

The Empire Life Insurance Company

**Management's Discussion and Analysis
For the nine months ended September 30, 2022**



Management's Discussion and Analysis

Dated as of October 27, 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 third quarter of 2022. This MD&A should be read in conjunction with Empire Life's unaudited Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 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.

The outlook of the Company remains consistent with the disclosure in the 2021 Annual Report dated February 24, 2022. The Company continues to carefully monitor the effects of both the novel coronavirus (COVID-19) pandemic and, the outbreak of hostilities in Ukraine on the economy and financial markets, including inflation impacts.

Financial Analysis

Overview

(in millions of dollars except per share amounts)	Third quarter		Year to date	
	2022	2021	2022	2021
Common shareholders' net income	\$ 45	\$ 33	\$ 117	\$ 222
Earnings per share - basic and diluted	\$ 45.27	\$ 33.78	\$ 118.39	\$ 225.70

Other Financial Highlights	Sep 30	Jun 30	Mar. 31	Dec. 31
	2022	2022	2022	2021
Return on common shareholders' equity (trailing four quarters) ¹	7.6 %	7.0 %	6.7 %	13.8 %
LICAT total ratio	137 %	139 %	142 %	144 %

¹ See non-IFRS Measures

Empire Life reported third quarter common shareholders' net income of \$45 million for 2022, compared to a net income of \$33 million for the third quarter of 2021. The increase in third quarter earnings was primarily a result of market conditions; positive yield curve impacts offset by poor equity market performance. Year-to-date common shareholders net income was \$117 million which was less than the \$222 million in 2021, primarily due to the non-recurring release of segregated fund guarantee related policy liabilities which occurred in the first quarter of 2021.

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The following table provides a breakdown of the sources of earnings by line of business for the third quarter and year to date.

For the three months ended September 30 (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	\$ 34	\$ 29	\$ 7	\$ 6	\$ 12	\$ 14			\$ 53	\$ 50
Impact of new business	(2)	(3)	(1)	(3)	5	(3)			2	(9)
Experience gains & losses	(2)	11	(4)	(1)	(10)	(12)			(16)	(2)
Management actions and changes in assumptions	—	—	—	—	37	3			37	3
Earnings (losses) on operations before income taxes	30	37	2	2	44	2	—	—	76	42
Earnings on surplus	—	—	—	—	—	—	(13)	4	(13)	4
Income (loss) before income tax	30	37	2	2	44	2	(13)	4	63	46
Income taxes	8	9	1	1	10	—	(4)	1	15	10
Shareholders' net income (loss)	22	28	1	2	34	2	(9)	4	48	36
Participating policyholders' portion									(1)	(1)
Dividends on preferred shares									(2)	(1)
Common shareholders' net income (loss)									\$ 45	\$ 33

For the nine months ended September 30 (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	\$ 105	\$ 87	\$ 21	\$ 19	\$ 35	\$ 41			\$ 161	\$ 148
Impact of new business	(9)	(11)	(5)	(9)	12	4			(2)	(16)
Experience gains & losses	(16)	167	(20)	(8)	(18)	(15)			(54)	144
Management actions and changes in assumptions	—	—	—	—	55	23			55	23
Earnings (losses) on operations before income taxes	80	243	(4)	2	84	54	—	—	160	293
Earnings on surplus	—	—	—	—	—	—	(2)	8	(2)	8
Income (loss) before income tax	80	243	(4)	2	84	54	(2)	8	158	307
Income taxes	19	62	(1)	1	17	9	—	—	35	72
Shareholders' net income (loss)	61	180	(3)	2	67	45	(2)	8	123	235
Participating policyholders' portion									(2)	(7)
Dividends on preferred shares									(4)	(6)
Common shareholders' net income (loss)									\$ 117	\$ 222

Experience gains (losses) were significantly lower for the year to date 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; poor equity market performance partially offset by positive yield curve impacts. In addition, line of business experience included increased expenses in the Wealth Management line from an enhanced commission program on large deposits, unfavourable mortality and lapse experience for Individual Insurance and poor Group Solutions experience caused by both adverse LTD claim experience and the impact of inflation on pricing for Health and Dental lines.

Gains from management actions were higher than the comparable quarter in 2021 as the market conditions allowed duration matching improvements in the Individual Insurance line in the current period. In addition, the insurance contract liabilities were reduced to reflect the improved interest rate environment.

Earnings on surplus decreased in the third quarter, primarily due to market impacts which caused realized losses on Available for Sale (AFS) assets.

The Company's Life Insurance Capital Adequacy Test (LICAT) Total Ratio was 137% at September 30, 2022 compared to 144% at December 31, 2021, well above the requirements set by the Office of the Superintendent of Financial Institutions Canada (OSFI) as well as Empire Life's minimum internal target.

Management's Discussion and Analysis

Results by Major Product Line

The following tables provides a summary of Empire Life results by major product line for the third quarter and year to date for the period ended September 30 for 2022 and 2021. A discussion of results is provided in the Product Line section of the MD&A.

For the three months ended September 30 (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	\$ 43	\$ 14	\$ 114	\$ 103	\$ 112	\$ 109	\$ —	\$ —	\$ 269	\$ 227
Investment income	8	10	3	1	66	54	16	15	93	80
Fair value change in FVTPL investments	(9)	(3)	(3)	—	(30)	(129)	—	—	(42)	(132)
Realized gain (loss) on FVTPL investments	—	—	—	—	9	9	(2)	(2)	7	7
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	(22)	(1)	(22)	(1)
Fee income	67	66	4	3	—	—	4	—	75	69
Total revenue	109	88	118	108	157	43	(4)	12	380	251
Expenses										
Net benefits and claims	43	39	79	70	48	42	—	—	170	151
Net change in insurance and investment contract liabilities	1	(22)	4	6	11	(50)	—	—	16	(66)
Policy dividends	—	—	—	—	9	9	—	—	9	9
Operating, commission and interest expenses	34	34	30	26	43	38	10	7	117	106
Income and other taxes	9	9	4	3	12	3	(5)	1	20	16
Total expenses	87	60	117	106	123	41	5	8	332	215
Net income (loss) after tax	\$ 22	\$ 28	\$ 1	\$ 2	\$ 34	\$ 2	\$ (9)	\$ 4	\$ 48	\$ 36
Participating policyholders' portion									(1)	(1)
Dividends on preferred shares									(2)	(1)
Common shareholders' net income (loss)									\$ 45	\$ 33

For the nine months ended September 30 (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	\$ 86	\$ 55	\$ 336	\$ 299	\$ 334	\$ 322	\$ —	\$ —	\$ 756	\$ 675
Investment income	24	29	6	2	183	166	47	46	260	244
Fair value change in FVTPL investments	(93)	(12)	(22)	(4)	(1,540)	(589)	5	(3)	(1,650)	(608)
Realized gain (loss) on FVTPL investments	—	—	—	—	26	108	(7)	(15)	19	93
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	(30)	(4)	(30)	(3)
Fee income	193	192	12	10	—	—	11	—	216	202
Total revenue	210	265	332	307	(997)	7	26	25	(429)	603
Expenses										
Net benefits and claims	115	130	244	206	148	134	—	—	507	470
Net change in insurance and investment contract liabilities	(98)	(212)	(4)	14	(1,384)	(337)	—	—	(1,486)	(535)
Policy dividends	—	—	—	—	28	26	—	—	28	26
Operating, commission and interest expenses	113	104	87	76	120	122	28	16	348	318
Income and other taxes	19	62	8	9	24	18	—	—	51	89
Total expenses	149	84	335	305	(1,064)	(37)	28	16	(552)	368
Net income (loss) after tax	\$ 61	\$ 180	\$ (3)	\$ 2	\$ 67	\$ 45	\$ (2)	\$ 8	\$ 123	\$ 235
Participating policyholders' portion									(2)	(7)
Dividends on preferred shares									(4)	(6)
Common shareholders' net income (loss)									\$ 117	\$ 222

Total Revenue

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Net premiums were 12% higher compared to 2021, primarily due to growth in the Group Solutions and Individual Insurance lines.

Losses from assets classified as FVTPL were higher in the third quarter, relative to third quarter of 2021, reflecting declines in the fair value of assets due to increasing interest rates. 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.

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.

Product Line Results - Wealth Management

Key Operating Results

(in millions of dollars)	Third quarter		Year to date	
	2022	2021	2022	2021
Fixed Annuities				
Assets under management ¹	\$ 735	\$ 881	\$ 735	\$ 881
Gross sales ¹	43	14	86	55
Net sales ¹	14	(11)	12	(32)
Segregated Funds				
Assets under management ¹	\$ 8,143	\$ 8,950	\$ 8,143	\$ 8,950
Gross sales ¹	181	210	643	691
Net sales ¹	13	18	(65)	(114)
Fee income	66	65	192	190
Net income after tax	\$ 22	\$ 28	\$ 61	\$ 180

¹ See non-IFRS Measures

Fixed annuities assets under management were 17% lower relative to the same period in 2021. Gross sales in the third quarter have increased due to the favourable interest rate environment compared to the same period in 2021.

Segregated fund assets under management are lower relative to the same period in 2021, reflecting the poor equity market conditions. For the third quarter of 2022, gross sales were 14% lower than the same period in 2021. Segregated fund fee income was comparable to the third quarter of 2021. Fee income from segregated funds is calculated daily for most products.

This line had net income of \$22 million for the quarter compared to a net income of \$28 million for the third quarter in 2021, primarily due to negative impacts of the equity market drop and increased expenses in the Wealth Management line from an enhanced commission program on large deposits. The guarantees on segregated funds are only payable if fund values are below the guaranteed values when the insurable event occurs.

Management's Discussion and Analysis

Product Line Results - Group Solutions

Key Operating Results

(in millions of dollars)	Third quarter		Year to date	
	2022	2021	2022	2021
Selected financial information				
Core	\$ 14	\$ 18	\$ 44	61
Other	6	6	18	19
Annualized premium sales ¹	20	24	62	81
Net premiums	114	103	336	299
Net income (loss) after tax	\$ 1	\$ 2	(3)	2

¹ See non-IFRS Measures

Total annualized premium sales decreased in the third 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 third quarter increased by 11% 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 Group Solutions market where price competition and high inflation continues for all major product lines.

Net income for the third quarter decreased compared to 2021 primarily due to unfavourable claims experience for LTD and health benefits.

Product Line Results - Individual Insurance

Key Operating Results

(in millions of dollars)	Third quarter		Year to date	
	2022	2021	2022	2021
Shareholders'				
Shareholders' annualized premium sales ¹	\$ 9	\$ 7	\$ 23	27
Shareholders' net premiums	73	73	220	218
Net income (loss) after tax	35	1	67	39
Policyholders'				
Policyholders' annualized premium sales ¹	3	3	11	12
Policyholders' net premiums	39	36	114	104
Net income (loss) after tax	(1)	1	—	6
Net income after tax	\$ 34	\$ 2	\$ 67	45

¹ See non-IFRS Measures

Shareholders' annualized premium sales and Policyholders' annualized premium sales are similar to the same period in 2021. Total net income for this product line was \$67 million for year-to-date 2022 compared to \$45 million for the same period in 2021, poor equity market performance was more than offset by positive yield curve impacts.

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Results - Capital and Surplus

Key Operating Results

(in millions of dollars)	Third quarter		Year to date	
	2022	2021	2022	2021
Income from investments	\$ (5)	\$ 13	\$ 24	\$ 40
Gains (losses) on hedging instruments	(3)	(2)	(2)	(16)
Interest and other expenses	(9)	(7)	(27)	(16)
Earnings before income taxes	(17)	4	(5)	7
Income taxes	6	1	1	—
Net income (loss) after tax common shareholders' portion	(11)	4	(4)	7
Net income (loss) after tax policyholders' portion	1	—	2	1
Net income (loss) after tax	\$ (10)	\$ 4	\$ (2)	\$ 8

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 third quarter of 2022 in the capital and surplus segment primarily due to realized losses on sales of fixed income assets recorded as AFS.

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 October 27, 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	December 6, 2022	November 14, 2022
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.30625	January 17, 2023	December 19, 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.

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Total Cash Flow

(in millions of dollars)	Year to date	
	2022	2021
Cash flow provided from (used for)		
Operating activities	\$ 246	\$ 301
Investing activities	(81)	(299)
Financing activities	(72)	189
Net change in cash and cash equivalents	\$ 93	\$ 191

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 increased by \$93 million. Cash flows provided by operating activities decreased by \$55 million primarily due to lower net income, as compared to third quarter 2021. Cash used for investing activities decreased by \$218 million compared the same period in 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 \$261 million lower than the corresponding period in 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 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 Actuary, 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.

Management's Discussion and Analysis

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	
	September 30, 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	
				September 30, 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, 2023, 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	September 30, 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	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

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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 September 30, 2022, the Total Ratio and Core Ratio decreased from June 30, 2022 primarily due to decreases in OCI income and surplus allowances, both related to overall increased interest rates.

LICAT (in millions of dollars)		Sep. 30 2022	Jun. 30 2022	Mar. 31 2022	Dec. 31 2021	Sep. 30 2021
Available capital						
Tier 1	(A) \$	1,729	\$ 1,695	\$ 1,775	\$ 1,898	\$ 1,820
Tier 2	(B)	587	576	573	591	853
Total	(C) \$	2,316	\$ 2,271	\$ 2,348	\$ 2,489	\$ 2,673
Surplus allowance and eligible deposits	(D)	933	1,001	1,074	1,115	1,162
Base solvency buffer	(E)	2,366	2,363	2,410	2,508	2,561
LICAT total ratio	((C+D)/E * 100)	137 %	139 %	142 %	144 %	150 %
LICAT core ratio	((A+70%D)/E * 100)	101 %	101 %	105 %	107 %	103 %

Other Comprehensive Income (Loss)

(in millions of dollars after tax)	Third quarter 2022	2021	Year to date 2022	2021
OCI, attributable to shareholders	10	(8)	(164)	(37)
OCI, attributable to policyholders	(1)	—	(5)	1
Total other comprehensive income	9	(8)	(169)	(37)

Other comprehensive income (OCI) increased in the third quarter of 2022 primarily due to higher realized fair value losses on AFS investments, which were reclassified to net income, partially offset by a loss on the remeasurement of the post-employment defined benefit plans.

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.

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, we 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*.

We continue to assess the impact that the adoption of IFRS 17 and IFRS 9 will have on our Consolidated Financial Statements and estimates of the financial impacts are subject to change as we continue to assess the implications of adopting both standards. For additional details, refer to Note 2 in the Interim Consolidated Financial Statements.

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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 saw a strong recovery through the first part of 2022 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. 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.

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 and, policy liabilities on the statement of financial position related to segregated fund guarantees. Therefore, a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. For the third quarter, Empire Life experienced a loss of \$2 million after tax primarily due to realized fair value losses. This compares to a hedge loss of \$1 million after tax for the comparable period in 2021.

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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 September 30, 2022, Empire Life had \$8.1 billion of segregated fund assets and liabilities. Of this amount, approximately \$7.9 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	September 30 2022	December 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)	42 %	42 %

Management's Discussion and Analysis

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 September 30, 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: Impact on net income (in millions of dollars after tax)	Increase			Decrease		
	20 %	10 %	10 %	20 %	30 %	
As at September 30, 2022						
Segregated fund guarantees	\$ 10	\$ 10	\$ (33)	\$ (132)	\$ (245)	
Other equity risk	19	9	(7)	(13)	(46)	
Equity hedge	(6)	(4)	9	23	44	
Total	\$ 23	\$ 15	\$ (31)	\$ (122)	\$ (247)	
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: Impact on LICAT	Increase			Decrease		
	20 %	10 %	10 %	20 %	30 %	
As at September 30, 2022						
Segregated fund guarantees	13 %	5 %	(4)%	(9)%	(16)%	
Other equity risk	— %	— %	— %	— %	— %	
Equity hedge	(2)%	(1)%	1 %	1 %	2 %	
Total	11 %	4 %	(3)%	(8)%	(14)%	
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 increased primarily as a result of poor equity market performance.

Management's Discussion and Analysis

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		
September 30, 2022	\$ 2,634	\$ 1,068	\$ 218	\$ 20	\$ 3,546	\$ 229	\$ 13	\$ 591
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 September 30, 2022, the aggregate amount at risk for all three categories of risk was \$1,318 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 September 30, 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
September 30, 2022 LICAT total ratio	1 %
December 31, 2021 LICAT total ratio	1 %

Quarterly Results

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

(in millions of dollars, except per share amounts)	Sep. 30 2022	Jun. 30 2022	Mar. 31 2022	Dec. 31 2021	Sep. 30 2021	Jun. 30 2021	Mar. 31 2021	Dec. 31 2020
Revenue	\$ 380	\$ (414)	\$ (396)	\$ 655	\$ 251	\$ 618	\$ (265)	\$ 475
Common shareholder's net income	\$ 45	\$ 34	\$ 38	\$ 17	\$ 33	\$ 32	\$ 157	\$ 72
Earnings per share - basic and diluted	\$ 45.27	\$ 34.42	\$ 38.69	\$ 16.96	\$ 33.78	\$ 32.09	\$ 159.82	\$ 73.53

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 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.

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.

Reconciliation of Assets Under Management

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

As at (in millions of dollars)	September 30, 2022	December 31, 2021
Assets Under Management		
General fund assets	\$ 8,714	\$ 10,273
Segregated fund assets	8,143	9,257
Total assets per financial statements	16,857	19,530
Mutual fund assets	93	114
Assets under management	\$ 16,950	\$ 19,644

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

As at (in millions of dollars)	September 30, 2022	December 31, 2021
DB plan assets		
Segregated fund assets	\$ 197	\$ 223
Mutual fund assets	15	17