

The Empire Life Insurance Company

**Management's Discussion and Analysis
For the three months ended March 31, 2022**



Dated as of April 28, 2022

This document provides Management's Discussion and Analysis (MD&A) of the unaudited operating results and financial condition of The Empire Life Insurance Company (Empire Life or the Company) for the first quarter of 2022. This MD&A should be read in conjunction with Empire Life's unaudited Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2022, as well as the MD&A and the audited Consolidated Financial Statements which form part of the Empire Life 2021 Annual Report dated February 24, 2022. Unless otherwise noted, both the unaudited Condensed Interim Consolidated Financial Statements and this MD&A are expressed in Canadian dollars. Some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components due to rounding.

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

The unaudited Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which are generally accepted accounting principles as set out in the Handbook of the Chartered Professional Accountants of Canada. This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information and 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 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.

Although the Company is carefully monitoring the effects of both the novel coronavirus (COVID-19) pandemic and the outbreak of hostilities in Ukraine on the economy and financial markets, management's assessment of industry dynamics, risks and risk management, critical accounting estimates, strategy and outlook remains consistent with the disclosure in the 2021 Annual Report dated February 24, 2022.

Financial Analysis

Overview

(in millions of dollars except per share amounts)	First quarter			
	2022		2021	
Common shareholders' net income	\$	38	\$	157
Earnings per share - basic and diluted	\$	38.69	\$	159.82

Other Financial Highlights	Mar. 31	Dec. 31	Sep. 30	Mar. 31
	2022	2021	2021	2021
Return on common shareholders' equity (trailing four quarters) ¹	6.7 %	13.8 %	16.4 %	20.3 %
LICAT total ratio	142 %	144 %	150 %	148 %

Empire Life reported first quarter common shareholders' net income of \$38 million for 2022, compared to a net income of \$157 million for the first quarter of 2021. The decrease in first quarter earnings was primarily a result of a non-recurring release of segregated fund guarantee related policy liabilities which occurred in the first quarter of 2021. Excluding the impact of the release of these policy liabilities, net income in the first quarter of 2022 was lower primarily due to the unfavourable market impact on capital and surplus and lower net income from the Individual Insurance line.

The following table provides a breakdown of the sources of earnings by line of business for the first quarter.

For the three months ended March 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
Expected profit on in-force business	\$ 36	\$ 29	\$ 7	\$ 6	\$ 12	\$ 13			\$ 55	\$ 48
Impact of new business	(4)	(5)	(2)	(2)	3	7			(2)	—
Experience gains (losses)	(5)	150	(10)	(5)	13	5			(1)	150
Management actions and changes in assumptions	—	(1)	—	—	1	10			1	9
Earnings (losses) on operations before income taxes	27	174	(5)	—	29	35	—	—	52	208
Earnings on surplus	—	—	—	—	—	—	—	6	—	6
Income (loss) before income tax	27	174	(5)	—	29	35	—	6	51	215
Income taxes	7	45	(1)	—	7	8	(1)	1	11	54
Shareholders' net income (loss)	\$ 20	\$ 129	\$ (4)	\$ (1)	\$ 22	\$ 27	\$ —	\$ 5	\$ 39	\$ 161
Dividends on preferred shares									(1)	(3)
Common shareholders' net income (loss)									\$ 38	\$ 157

The expected profit on in-force business increased by 15% for the first quarter, primarily driven by higher assets under management in the Wealth Management line.

The impact of new business decreased in the first quarter of 2022, primarily due to lower profit at issue in the Individual Insurance line as a result of lower sales relative to the prior period. The impact of new business on the Individual Insurance line is positive, creating profit at issue, when the present value of future profits from the new business exceeds the sum of the margins in the initial policy liabilities for that business plus the expenses incurred at the point of sale.

Experience gains (losses) were lower in the first quarter of 2022 as the comparable period in 2021 included a release of the policy liabilities associated with segregated fund guarantees. Experience losses in the first quarter of 2022 included increased expenses in the Wealth Management line from an enhanced commission program on large deposits, and the adverse experience of inflation on Group Solutions pricing, partially offset by favourable experience in the Individual Insurance line from fixed income assets backing liabilities in this line of business.

Gains from management actions and changes in assumptions were lower than the comparable quarter in 2021 as trading gains from asset liability matching improvements in the Individual Insurance line from the prior period did not recur in the current period.

Earnings on surplus declined for the first quarter, primarily due market impacts which caused realized losses on Available for Sale (AFS) assets compared to realized gains on AFS assets for the same period in 2021, partially offset by lower realized losses on assets valued as Fair Value Through Profit and Loss (FVTPL).

Results by Major Product Line

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

For the three months ended March 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
Revenue										
Net premiums	\$ 23	\$ 23	\$ 109	\$ 96	\$ 111	\$ 106	\$ —	\$ —	\$ 243	\$ 225
Investment income	8	10	1	1	58	54	16	16	83	80
Fair value change in FVTPL investments	(45)	(18)	(11)	(6)	(746)	(666)	—	(2)	(802)	(691)
Realized gain (loss) on FVTPL investments	—	—	—	—	22	59	(3)	(6)	20	53
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	(8)	2	(7)	2
Fee income	65	63	4	3	—	—	—	—	69	66
Total revenue	51	78	104	94	(556)	(447)	5	10	(396)	(265)
Expenses										
Net benefits and claims	38	50	79	67	53	47	—	—	170	165
Net change in insurance and investment contract liabilities	(55)	(184)	(2)	1	(688)	(584)	—	—	(745)	(767)
Policy dividends	—	—	—	—	9	8	—	—	9	8
Operating, commission and interest expenses	41	38	29	23	38	42	5	3	113	106
Income and other taxes	7	45	2	3	9	11	—	1	18	60
Total expenses	31	(51)	107	94	(579)	(476)	5	4	(436)	(428)
Net income (loss) after tax	\$ 20	\$ 129	\$ (4)	\$ (1)	\$ 23	\$ 29	\$ —	\$ 6	\$ 40	\$ 163
Participating policyholders' portion									1	2
Dividends on preferred shares									1	3
Common shareholders' net income (loss)									\$ 38	\$ 157

Total Revenue

Net premiums were 8% higher compared to the same period in 2021, primarily due to growth in the Group Solutions and Individual Insurance lines.

Losses from assets classified as FVTPL were higher in the first quarter relative to first quarter 2021 reflecting declines in the fair value of fixed income investments backing policy liabilities related to an increase in interest rates. Assets classified as FVTPL also includes assets backing index-linked products. Changes in the value of these assets are largely offset by changes in the related liabilities which are reflected in Net change in insurance and investment contract liabilities. The fair value change in assets backing other non-index linked policy liabilities in the Individual Insurance line is also partially offset by corresponding changes in the Net change in insurance and investment contract liabilities in the Expenses section of the results.

Fee income for the first quarter increased by 4% primarily due to higher segregated fund assets under management.

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.

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 Employee Benefits lines, partially offset by lower surrenders in the fixed annuity component of the Wealth Management line. 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.

Product Line Results - Wealth Management

Key Operating Results

(in millions of dollars)	First quarter	
	2022	2021
Fixed Annuities		
Assets under management ¹	\$ 798	\$ 912
Gross sales	23	23
Net sales	(1)	(13)
Segregated Funds		
Assets under management ¹	\$ 9,046	\$ 8,654
Gross sales	262	269
Net sales	(30)	(101)
Fee income	64	62
Net income after tax	\$ 20	\$ 129

Fixed annuities assets under management were 13% lower relative to the same period in 2021. Gross sales in the first quarter were consistent with the same period in 2021.

Segregated fund assets under management are higher relative to the same period in 2021, reflecting the contribution of sales performance and positive market performance within the funds. For the first quarter of 2022, gross sales were 2% lower than the same period in 2021.

Segregated fund fee income was 3% higher compared to the first quarter of 2021 as higher average assets impacted fee revenues. Fee income from segregated funds is calculated daily for most products.

This line had net income of \$20 million for the quarter compared to a net income of \$129 million for the first quarter in 2021, primarily as a result of the non-recurring release of segregated fund guarantee related policy liabilities in 2021. The guarantees on segregated funds are only payable if fund values are below the guaranteed values when the insurable event occurs.

Product Line Results - Group Solutions

Key Operating Results

(in millions of dollars)	First quarter	
	2022	2021
Selected financial information		
Core	\$ 15	\$ 19
Other	7	6
Annualized premium sales	23	26
Net premiums	109	96
Net income (loss) after tax	\$ (4)	\$ (1)

Total annualized premium sales decreased in the first quarter compared to the same period in 2021, primarily due to lower sales of the Company's core product offerings. The Company continues to focus on sales of its core products in the small to medium-sized business market while also entering into strategic partnerships to expand market share.

Net premiums for the first quarter increased by 12% relative to the same period in 2021 primarily from prior growth in the Company's core group benefits offerings. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Net loss for the first quarter increased compared to 2021 primarily due to unfavourable claims experience for life and health benefits.

Product Line Results - Individual Insurance

Key Operating Results

(in millions of dollars)	First quarter	
	2022	2021
Shareholders'		
Shareholders' annualized premium sales	\$ 6	\$ 10
Shareholders' net premiums	74	73
Net income (loss) after tax	22	27
Policyholders'		
Policyholders' annualized premium sales	4	5
Policyholders' net premiums	37	33
Net income (loss) after tax	1	2
Net income after tax	\$ 23	\$ 29

Shareholders' annualized premium sales decreased by 38% in the first quarter compared to the same period in 2021, primarily from slower sales of the Company's term products. Policyholders' annualized premium sales

decreased 4% in the first quarter. Shareholders' net premiums were 1% higher and policyholders' net premiums were 12% higher in the first quarter reflecting recent strength in policyholders' new premium sales.

Shareholders' net income for this product line was \$22 million for the first quarter of 2022 compared to \$27 million for the same period in 2021. In the first quarter of 2022, Individual Life sales were less than the first quarter of 2021 and there was poor mortality and lapse experience.

Results - Capital and Surplus

Key Operating Results

(in millions of dollars)	First quarter	
	2022	2021
Income from investments	\$ 7	\$ 17
Gains (losses) on hedging instruments	(2)	(8)
Interest and other expenses	(5)	(3)
Earnings before income taxes	—	6
Income taxes	—	1
Net income (loss) after tax shareholders' portion	—	5
Net income (loss) after tax policyholders' portion	—	—
Net income (loss) after tax	\$ —	\$ 6

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 the first quarter of 2022 in the capital and surplus segment primarily due to realized losses on sales of fixed income assets recorded as AFS in this segment and higher interest expenses related to the issuance of Limited Recourse Capital Notes in February 2021. In addition, Empire Life experienced lower losses on the hedging program (discussed in the Risk Management section) in the first quarter of 2022 compared to the first quarter of 2021, primarily related to rising Canadian equity markets in the current year.

Shareholder Dividends

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

Common shareholder dividends are reviewed on a quarterly basis and 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 April 28, 2022, 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 dividends.

	Amount of Dividend per share	Payable Date	Record Date
Common shares	\$ 18.45	June 7, 2022	May 13, 2022
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.30625	July 17, 2022	June 17, 2022

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

Total Cash Flow

(in millions of dollars)	Year to date	
	2022	2021
Cash flow provided from (used for)		
Operating activities	\$ 47	\$ 66
Investing activities	(74)	(153)
Financing activities	(26)	180
Net change in cash and cash equivalents	\$ (54)	\$ 92

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 to date, cash and cash equivalents decreased by \$54 million. Cash flows provided by operating activities decreased by \$19 million primarily due to lower net income. Cash used for investing activities decreased by \$79 million compared the same period in 2021 as the prior period included a non-recurring investment of the proceeds from financing activities. Cash used for financing activities was lower than the corresponding period in 2021, primarily due to a non-recurring transaction in February 2021, where the Company issued Limited Recourse Capital Notes.

For an analysis of liquidity for Empire Life, see note 10(e) and note 27(b) to the audited consolidated financial statements for the year ended December 31, 2021.

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, 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, 10(c), and 27 to the audited consolidated financial statements for the year ended December 31, 2021.

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	
	March 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 capital instruments are as follows:

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

⁽¹⁾ Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2021, interest is payable at 1.53% over the 3-month Canadian Deposit Offering Rate (CDOR).

⁽²⁾ 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.

Preferred shares and Other equity instruments				As at	
(In millions of dollars)	Date Issued	Earliest Redemption Date	Yield	March 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 %	\$ 200	\$ 200

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	June 3, 2021
Issuer Rating	A	Stable	June 3, 2021
Subordinated Debt	A(low)	Stable	June 3, 2021
Preferred Shares	Pfd-2	Stable	June 3, 2021
Limited Recourse Capital Notes	BBB(high)	Stable	June 3, 2021

Regulatory Capital

The Life Insurance Capital Adequacy Test (LICAT) measures a life insurer's solvency position by recognizing the long-term economics of the life insurance business. The Company has 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%. OSFI has established supervisory target levels of 70% for Core and 100% for Total capital.

As of March 31, 2022, the Total Ratio and Core Ratio decreased from December 31, 2021 primarily due to the increase in goodwill and intangible assets from the Company's recent acquisition and amalgamation of the companies in its new subsidiary TruStone Financial Inc.

LICAT		Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
(in millions of dollars)		2022	2021	2021	2021	2021
Available capital						
Tier 1	(A) \$	1,775	\$ 1,898	\$ 1,820	\$ 1,805	\$ 1,908
Tier 2	(B)	573	591	853	658	664
Total	(C) \$	2,348	\$ 2,489	\$ 2,673	\$ 2,463	\$ 2,572
Surplus allowance and eligible deposits	(D)	1,074	1,115	1,162	1,170	1,121
Base solvency buffer	(E)	2,410	2,508	2,561	2,536	2,503
LICAT total ratio	((C+D)/E * 100)	142 %	144 %	150 %	143 %	148 %
LICAT core ratio	((A+70%D)/E * 100)	105 %	107 %	103 %	103 %	108 %

Other Comprehensive Income

(in millions of dollars after tax)		First quarter	
		2022	2021
OCI, attributable to shareholders		(86)	(53)
OCI, attributable to policyholders		(2)	1
Total other comprehensive income		(88)	(53)

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

Remeasurement 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.

Risk Management

Caution Related to Sensitivities

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

Significant Developments

The global economy is undergoing a strong recovery supported by gradual easing and reversal of public health restrictions, accommodating central bank monetary and fiscal policies, strong household and corporate balance sheets and large amounts of consumer demand. Some challenges do remain on the supply side. These factors have led to large increases in inflation which has triggered re-assessment of policy setting in many central banks, including Canada. COVID risks remain, but many countries are now saying they will treat 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.

The majority of employees continue to work from home and associated strategies continue to operate effectively. Return to office plans have been designed to be gradual and measured to ensure the health and safety of our employees. Processes are in place to monitor and maintain ongoing system availability, stability and security.

The outbreak of military hostilities in Ukraine poses a risk to the economic outlook. Empire Life is a closely held Canadian owned life insurance company that only operates in Canada. As a result, the Company has little direct exposure to the emerging geopolitical situation but may be impacted by the resulting volatility in financial markets.

Continued economic and political uncertainty 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.

Market Risk

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

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes, but does not have policy liabilities on the statement of financial position related to segregated fund guarantees. Therefore, a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. For the first quarter, Empire Life experienced a loss of \$2 million after tax primarily due to rising Canadian equity markets. This compares to a hedge loss of \$6 million after tax for the comparable period in 2021.

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 March 31, 2022, Empire Life had \$9.1 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.7 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	March 31 2022	December 31 2021
Percentage of Segregated Fund Liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	7 %	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)	42 %	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 March 31, 2022 and December 31, 2021, the sensitivity of Empire Life shareholders' net income and LICAT ratio resulting from stock market increases and decreases is provided in the following table.

Sensitivity to equity risk:	Increase		Decrease		
Impact on net income (in millions of dollars after tax)	20 %	10 %	10 %	20 %	30 %
As at March 31, 2022					
Segregated fund guarantees	\$ —	\$ —	\$ (7)	\$ (46)	\$ (163)
Other equity risk	34	16	(15)	(27)	(36)
Equity hedge	(2)	(2)	4	12	28
Total	\$ 31	\$ 15	\$ (18)	\$ (61)	\$ (172)
As at December 31, 2021					
Segregated fund guarantees	\$ —	\$ —	\$ (10)	\$ (60)	\$ (189)
Other equity risk	40	19	(18)	(32)	(44)
Equity hedge	(2)	(2)	4	12	27
Total	\$ 38	\$ 18	\$ (24)	\$ (81)	\$ (206)
Sensitivity to equity risk:	Increase		Decrease		
Impact on LICAT	20 %	10 %	10 %	20 %	30 %
As at March 31, 2022					
Segregated fund guarantees	14 %	8 %	(1)%	(7)%	(15)%
Other equity risk	— %	— %	1 %	1 %	1 %
Equity hedge	(2)%	(1)%	1 %	2 %	3 %
Total	13 %	7 %	1 %	(4)%	(11)%
As at December 31, 2021					
Segregated fund guarantees	11 %	5 %	(1)%	(7)%	(16)%
Other equity risk	— %	— %	1 %	1 %	— %
Equity hedge	(2)%	(1)%	1 %	2 %	3 %
Total	9 %	4 %	1 %	(4)%	(12)%

Empire Life's equity market sensitivity in a 20% and 30% stock market decline decreased primarily as a result of the increase in interest rates during the first quarter of 2022.

Empire Life also has a reinsurance agreement to cede a portion of Empire Life's segregated fund death benefit exposure. All Empire Life segregated fund policyholders with death benefit guarantees of at least \$2 million are included in this agreement. Empire Life does not reinsure any other insurer's segregated fund products.

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		
March 31, 2022	\$ 2,626	\$ 823	\$ 92	\$ 4	\$ 1,781	\$ 26	—	\$ 582
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 March 31, 2022, the aggregate amount at risk for all three categories of risk was \$854 million. As 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 March 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
March 31, 2022 LICAT total ratio	2 %
December 31, 2021 LICAT total ratio	3 %

Quarterly Results

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

	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
(in millions of dollars, except per share amounts)	2022	2021	2021	2021	2021	2020	2020	2020
Revenue	\$ (396)	\$ 655	\$ 251	\$ 618	\$ (265)	\$ 475	\$ 401	\$ 1,105
Common shareholder's net income	\$ 38	\$ 17	\$ 33	\$ 32	\$ 157	\$ 72	\$ 51	\$ 48
Earnings per share - basic and diluted	\$ 38.69	\$ 16.96	\$ 33.78	\$ 32.09	\$ 159.82	\$ 73.53	\$ 51.91	\$ 48.42

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 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 risk relating to the COVID-19 pandemic. Please see the section titled "Risk Factors" in Empire Life's Annual Information Form available at www.sedar.com for more details on these risks.

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

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

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. When relying on Empire Life's forward-looking statements and information to make decisions, investors and others should carefully consider the foregoing factors, assumptions and other uncertainties and potential events. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof or

the date indicated, and to not use such forward-looking information for anything other than its intended purpose. Empire Life undertakes no obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise after the date of this document, except as required by law.

Non-IFRS Measures

Empire Life uses non-IFRS measures including return on common shareholders' equity, source of earnings, assets under management, annualized premium sales, gross and net sales for mutual funds, segregated funds and fixed annuities to provide investors with supplemental measures of its operating performance and to highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Empire Life's management also uses non-IFRS measures 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	March 31, 2022	December 31, 2021
(in millions of dollars)		
Assets Under Management		
General fund assets	\$ 9,420	\$ 10,273
Segregated fund assets	9,066	9,257
Total assets per financial statements	18,486	19,530
Mutual fund assets	108	114
Assets under management	\$ 18,593	\$ 19,644

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

As at	March 31, 2022	December 31, 2021
(in millions of dollars)		
DB plan assets		
Segregated fund assets	\$ 215	\$ 223
Mutual fund assets	17	17
