ 20</b>	<b>\$ 9</b>	<b>\$ (13)</b>	<b>\$ (82)</b>	<b>\$ (195)</b>
<b>As at December 31, 2021</b>					
Segregated fund guarantees	\$ —	\$ —	\$ (10)	\$ (60)	\$ (189)
Other equity risk	40	19	(18)	(32)	(44)
Equity hedge	(2)	(2)	4	12	27
<b>Total</b>	<b>\$ 38</b>	<b>\$ 17</b>	<b>\$ (24)</b>	<b>\$ (80)</b>	<b>\$ (206)</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Sensitivity to equity risk: Impact on LICAT	Increase		Decrease		
	20 %	10 %	10 %	20 %	30 %
<b>As at December 31, 2022</b>					
Segregated fund guarantees	17 %	9 %	(2)%	(7)%	(14)%
Other equity risk	— %	— %	— %	— %	— %
Equity hedge	(2)%	(1)%	1 %	1 %	2 %
<b>Total</b>	<b>15 %</b>	<b>8 %</b>	<b>(1)%</b>	<b>(6)%</b>	<b>(12)%</b>
<b>As at December 31, 2021</b>					
Segregated fund guarantees	11 %	5 %	(1)%	(7)%	(16)%
Other equity risk	— %	— %	1 %	1 %	— %
Equity hedge	(2)%	(1)%	1 %	2 %	3 %
<b>Total</b>	<b>9 %</b>	<b>4 %</b>	<b>1 %</b>	<b>(4)%</b>	<b>(13)%</b>

In 2022, Empire Life increased the segregated fund guarantee liability due to the decline in stock markets, which was partially offset by the impact of higher interest rates. In addition, the Company reduced the size of its portfolio of equity assets backing life insurance liabilities. These factors combined to cause a decrease in the potential negative net income impacts of a decrease in stock markets at the end of 2022 relative to the end of 2021, along with a decrease in the potential positive net income impacts of an increase in stock markets. These factors also caused an increase in the potential positive LICAT ratio impacts of an increase in stock markets.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Segregated Funds (in millions of dollars)	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Policy Liabilities	LICAT Capital
	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Fund Value	Amount At Risk		
<b>December 31, 2022</b>	\$ 2,651	\$ 1,048	\$ 160	\$ 10	\$ 3,073	\$ 104	\$ 2	\$ 575
December 31, 2021	\$ 2,617	\$ 766	\$ 27	\$ 2	\$ 200	\$ 3	\$ —	\$ 658

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at December 31, 2022, the aggregate amount at risk for all three categories of risk was \$1,162 million. At December 31, 2021, the aggregate amount at risk for these three categories of risk was \$770 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

The level of policy liabilities and required regulatory capital in the above table is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist on future payments to GMWB policyholders, or upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders.

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in assumed initial reinvestment rate (IRR) for non-participating insurance business and segregated fund guarantees for December 31, 2022 and December 31, 2021, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR).

Sensitivity to Market Interest Rates LICAT	Impact of 50 bps Decrease
<b>December 31, 2022 LICAT total ratio</b>	<b>2%</b>
December 31, 2021 LICAT total ratio	1%

Empire Life has some policy liabilities that are linked to measures of inflation. Certain group long-term disability contracts and a small, closed block of annuity contracts have benefit payments that are linked to an indexing formula containing an inflation price index. These exposures are considered as part of the Company's asset/liability management activities and are not material.

## Operational Risk

Operational risk is broadly defined as the risk of loss resulting from human error, decisions, actions or failure to act, inadequate or failed internal processes and systems, or from external events that affect business operations. Operational risk is naturally present in all of Empire Life's business activities, as well as those of its subsidiaries. Effective management of operational risk contributes to and influences the operational resilience of the Company. The following is a further description of some operational risks and their associated risk management strategies.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## *(1) Legal and Regulatory Compliance Risk*

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

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

## *(2) Model Risk*

Empire Life uses models to support many business functions including product development and pricing, valuation of policy liabilities, financial planning, asset/liability management, capital management, project management, investment analysis, risk management and advanced analytics (such as artificial intelligence, predictive modeling and decision-making algorithms). The risk of inappropriate use or interpretation of Empire Life's models or their output, or the use of deficient models, data or assumptions could result in financial losses or inappropriate business decisions. Empire Life has developed management and mitigation processes related to model use and oversight of models to limit financial, operational and strategic impacts from misinterpretation or misuse of model results. Senior management has overall responsibility and accountability for models in use to support activities within their business area. The Chief Risk Officer reports regularly to senior management and the Risk and Capital Committee of the Board on model use and related oversight activities.

## *(3) Human Resources Risk*

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If Empire Life is unable to retain and attract qualified employees and executives, and is unable to maintain and effectively deploy resources with the in-depth knowledge and necessary skills needed to support business activities, the results of its operations and financial condition, including its competitive position, could be adversely affected. To mitigate this risk, Empire Life has human resources policies, processes and practices in place. Management reports regularly to the Human Resources Committee of the Board on recruitment, workforce and succession planning, employee development, and diversity and inclusion program initiatives, as well as compensation practices and programs, all of which are designed to attract, motivate and retain a highly skilled workforce whose differences, stories, experiences and ideas contribute to high-performing, high-potential employees. Empire Life is committed to cultivating a diverse, engaged and sustainable organization while building an inclusive community.

## *(4) Third-Party Risk*

Empire Life obtains many different types of services from a number of third-party service providers and has outsourced certain business functions or processes to third parties. Should these third parties fail to deliver systems and/or services in compliance with contractual or other service arrangements, Empire Life's business may be adversely impacted. To mitigate this risk, Empire Life has established policies and guidelines that set out requirements to identify, assess, manage, monitor, and report on third-party risks commensurate with the risks associated with the service provider and the nature of the arrangement. Quarterly reporting is provided to the Risk and Capital Committee of the Board. Annually, management reports to the Conduct Review Committee of the Board on outsourcing activities including details on those arrangements deemed to be most material to Empire Life.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## *(5) Technology and Information Security Risk*

Empire Life relies on technology in virtually all aspects of its business and operations, including the creation and support of new products and services, and the nature of life insurance business necessitates a substantial investment in technology. The Chief Technology Officer is responsible for the digital and data technology strategy for the Company and oversees technology initiatives and transformation projects and reports regularly to the IT Oversight Committee of the Board on strategic information technology-related project, initiatives and technology architecture. Operational integrity, data integrity and security of information and systems infrastructure are all relied upon for normal business operations. Disruptions due to system failure, information security breaches, privacy breaches, cyber-attacks, human errors, criminal activity, fraud or the loss of certain software licensing agreements could have a material adverse impact on Empire Life.

Information security breaches, including various forms of cyber-attack, could occur and may result in inappropriate disclosure or use of personal or confidential information. To mitigate this risk, Empire Life has an information security program overseen by the Chief Information Security Officer, who reports regularly to the IT Oversight Committee of the Board and at least annually to the Risk and Capital Committee of the Board. This program is comprised of standards, procedures and guidelines focused on management of cybersecurity risk and maintenance of the security and integrity of the data entrusted to Empire Life. An incident management process is in place for monitoring and managing security events.

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

## *(6) Business Continuity Risk*

Empire Life has an enterprise-wide business continuity and disaster recovery program overseen by the Business Continuity Management Committee and senior management. The program includes policies, plans and procedures designed so that, to the extent practically possible, key business functions can continue and normal operations can resume effectively and efficiently should a major disruption of key business functions occur as a result of an event, including pandemic, impacting the availability of trained employees, physical locations to conduct operations and/or access to technology. Each business unit is accountable for preparing and maintaining detailed business continuity plans and processes. Empire Life establishes and regularly tests business continuity and disaster recovery plans and maintains services and failover capability designed to minimize downtime and accelerate system recovery. The Business Continuity Management Committee Chair reports at least annually to the Risk and Capital Committee of the Board on business continuity preparedness and operational resiliency.

## **Business and Strategic Risk**

Business and strategic risk includes risks related to the uncertainty in future earnings and capital related to the potential inability to implement appropriate business plans and strategies, make decisions and allocate resources, risks related to the economic, political or business environment, that may impact distribution channels and customer behaviour, such as the competitive landscape, regulatory and tax changes or changes in accounting and actuarial standards; risks to our brand and; environmental and social risks. Empire Life and its subsidiaries regularly review and adapt its business strategies and plans in consideration of changes in the external business environment, economic, political and regulatory environment. Empire Life's financial performance is dependent upon its ability to implement and execute business strategies and plans for growth.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Successful execution of Empire Life's business strategies and plans depends on a number of factors including its ability to (i) generate sufficient earnings to maintain an adequate level of capital; (ii) generate sustained investment performance; (iii) meet regulatory requirements; (iv) manage risk exposures effectively; (v) attract and retain customers, employees and distributors; (vi) have the right set of products; and (vii) reduce operating expenses while maintaining the ability to hire, retain and motivate key personnel.

Empire Life's business and strategic plans are reviewed and discussed by its senior management team and are subject to approval by the Board of Directors, which also receives regular updates on implementation progress against key business plan objectives. The Board and its subcommittees receive regular updates on key risks.

## *Environmental and Social Risk*

Empire Life's business strategies are influenced by attitudes towards societal issues. Factors such as diversity, equity and inclusion and climate change are considered as part of the strategic planning process and are reflected in Empire Life's risk management program and associated policies. Collectively referred to as "ESG" (environmental, social, governance), these risks are not a stand-alone risk category, but rather underlie all risk categories (credit, market, liquidity, product, operational and business and strategic). As such, processes for managing them are embedded in the processes for managing each risk category.

As a long-term oriented underwriter and investor, Empire Life's financial performance, operations and reputation may be adversely affected if it does not adequately prepare for the direct or indirect negative impacts of environmental and social risks. Environmental risk reflects events and developments related to impacts of climate change and the transition to a lower-carbon economy that may include increased frequency and severity of natural or human-made environmental disasters, longer-term shifts in climate patterns, emerging regulatory and public policy developments, and their impacts on the Company's operations, invested assets, suppliers, customers and reputation. Social risk includes public health issues and issues of inequality. Awareness and concern about mental health and well-being was amplified throughout the pandemic. The Company remains committed to improving health outcomes, including physical and mental well-being, for both its employees and customers through expansion of health products and related services.

Empire Life's investment management team integrates ESG considerations in their investment decision-making for Company and customer assets. The Company is committed to diversity and inclusion and has reviewed its policies and practices to ensure equity and clarity. The Company is actively monitoring environmental, social and sustainability developments and has initiated efforts to embed ESG practices in all aspects of its business. Management reports regularly to the Board on emerging issues and related progress, recognizing that its strategy will evolve over time, building on experience and external developments. Additional information may be found in the Company's annual Public Accountability Report, available at [empire.ca/about-us/community](https://empire.ca/about-us/community).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Pandemic Risk

Pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide could have an adverse impact on Empire Life's business, including changes to the way it operates, and on financial results and condition. The COVID-19 pandemic and the measures imposed by governments around the world to limit its spread disrupted the global economy, financial markets, supply chains, business activity and productivity in unprecedented ways. While COVID risks remain, many countries are now treating COVID as endemic, suggesting that further variants will be countered with far less stringent public health restrictions. Empire Life continues to adjust its operations, where necessary, as government restrictions and measures evolve.

The Company has taken proactive measures through its business continuity plans and normal operations have continued effectively. Processes supporting ongoing systems availability, stability and security are being monitored closely and are operating effectively. The majority of employees continue to work from home and associated strategies continue to operate effectively.

The continuing or worsening of the economic and market conditions caused by the COVID pandemic, and its impact on customers, industries and individual countries could have a material adverse effect on our future financial results and may also have the effect of heightening other risk categories (credit, market, liquidity, product and operational). Sustained adverse effects could negatively impact net income and our financial condition.

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in Empire Life's Annual Information Form available at [www.sedar.com](http://www.sedar.com). Additional disclosures of Empire Life's sensitivity to risks are included in note 28 to the 2022 consolidated financial statements.

## Disclosure Controls and Procedures

Empire Life's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Empire Life under Canadian securities laws is recorded, processed, summarized and reported within the specified time periods, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. Under the supervision of management, an evaluation was carried out on the effectiveness of Empire Life's disclosure controls and procedures as of December 31, 2022. Based on that evaluation, management concluded that Empire Life's disclosure controls and procedures were effective as at December 31, 2022.

## Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Under the supervision of management, an evaluation of Empire Life's internal control over financial reporting was carried out as at December 31, 2022. Based on that evaluation, management concluded that Empire Life's internal control over financial reporting was effective as at December 31, 2022. No changes were made in Empire Life's internal control over financial reporting during the year ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, Empire Life's internal control over financial reporting.

## Critical Accounting Estimates

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## *Policy Liabilities*

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivities to risks related to policy liabilities are included in note 28 to the consolidated financial statements.

## *Financial Instrument Classification*

Management judgment is used to classify financial instruments as fair value through profit or loss, available for sale or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in net income or other comprehensive income. Additional information regarding financial instrument classification is included in notes 2(d), 3(a), 3(b), and 11(c).

## *Pension and Other Employee Future Benefits*

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made affect the pension and other employee future benefits expense included in net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI. Additional information regarding pension and other employee future benefits is included in notes 2(l), and 13.

## *Provision for Impaired Investments*

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Outlook

Asset markets performed poorly in 2022. Stocks tumbled. Bonds were hit by one of their worst selloffs ever. Global stocks and bonds lost more than \$30 trillion over the year. The losses came after central banks, led by the US Federal Reserve, executed their most aggressive interest rate increases since the 1980s to control the worst inflation in decades. The rising inflation, interest rate hikes, war in Ukraine, and fear of a recession triggered the heaviest losses in capital markets since the global financial crisis in 2008. Interest rates shifted up across the yield curve while short-term yields moved up higher than that of long-term. Government of Canada 10-year bond yields more than doubled, rising from 1.45% to 3.30%, while the 2-year yields more than quadrupled, going from 0.95% to 4.05% by the end of the year, making the yield curve deeply inverted; which implies a possible recession on the horizon.

The S&P 500 Index finished the year down 12.2%, and its Canadian counterpart, the S&P/TSX Composite Index was down 5.8%. Internationally, the MSCI EAFE index ended the year down 7.8%. Despite a strong surge towards the end of the year, the MSCI Europe Index ended the year down 8.3%. Stock market conditions impact the in-force profit margins and new business growth for the segregated fund portions of Empire Life's Wealth Management product line.

Looking forward to 2023, there will likely be many challenges for both the global economy and investors. Recent indicators show inflation has likely peaked especially in Canada, but further central bank tightening outside Canada is expected in the first half of the year. So, some challenges might ease up in the second half of the year if inflation calms down and monetary policies loosen up.

Investor focus will likely be on central banks, particularly the U.S. Federal Reserve, for signs on when there may be a change in policy. All these moving parts, interest rate, inflation, unemployment rate, and GDP growth, suggest 2023 to be another uncertain year for investors.

Empire Life investment strategies across product lines reflect the Company's cautious view of the current environment. The Company is taking a defensive stance in the selection of investee companies, by keeping more cash to deploy as opportunities arise, and diversifying its investments.

## Quarterly Results

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

	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
(in millions of dollars, except per share amounts)	2022	2022	2022	2022	2021	2021	2021	2021
<b>Revenue</b>	\$ 362	\$ 380	\$ (414)	\$ (396)	\$ 655	\$ 251	\$ 618	\$ (265)
<b>Common shareholder's net income</b>	\$ 87	\$ 45	\$ 34	\$ 38	\$ 17	\$ 33	\$ 32	\$ 157
<b>Earnings per share - basic and diluted</b>	\$ 88.93	\$ 45.27	\$ 34.42	\$ 38.69	\$ 16.96	\$ 33.78	\$ 32.09	\$ 159.82

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## **Forward-Looking Statements and Information**

Certain statements in this MD&A about Empire Life's current and future plans, expectations and intentions, results, market share growth and profitability, strategic objectives or any other future events or developments constitute forward-looking statements and information within the meaning of applicable securities laws. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements and information. Although management believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because there can be no assurance that they will prove to be correct. By their nature, such forward-looking statements and information are subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, market risk including equity risk, hedging risk, interest rate risk, foreign exchange rate risk; liquidity risk; credit risk including counterparty risk; product risk including mortality risk, policyholder behaviour risk, expense risk, morbidity risk, product design and pricing risk, underwriting and claims risk, reinsurance risk; operational risk, including legal and regulatory compliance risk, model risk, human resources risk, third-party risk, technology and information security risk, and business continuity risk; and business and strategic risk, including environmental and social risk, risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to litigation, risk with respect to reputation, risk with respect to risk management policies, risk with respect to intellectual property, risk with respect to significant ownership of common shares, and pandemic risk. Please see the section titled "Risk Factors" in Empire Life's Annual Information Form available at [www.sedar.com](http://www.sedar.com) for more details on these risks.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements and information include that the general economy remains stable; assumptions on interest rates, mortality rates and policy liabilities; and capital markets continue to provide access to capital. These factors are not intended to represent a complete list of the factors that could affect Empire Life; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein.

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Non-IFRS Measures

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

**Return on common shareholders' equity** is a profitability measure that is not prescribed under IFRS and a comparable measure under IFRS is not available. Empire Life calculates this measure as the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

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

**Annualized premium sales** is used as a method of measuring sales volume. It is equal to the premium expected to be received in the first 12 months for all new individual insurance and employee benefit policies sold during the period. For segregated funds and annuity contracts, sales include new and renewal deposits to policy contracts. Net sales in the Wealth Management line reflect the gross sales less the effect of redemptions and surrenders.

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

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

## Reconciliation of Assets Under Management

As at	December 31, 2022	December 31, 2021
(in millions of dollars)		
<b>Assets Under Management</b>		
General fund assets	\$ 8,738	\$ 10,273
Segregated fund assets	8,566	9,257
Total assets per financial statements	17,304	19,530
Mutual fund assets	16	114
Assets under management	\$ 17,320	\$ 19,644

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

As at	December 31, 2022	December 31, 2021
(in millions of dollars)		
<b>DB plan assets</b>		
Segregated fund assets	\$ 209	\$ 223
Mutual fund assets	16	17

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# Empire Life Management's Discussion and Analysis 2022

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

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

Follow us on social media @EmpireLife or visit [empire.ca](http://empire.ca) for more information including current ratings and financial results.

## Transfer Agent and Registrar

TSX Trust Company  
301 - 100 Adelaide Street West  
Toronto, Ontario M5H 4H1  
Phone 416-682-3860  
Toll Free 800-387-0825  
[www.tsxtrust.com](http://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](mailto:johnbrierley12@gmail.com)  
Phone: 705-250-3133

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

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A-0004-ENG-03/23