

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

For the year ended December 31, 2023



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# MANAGEMENT'S DISCUSSION AND ANALYSIS

**Dated as of February 29, 2024**

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, 2023 and 2022. This MD&A should be read in conjunction with the Company's Consolidated Financial Statements for the year ended December 31, 2023, which form part of The Empire Life Insurance Company 2023 Annual Report dated February 29, 2024. 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.sedarplus.ca](http://www.sedarplus.ca). 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 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) (IFRS Accounting Standards). This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS Accounting Standards and do not have a standardized meaning prescribed by IFRS Accounting Standards. Therefore, they are unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information and complement IFRS Accounting Standards 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 Accounting Standards. Refer to 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	
	2023	2022 restated	2023	2022 restated
Common shareholders' net income (loss)	\$ 111	\$ 5	\$ 156	\$ 55
Earnings per share - basic and diluted	\$ 112.15	\$ 5.32	\$ 158.70	\$ 55.72

Empire Life reported fourth quarter common shareholders' net income of \$111 million for 2023, compared to net income of \$5 million for the fourth quarter of 2022. Full year common shareholders' net income was \$156 million compared to \$55 million in 2022. The increase in common shareholders' net income for the fourth quarter and full year compared to the prior year was primarily due to higher net investment and insurance finance results driven by a more favourable economic environment from interest rate movements and positive equity returns.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Selected Financial Information

Statement of Operations Information (in millions of dollars)	For the years ended December 31	
	2023	2022 restated
Insurance service result	\$ 254	\$ 237
Net recovery (expense) from reinsurance contracts held	(73)	(44)
Net insurance service result	181	193
Net investment result, excluding segregated funds	789	(1,654)
Net insurance finance income (expense), excluding segregated funds	(653)	1,568
Segregated funds net investment and insurance finance result	—	—
Net investment and insurance finance result	136	(86)
Total other income and expenses	(81)	(50)
Net income (loss) before taxes	236	57
Income taxes	(46)	2
Net income (loss) after taxes	190	59
Other comprehensive income (loss), net of income taxes:		
Remeasurements of post-employment benefit liabilities	(1)	25
Total comprehensive income (loss)	189	84
Return on common shareholders' equity	10.5 %	4.0 %
Earnings per share - basic and diluted (\$)	158.70	55.72

Statement of Financial Position Information, as at (in millions of dollars)	December 31, 2023	December 31, 2022 restated	January 1, 2022 restated
<b>Assets</b>			
Cash and cash equivalents	\$ 348	\$ 176	\$ 193
Investments	8,917	8,160	9,839
Other assets	587	656	516
Segregated fund assets	8,813	8,566	9,257
Total assets	\$ 18,665	\$ 17,558	\$ 19,805
<b>Liabilities</b>			
Insurance contract liabilities, excluding segregated fund account balances	\$ 6,708	\$ 6,145	\$ 7,598
Reinsurance contracts held liabilities	253	217	339
Investment contract liabilities, excluding segregated fund account balances	490	335	322
Subordinated debt	399	399	399
Insurance and investment contract liabilities for account of segregated fund holders	8,813	8,566	9,257
Other liabilities	113	111	105
Total liabilities	16,776	15,772	18,020
Total equity	1,888	1,785	1,785
Total liabilities and equity	\$ 18,665	\$ 17,558	\$ 19,805

# MANAGEMENT'S DISCUSSION AND ANALYSIS

<b>Other Financial Information, as at</b> (in millions of dollars)	<b>December 31,</b> <b>2023</b>	December 31, 2022 restated	January 1, 2022 restated
<b>Assets under management<sup>(1)</sup></b>			
General fund assets <sup>(1)</sup>	\$ 9,852	\$ 8,992	\$ 10,548
Segregated fund assets <sup>(1)</sup>	8,813	8,566	9,257
Subordinated debt	399	399	399
Preferred shares and other equity	297	297	250

(1) See Non-IFRS Measures.

<b>LICAT Ratio Information</b> (in millions of dollars)	<b>As at December 31</b>		
	<b>2023</b>	2022 <sup>(1)</sup>	2021 <sup>(1)</sup>
<b>Available regulatory capital</b>			
Tier 1	\$ 2,135	\$ 1,776	\$ 1,898
Tier 2	714	600	591
<b>Total</b>	<b>2,849</b>	2,376	2,489
<b>Surplus allowance and eligible deposits</b>	<b>651</b>	916	1,115
<b>Base solvency buffer</b>	<b>2,252</b>	2,393	2,508
<b>LICAT total ratio</b>	<b>155%</b>	138%	144%
<b>LICAT core ratio</b>	<b>115%</b>	101%	107%

(1) Amounts prior to January 1, 2023 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. For additional details on the 2022 amounts, please refer to Note 2.4 New and amended standards and interpretations in our Consolidated Financial Statements.

<b>Cash dividends per share</b>	<b>For the years ended December 31</b>		
	<b>2023</b>	2022	2021
Preferred shares series 1	\$ —	\$ —	\$ 0.72
Preferred shares series 3	\$ 1.55	\$ 1.23	\$ 1.23
Common shares	\$ 76.32	\$ 73.80	\$ 53.27

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Results by Product Line

The following tables provide a summary of Empire Life results segmented by product line for the periods ended December 31, 2023 and December 31, 2022. A discussion of results is provided in the Product Line Results sections of the MD&A.

For the three months ended December 31, 2023 (in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
<b>Insurance service result</b>					
Insurance revenue	\$ 58	\$ 163	\$ 114	\$ —	335
Insurance service expenses	(38)	(149)	(78)	—	(265)
Insurance service result	20	14	36	—	70
Net recovery (expense) from reinsurance contracts held	—	(5)	(17)	—	(22)
<b>Net insurance service result</b>	<b>20</b>	<b>9</b>	<b>19</b>	<b>—</b>	<b>48</b>
<b>Investment and insurance finance result</b>					
<b>Investment income (loss), excluding segregated funds</b>					
Investment income	67	17	721	158	963
Change in investment contracts	(19)	—	—	—	(19)
<b>Net investment result, excluding segregated funds</b>	<b>48</b>	<b>17</b>	<b>721</b>	<b>158</b>	<b>944</b>
<b>Insurance finance income (expense), excluding segregated fund account balances</b>					
Insurance contracts	(33)	(20)	(699)	—	(752)
Reinsurance contracts held	1	10	(61)	—	(50)
<b>Net insurance finance income (expense), excluding segregated funds</b>	<b>(32)</b>	<b>(10)</b>	<b>(760)</b>	<b>—</b>	<b>(802)</b>
<b>Segregated funds net investment and insurance finance result</b>					
Investment income (loss) on investments for segregated fund account balances	538	—	1	—	539
Insurance finance income (expenses) segregated fund account balances	(538)	—	(1)	—	(539)
<b>Segregated funds net investment and insurance finance result</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net investment and insurance finance result</b>	<b>16</b>	<b>7</b>	<b>(39)</b>	<b>158</b>	<b>142</b>
<b>Other income and expenses</b>					
Fee and other income	—	2	—	7	9
Non-insurance expenses	(8)	(4)	(5)	(11)	(28)
Interest expenses	—	—	—	2	2
<b>Total other income and expenses</b>	<b>(8)</b>	<b>(2)</b>	<b>(5)</b>	<b>(2)</b>	<b>(17)</b>
<b>Net income (loss) before taxes</b>	<b>28</b>	<b>14</b>	<b>(25)</b>	<b>156</b>	<b>173</b>
Income taxes					(35)
<b>Net income (loss) after taxes</b>					<b>138</b>
Less: net income (loss) attributable to the participating account					20
<b>Shareholders' net income (loss)</b>					<b>118</b>
Less: preferred share dividends declared and distributions on other equity instruments					(7)
<b>Common shareholders' net income (loss)</b>				<b>\$</b>	<b>111</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended December 31, 2022 restated (in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
<b>Insurance service result</b>					
Insurance revenue	\$ 58	\$ 156	\$ 109	\$ —	323
Insurance service expenses	(31)	(142)	(74)	—	(247)
Insurance service result	27	14	35	—	76
Net recovery (expense) from reinsurance contracts held	4	(8)	(14)	—	(18)
<b>Net insurance service result</b>	<b>31</b>	<b>6</b>	<b>21</b>	<b>—</b>	<b>58</b>
<b>Investment and insurance finance result</b>					
<b>Investment income (loss), excluding segregated funds</b>					
Investment income	(1)	1	(3)	3	—
Change in investment contracts	(4)	—	—	—	(4)
<b>Net investment result, excluding segregated funds</b>	<b>(5)</b>	<b>1</b>	<b>(3)</b>	<b>3</b>	<b>(4)</b>
<b>Insurance finance income (expense), excluding segregated fund account balances</b>					
Insurance contracts	(5)	(3)	(41)	—	(49)
Reinsurance contracts held	—	1	8	—	9
<b>Net insurance finance income (expense), excluding segregated funds</b>	<b>(5)</b>	<b>(2)</b>	<b>(33)</b>	<b>—</b>	<b>(40)</b>
<b>Segregated funds net investment and insurance finance result</b>					
Investment income (loss) on investments for segregated fund account balances	519	—	(1)	—	518
Insurance finance income (expenses) segregated fund account balances	(519)	—	1	—	(518)
<b>Segregated funds net investment and insurance finance result</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net investment and insurance finance result</b>	<b>(10)</b>	<b>(1)</b>	<b>(36)</b>	<b>3</b>	<b>(44)</b>
<b>Other income and expenses</b>					
Fee and other income	1	2	(1)	6	8
Non-insurance expenses	(8)	(4)	(4)	(3)	(19)
Interest expenses	—	—	—	3	3
<b>Total other income and expenses</b>	<b>(7)</b>	<b>(2)</b>	<b>(5)</b>	<b>6</b>	<b>(8)</b>
<b>Net income (loss) before taxes</b>	<b>14</b>	<b>3</b>	<b>(20)</b>	<b>9</b>	<b>6</b>
Income taxes					7
<b>Net income (loss) after taxes</b>					<b>13</b>
Less: net income (loss) attributable to the participating account					1
<b>Shareholders' net income (loss)</b>					<b>12</b>
Less: preferred share dividends declared and distributions on other equity instruments					(7)
<b>Common shareholders' net income (loss)</b>				\$	<b>5</b>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2023 (in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
<b>Insurance service result</b>					
Insurance revenue	\$ 235	\$ 639	\$ 452	\$ —	1,326
Insurance service expenses	(147)	(598)	(327)	—	(1,072)
Insurance service result	88	41	125	—	254
Net recovery (expense) from reinsurance contracts held	—	(17)	(56)	—	(73)
<b>Net insurance service result</b>	<b>88</b>	<b>24</b>	<b>69</b>	<b>—</b>	<b>181</b>
<b>Investment and insurance finance result</b>					
<b>Investment income (loss), excluding segregated funds</b>					
Investment income	72	16	598	131	817
Change in investment contracts	(28)	—	—	—	(28)
<b>Net investment result, excluding segregated funds</b>	<b>44</b>	<b>16</b>	<b>598</b>	<b>131</b>	<b>789</b>
<b>Insurance finance income (expense), excluding segregated fund account balances</b>					
Insurance contracts	(34)	(22)	(557)	—	(613)
Reinsurance contracts held	1	10	(51)	—	(40)
<b>Net insurance finance income (expense), excluding segregated funds</b>	<b>(33)</b>	<b>(12)</b>	<b>(608)</b>	<b>—</b>	<b>(653)</b>
<b>Segregated funds net investment and insurance finance result</b>					
Investment income (loss) on investments for segregated fund account balances	734	—	2	—	736
Insurance finance income (expenses) segregated fund account balances	(734)	—	(2)	—	(736)
<b>Segregated funds net investment and insurance finance result</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net investment and insurance finance result</b>	<b>11</b>	<b>4</b>	<b>(10)</b>	<b>131</b>	<b>136</b>
<b>Other income and expenses</b>					
Fee and other income	1	8	—	22	31
Non-insurance expenses	(30)	(16)	(19)	(30)	(95)
Interest expenses	—	—	—	(17)	(17)
<b>Total other income and expenses</b>	<b>(29)</b>	<b>(8)</b>	<b>(19)</b>	<b>(25)</b>	<b>(81)</b>
<b>Net income (loss) before taxes</b>	<b>70</b>	<b>20</b>	<b>40</b>	<b>106</b>	<b>236</b>
Income taxes					(46)
<b>Net income (loss) after taxes</b>					<b>190</b>
Less: net income (loss) attributable to the participating account					22
<b>Shareholders' net income (loss)</b>					<b>168</b>
Less: preferred share dividends declared and distributions on other equity instruments					(12)
<b>Common shareholders' net income (loss)</b>				<b>\$</b>	<b>156</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2022 restated (in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
<b>Insurance service result</b>					
Insurance revenue	\$ 234	\$ 604	\$ 417	\$ —	1,255
Insurance service expenses	(126)	(585)	(307)	—	(1,018)
<b>Insurance service result</b>	108	19	110	—	237
Net recovery (expense) from reinsurance contracts held	3	(13)	(34)	—	(44)
<b>Net insurance service result</b>	111	6	76	—	193
<b>Investment and insurance finance result</b>					
<b>Investment income (loss), excluding segregated funds</b>					
Investment income	(77)	(15)	(1,336)	(236)	(1,664)
Change in investment contracts	10	—	—	—	10
<b>Net investment result, excluding segregated funds</b>	(67)	(15)	(1,336)	(236)	(1,654)
<b>Insurance finance income (expense), excluding segregated fund account balances</b>					
Insurance contracts	52	24	1,409	—	1,485
Reinsurance contracts held	(1)	(9)	93	—	83
<b>Net insurance finance income (expense), excluding segregated funds</b>	51	15	1,502	—	1,568
<b>Segregated funds net investment and insurance finance result</b>					
Investment income (loss) on investments for segregated fund account balances	(353)	—	(1)	—	(354)
Insurance finance income (expenses) segregated fund account balances	353	—	1	—	354
<b>Segregated funds net investment and insurance finance result</b>	—	—	—	—	—
<b>Net investment and insurance finance result</b>	(16)	—	166	(236)	(86)
<b>Other income and expenses</b>					
Fee and other income	1	6	—	17	24
Non-insurance expenses	(23)	(13)	(11)	(15)	(62)
Interest expenses	—	—	—	(12)	(12)
<b>Total other income and expenses</b>	(22)	(7)	(11)	(10)	(50)
<b>Net income (loss) before taxes</b>	73	(1)	231	(246)	57
Income taxes					2
<b>Net income (loss) after taxes</b>					59
Less: net income (loss) attributable to the participating account					(6)
<b>Shareholders' net income (loss)</b>					65
Less: preferred share dividends declared and distributions on other equity instruments					(10)
<b>Common shareholders' net income (loss)</b>				\$	55

Empire Life reported fourth quarter common shareholders' net income of \$111 million for 2023, compared to net income of \$5 million for the fourth quarter of 2022. The increase in fourth quarter compared to the prior year was primarily due to higher net investment and insurance finance results driven by a more favourable economic environment from interest rate movements and positive equity returns.

Net insurance service result decreased \$10 million in the fourth quarter compared to the same period in 2022, primarily due to higher expenses in our Wealth Management product line.

Net investment and insurance finance result increased \$186 million in the fourth quarter compared to the same period in 2022. This was mainly due to gains from equity market movements and favourable yield curve movements relative to the fourth quarter in 2022.

Total other income and expenses changed by \$9 million in the fourth quarter compared to the same period in 2022 due to increased employee expenses and project spend.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Full year common shareholders' net income was \$156 million compared to \$55 million in 2022. The increase over prior year is primarily due to higher net investment and insurance finance results driven by a more favourable economic environment driven by interest rate movements and equity market returns.

Net insurance service result decreased \$12 million in 2023 compared to the same period in 2022, primarily due to higher expenses in our Wealth Management product line, which was partially offset by favourable claims experience and insurance contract liability assumption updates in our Group Solutions product line.

Net investment and insurance finance result increased \$222 million in 2023 compared to the same period in 2022. This was mainly due to gains from equity market movements relative to 2022. Net losses experienced in 2022 were driven by the impact from rising interest rates and credit spreads on our investments.

The year-over-year change in total other income and expenses of \$31 million in 2023 compared to the same period in 2022 relates to higher employee expenses and project spend.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Product Line Results - Wealth Management

(in millions of dollars)	Fourth quarter		Year	
	2023	2022	2023	2022
<b>Fixed annuities</b>				
Assets under management <sup>(1),(2)</sup>	\$ 918	\$ 754	\$ 918	\$ 754
Gross sales <sup>(1)</sup>	79	62	242	148
Net sales <sup>(1)</sup>	51	32	140	44
<b>Segregated funds</b>				
Assets under management <sup>(1),(2)</sup>	\$ 8,813	\$ 8,566	\$ 8,813	\$ 8,566
Gross sales <sup>(1)</sup>	189	199	751	841
Net sales <sup>(1)</sup>	(99)	(26)	(305)	(91)

(1) See Non-IFRS Measures section.

(2) 2022 figures have been restated.

(in millions of dollars)	Fourth quarter		Year	
	2023	2022 restated	2023	2022 restated
Net insurance service result	\$ 20	\$ 31	\$ 88	\$ 111
Net investment and insurance finance result	16	(10)	11	(16)
Fee and other income	—	1	1	1
Non-insurance operating expenses	(8)	(8)	(30)	(23)
<b>Net income (loss) before taxes</b>	<b>\$ 28</b>	<b>\$ 14</b>	<b>\$ 70</b>	<b>\$ 73</b>

Fixed annuities assets under management were 22% higher relative to the same period in 2022. Gross sales in the fourth quarter were 27% higher than the same period in 2022, relating to strong demand for GICs, driven by higher interest rates.

Segregated fund assets under management are 3% higher relative to the same period in 2022, reflecting favourable market movements, partially offset by net outflows. For the fourth quarter of 2023, gross sales of segregated funds were 5% lower than the same period in 2022, and 11% lower over the year, as consumers continue to favour Empire Life's fixed annuity products.

Net income for the fourth quarter increased \$14 million compared to the same period in 2022 mainly from the net investment and insurance finance result for our fixed annuity business due to decreasing interest rates in the fourth quarter. This increase was partially offset by higher expenses and onerous contracts.

Net income for 2023 decreased \$3 million or 4% compared to the same period in 2022 due to higher expenses. This was partially offset by favourable interest rate movements impacting our fixed annuities business.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Product Line Results - Group Solutions

(in millions of dollars)	Fourth quarter		Year	
	2023	2022	2023	2022
<b>Annualized premium sales</b>				
Core	\$ 12	\$ 15	\$ 49	\$ 59
Other	6	7	25	25
<b>Total annualized premium sales<sup>(1)</sup></b>	<b>\$ 18</b>	<b>\$ 22</b>	<b>\$ 74</b>	<b>\$ 84</b>

(1) See Non-IFRS Measures section.

(in millions of dollars)	Fourth quarter		Year	
	2023	2022 restated	2023	2022 restated
<b>Insurance revenue, gross</b>	\$ 163	\$ 156	\$ 639	\$ 604
Net insurance service result	\$ 9	\$ 6	\$ 24	\$ 6
Net investment and insurance finance result	7	(1)	4	—
Fee and other income	2	2	8	6
Non-insurance operating expenses	(4)	(4)	(16)	(13)
<b>Net income (loss) before taxes</b>	<b>\$ 14</b>	<b>\$ 3</b>	<b>\$ 20</b>	<b>\$ (1)</b>

Total annualized premium sales decreased 18% in the fourth quarter compared to the same period in 2022 and 12% compared to prior year, due to a large block sale in Q4 of 2022.

Total insurance revenue increased 4% in the fourth quarter and 6% for the year compared to the same period in 2022, primarily due to organic growth in specialty partnerships.

For the fourth quarter, net income before taxes increased \$11 million compared to the same period in 2022 due to an increase in the net investment and insurance finance result and favourable insurance contract liability assumption updates on life and long-term disability (LTD) products. For 2023, net income before taxes of \$20 million improved from prior year, due to favourable claims experience and insurance contract liability assumption updates for life and LTD products, and an increase in net investment and insurance finance result. These gains were partially offset by adverse claims experience on the health and dental products.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Product Line Results - Individual Insurance

(in millions of dollars)	Fourth quarter		Year	
	2023	2022	2023	2022
<b>Shareholders'</b>				
Shareholders' annualized premium sales <sup>(1)</sup>	\$ 10	\$ 9	\$ 40	\$ 32
Net income (loss) before taxes <sup>(2)</sup>	(29)	(20)	35	236
<b>Policyholders'</b>				
Policyholders' annualized premium sales <sup>(1)</sup>	\$ 3	\$ 4	\$ 14	\$ 15
Net income (loss) before taxes <sup>(2)</sup>	4	—	5	(5)

(1) See Non-IFRS Measures section.

(2) 2022 figures have been restated.

(in millions of dollars)	Fourth quarter		Year	
	2023	2022 restated	2023	2022 restated
Net insurance service result	\$ 19	\$ 21	\$ 69	\$ 76
Net investment and insurance finance result	(39)	(36)	(10)	166
Fee and other income	—	(1)	—	—
Non-insurance operating expenses	(5)	(4)	(19)	(11)
<b>Net income (loss) before taxes</b>	<b>\$ (25)</b>	<b>\$ (20)</b>	<b>\$ 40</b>	<b>\$ 231</b>

Shareholders' annualized premium sales increased by 11% in the fourth quarter and 25% for the year, compared to the same period in 2022, primarily from strong sales of our non-participating term insurance products.

Policyholders' annualized premium sales declined slightly from the prior year, and decreased 7% from 2022, due to higher demand for non-participating term products.

Shareholders' net income before taxes for the fourth quarter of 2023 decreased \$9 million or 45% in 2023 compared to 2022. Higher mortality losses in our traditional and universal life products were the main driver of the decrease. The insurance contract liability assumption updates for individual insurance reduced the CSM amortization compared to the prior period, which also contributed to the lower net income result.

Shareholders' net income before taxes decreased \$201 million or 85% in 2023 compared to 2022, primarily due to strong gains from interest rate movements in 2022 that did not occur in 2023, along with higher operating expenses in 2023. Higher mortality losses in our universal life products also contributed to the decrease.

## Results - Capital and Surplus

(in millions of dollars)	Fourth quarter		Year	
	2023	2022 restated	2023	2022 restated
Net investment result	\$ 158	\$ 3	\$ 131	\$ (236)
Other income and expenses	(2)	6	(25)	(10)
<b>Net income (loss) before taxes</b>	<b>\$ 156</b>	<b>\$ 9</b>	<b>\$ 106</b>	<b>\$ (246)</b>

Compared to the prior year, net income before taxes increased in the Capital and Surplus segment. The positive net income for 2023 was mainly driven by the fourth quarter results due to the impact decreasing interest rates had on our investment portfolio. For the year, losses in 2022 were driven by increasing interest rates which did not repeat in 2023.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Results - Net Contractual Service Margin

(Amounts are net of reinsurance contracts held, in millions of dollars)	Fourth quarter		Year	
	2023	2022	2023	2022
<b>Net contractual service margin, beginning of period</b>	\$ 1,567	\$ 1,452	\$ 1,544	\$ 1,358
Impact of new insurance business	15	17	62	64
Interest accretion	6	6	25	25
Insurance experience <sup>(1)</sup>	10	2	3	17
Economic experience <sup>(1)</sup>	(17)	104	71	281
Assumption updates <sup>(1)</sup>	(125)	5	(126)	(38)
CSM recognized for services provided	(41)	(42)	(164)	(163)
<b>Net contractual service margin, end of period</b>	\$ 1,415	\$ 1,544	\$ 1,415	\$ 1,544

(1) Insurance experience, Economic experience and Assumption updates are components of our Changes in estimates that adjust the CSM. Insurance experience represents the current period impacts of insurance experience, resulting in a change in future cash flows that adjust CSM. Economic experience represents the changes in the effect of time value of money and financial risk relating to contracts measured using the VFA for our Wealth Management and Individual Insurance product lines. Assumption updates represent the future period impacts of changes in fulfilment cash flows that adjust CSM.

The Net contractual service margin (CSM) decreased \$129 million in 2023 largely driven by the impact of insurance contract liability assumption updates. Additional details on these assumption updates can be found in the section below. Other components of the CSM movement include:

- New insurance business: Strong Traditional Non-Participating sales helped offset the shift away from Segregated Funds to fixed annuity products.
- Economic experience: Increase for the year was driven by the positive impact of equity market returns on the Company's Segregated Funds, partially offset by the lower interest rates.
- CSM amortization: Remained relatively consistent throughout the year.

## Results - Impact of Insurance Contract Liability Assumption Updates

Impacts from the update of insurance contract liability assumption for the year ended December 31, 2023 (Amounts are net of reinsurance contracts held, in millions of dollars)	Pre-tax income	CSM
<b>Components of insurance contract liability assumption updates</b>		
Mortality	\$ 13	\$ (80)
Lapse	3	(38)
Expense	1	(7)
Other	2	(1)
<b>Total change from the update of insurance contract liability assumptions (excludes policyholders' portion)</b>	\$ 19	\$ (126)

In 2023, insurance contract liability assumption updates primarily related to expected mortality and lapse rates.

The individual life line of business was impacted by mortality updates related to revised expectations to future mortality experience, which was unfavourable to the CSM. This is partially offset by similar updates for the fixed annuity business.

The assumption updates also reflected lapse impacts on segregated fund and universal life products. In addition, updates to the expense assumptions were made in order to reflect Company experience with respect to inflation and changes to operations.

## 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

On February 28, 2024, the Board of Directors declared dividends for common shareholders and series 3 preferred shareholders. 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	\$ 20.31	April 9, 2024	March 14, 2024
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.3866875	April 17, 2024	March 18, 2024

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	
	2023	2022 restated
<b>Cash flow provided from (used for)</b>		
Operating activities	\$ 632	\$ 301
Investing activities	(358)	(224)
Financing activities	(102)	(94)
<b>Net change in cash and cash equivalents</b>	<b>\$ 172</b>	<b>\$ (17)</b>

Cash flows provided from operating activities include insurance premiums, net investment income and fee income. Cash outflows from operating activities include policy benefit payments, commissions, operating expenses and policyholder dividends. Cash flows from investing activities primarily relate to purchases and sales of investments supporting insurance contract 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 period, cash and cash equivalents increased by \$172 million. Cash flows provided by operating activities increased by \$331 million, in line with overall business growth. Cash used for investing activities increased by \$134 million compared to the same period in 2022 as the prior period was attributable to higher net purchases on investments. Cash used for financing activities was higher than the corresponding period in 2022, primarily due to the higher dividend payments to common shareholders and preferred shareholders.

For an analysis of liquidity for Empire Life, refer to Notes 23.3. and 23.4. of our Consolidated Financial Statements for the year ended December 31, 2023.

## Financial Instruments

Empire Life buys investment quality bonds to support the liabilities under the insurance and investment contracts 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 contracts and its Capital and Surplus segment. Cash flows arising from these financial instruments are intended to match the liquidity requirements of Empire Life's insurance and investment contract liabilities, 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 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 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



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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.

For additional information on our financial instruments, refer to Note 3 Financial Instruments of our Consolidated Financial Statements for the year ended December 31, 2023.

Effective January 1, 2023, we adopted IFRS 9 Financial Instruments. Except for assets impacted by the overlay approach, results from periods prior to January 1, 2023 are reported in accordance with IAS 39 Financial Instruments: Recognition and Measurement. For further details on the impacts of the adoption of IFRS 9, including the description of accounting policies selected, refer to Note 2.4.2 IFRS 9 *Financial Instruments* and Note 2.6 Financial instruments, of our Consolidated Financial Statements for the year ended December 31, 2023.

## 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, 2023	December 31, 2022
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 subordinated debentures are as follows:

(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	As at	
				December 31, 2023	December 31, 2022
Subordinated debentures, Series 2017-1 <sup>(1)</sup>	September 2017	March 15, 2023	3.664%	\$ —	\$ 200
Subordinated debentures, Series 2021-1 <sup>(2)</sup>	September 2021	September 24, 2026	2.024%	\$ 199	\$ 199
Subordinated debentures, Series 2023-1 <sup>(3)</sup>	January 2023	January 13, 2028	5.503%	\$ 199	\$ —

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

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

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

On January 13, 2023, the Company issued \$200 million principal amount of unsecured debentures, Series 2023-1, 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 is payable semi-annually until the interest reset date, which is January 13, 2028. The Company may call for redemption of the debentures any time after January 13, 2028 subject to the prior written approval of the Office of the Superintendent of Financial Institutions (OSFI). The debentures are subordinated in right of payment to all insurance contract liabilities of the Company and all other senior indebtedness of the Company.

On March 15, 2023, the Company redeemed all of its outstanding \$200 million 3.664% Unsecured Subordinated Debentures, Series 2017-1 due March 15, 2028. The redemption was approved by OSFI.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Details of the Company's outstanding preferred shares and other equity instruments are as follows:

(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	As at	
				December 31, 2023	December 31, 2022
Preferred shares, Series 3	November 2017	January 17, 2028	6.187%	\$ 100	\$ 100
Limited Recourse Capital Notes, Series 1	February 2021	April 17, 2026	3.625%	\$ 197	\$ 197

Empire Life did not exercise its right to redeem all or part of the outstanding Series 3 Preferred Shares on January 17, 2023. E-L Financial Corporation Limited elected not to exercise its right to convert all or part of their Series 3 Preferred Shares into Non-Cumulative Rate Reset Preferred Shares, Series 4. As a result, 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, payable commencing April 17, 2023 until 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%.

## Securities Rating

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 25, 2023
Issuer rating	A	Stable	May 25, 2023
Subordinated debt	A (low)	Stable	May 25, 2023
Preferred shares	Pfd-2	Stable	May 25, 2023
Limited Recourse Capital Notes	BBB (high)	Stable	May 25, 2023

## 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%. OSFI has established supervisory target levels of 70% for Core and 100% for Total ratio.

LICAT (in millions of dollars)		Dec 31 2023	Sep 30 2023	Jun 30 2023	Mar 31 2023	Dec 31 2022 <sup>(1)</sup>
<b>Available capital</b>						
Tier 1	(A) \$	2,135	2,190	2,180	2,213	1,776
Tier 2	(B)	714	626	663	647	600
Total	(C) \$	2,849	2,816	2,843	2,860	2,376
<b>Surplus allowance and eligible deposits</b>	(D)	651	561	608	598	916
<b>Base solvency buffer</b>	(E)	2,252	2,228	2,293	2,276	2,393
<b>LICAT total ratio</b>	((C+D)/E * 100)	155%	152%	151%	152%	138%
<b>LICAT core ratio</b>	((A+70%D)/E * 100)	115%	116%	114%	116%	101%

(1) LICAT results prior to January 1, 2023 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. For additional details on the 2022 amounts, please refer to Note 2.4 New and amended standards and interpretations in our Consolidated Financial Statements.

The increase in the LICAT total ratio from December 31, 2022 is due to the adoption of IFRS 17 and IFRS 9 and the related changes to OSFI's regulatory capital calculations. Empire Life's LICAT total ratio increased in the fourth quarter due to strong earnings in the period, partly offset by the impact of insurance contract liability assumption updates.

## 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'S DISCUSSION AND ANALYSIS

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 group benefits and 3% market share for new life insurance premiums. Empire Life focuses 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. The Company offers competitively priced products and more personal service, while also providing long-term value to our shareholders. Empire Life, as a mid-sized company, must continue to be cost competitive with the larger companies that may have the advantage of economies of scale. By focusing on particular market segments and providing competitive product offerings for our independent advisors, 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.

Empire Life has invested in distribution companies whose leadership teams are respected in the industry and have a proven track record of growing the business, such as TruStone Financial (a MGA subsidiary). These investments support the Company's commitment to facilitating access to independent financial advice for Canadians.

The Wealth Management product line at Empire Life consists of segregated fund products and guaranteed interest products. 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. Empire Life has focused on developing long-term investment performance through the diversification of the investment styles and strategies of its segregated funds. Management will continue to improve competitiveness by focusing on delivering consistent long-term performance, providing new and differentiated 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.

Within the broader group benefits marketplace in Canada, Empire Life continues to focus on the small and medium-sized group employer market, 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.

Empire Life offers both traditional non-participating and participating individual insurance products, with a range of terms to suit the needs of Canadians. Long-term mortality trends continue to be favourable for life insurance products. 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. Individual Insurance products are very long-term in nature and consequently are subject to long-term reserve and capital requirements. 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, group solutions and individual insurance products. The Company is exposed to a number of risks as a result of its business activities. Effective risk management is critical to the overall profitability, competitive market positioning and long-term financial viability of the Company. While all risks cannot necessarily be eliminated or known with certainty, 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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 risks related to its products provided they are properly designed, priced and managed to add 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;
- 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' assets 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. The Company's risk appetite is the primary mechanism to operationalize the guiding principles outlined above and includes a wide array of qualitative and quantitative standards.

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 2023 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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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, strategy and risk appetite.

## Caution Related to Sensitivities

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on the market prices, interest rates, assets, liabilities and business mix in place as at the respective calculation dates. The sensitivities are calculated independently for each risk variable, generally assuming that all other risk variables remain constant. The sensitivities do not take into account indirect effects such as potential impacts on goodwill impairments or valuation allowances on deferred tax assets. The sensitivities are provided for the consolidated entity. 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 between these risk factors, model errors, or changes in other assumptions such as business mix, effective tax rates, policyholder behaviour and other market variables relative to those underlying the calculation of the sensitivities. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined and should not be viewed as predictors for the Company's future Net income, CSM, Equity and capital sensitivities. Given the nature of these calculations, the Company cannot provide assurance that the actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

## Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance contract liabilities and surplus. Empire Life maintains 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 as well as liabilities on the statement of financial position related to segregated fund guarantees. Some net income volatility can result from the hedging instruments, as gains or losses are not directly offset by changes in the value of other assets and liabilities exposed to equity risk. For the year ended December 31, 2023, Empire Life experienced a loss of \$14.2 million pre-tax on the hedging program, due to realized and unrealized fair value gains. This compares to a hedge loss of \$8.4 million pre-tax in 2022.

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, 2023, Empire Life had \$8.8 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.5 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

	December 31 2023	December 31 2022
<b>Percentage of segregated fund liabilities with:</b>		
75% maturity guarantee and a 75% death benefit guarantee	9%	8%
75% maturity guarantee and a 100% death benefit guarantee	43%	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%	41%
<b>Total</b>	<b>100%</b>	<b>100%</b>

# 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 framework includes the use of various constraints that provide a partial cushion against impacts. As a result, the sensitivity impacts are often non-linear or asymmetric. In addition, the contractual service margin provides a significant offset to potential impacts in the segregated fund guarantee liability. This significantly reduces the net income impacts from changes in interest rates or stock market levels.

Empire Life also has equity market risk related to its equity assets backing life insurance contract liabilities and surplus. The Company is in the process of changing its asset mix and reducing its exposure to equity risk in 2024. As at December 31, 2023 and December 31, 2022, the sensitivity of Empire Life shareholders' net income resulting from changes in equity market prices is provided in the following table:

Sensitivity to equity risk:	Increase		Decrease	
	20%	10%	10%	20%
<b>As at December 31, 2023</b>				
Net income, before-tax	\$ 58	\$ 28	\$ (27)	\$ (42)
Total equity	43	21	(20)	(31)
CSM	187	100	(116)	(254)
<b>As at December 31, 2022</b>				
Net income, before-tax	\$ 77	\$ 39	\$ (29)	\$ (53)
Total equity	57	29	(21)	(39)
CSM	208	111	(125)	(271)

Based on equity market prices as at December 31, 2023 and December 31, 2022, the sensitivity of Empire Life's LICAT Total ratio resulting from increases and decreases on equity market prices is provided in the following table:

Sensitivity to equity risk: Impact on LICAT <sup>(1)</sup>	Increase		Decrease		
	20%	10%	10%	20%	30%
Segregated fund guarantees	13 %	5 %	(1)%	(11)%	(23)%
Other equity risk	1 %	— %	— %	(1)%	(2)%
Equity hedge	(2)%	(1)%	1 %	1 %	1 %
<b>As at December 31, 2023</b>	<b>12 %</b>	<b>4 %</b>	<b>— %</b>	<b>(11)%</b>	<b>(24)%</b>
Segregated fund guarantees	17 %	9 %	(2)%	(7)%	(14)%
Other equity risk	— %	— %	— %	— %	— %
Equity hedge	(2)%	(1)%	1 %	1 %	2 %
<b>As at December 31, 2022</b>	<b>15 %</b>	<b>8 %</b>	<b>(1)%</b>	<b>(6)%</b>	<b>(12)%</b>

(1) LICAT results prior to January 1, 2023 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. For additional details on the 2022 amounts, please refer to Note 2.4 New and amended standards and interpretations in our Consolidated Financial Statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees, and the resulting insurance contract 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		Insurance Contract Liabilities <sup>(2)</sup>	LICAT capital <sup>(1)</sup>
	Fund value	Amount at risk	Fund value	Amount at risk	Fund value	Amount at risk		
December 31, 2023	\$ 2,557	\$ 952	\$ 44	\$ 2	\$ 1,101	\$ 12	\$ 102	\$ 422
December 31, 2022	\$ 2,651	\$ 1,048	\$ 160	\$ 10	\$ 3,073	\$ 104	\$ 79	

(1) LICAT results prior to January 1, 2023 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. For additional details on the 2022 amounts, please refer to Note 2.4 New and amended standards and interpretations in our Consolidated Financial Statements.

(2) December 31, 2022 amount has been adjusted to reflect the impacts from the adoption of IFRS 17.

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. At December 31, 2023, the aggregate amount at risk for all three categories of risk was \$966 million. At December 31, 2022, the aggregate amount at risk for these three categories of risk was \$1,162 million. For these three categories of risk, the amount at risk is not currently payable, as payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

The level of insurance contract 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 a 50 basis point parallel shift in interest rates for December 31, 2023 and December 31, 2022, is shown in the table below. No change to credit spreads is assumed.

Sensitivity to market interest rates - LICAT	Impact of 50 bps Decrease
December 31, 2023 LICAT total ratio	2%
December 31, 2022 LICAT total ratio <sup>(1)</sup>	2%

(1) LICAT results prior to January 1, 2023 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. For additional details on the 2022 amounts, please refer to Note 2.4 New and amended standards and interpretations in our Consolidated Financial Statements.

## 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.

### (1) Legal and Regulatory Compliance Risk

Empire Life is governed by the Insurance Companies Act and supervised by OSFI and is also subject to extensive 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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, information/cyber security 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 insurance contract 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 models and their 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 services 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 different types of goods and/or services through a number of third-party arrangements 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.

## *(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.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

Information security breaches, including various forms of cyber-attacks, are occurring at an increasing pace across industry sectors, governments and individuals. These malicious activities pose a significant risk to Empire Life 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. The Company continues to invest in people, processes and technology to strengthen its abilities to respond to the evolving landscape.

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, incident management 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 unanticipated events, including pandemics. Such a disruption could impact 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.

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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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, they are integrated into our enterprise risk management framework and the 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 and social risks include but are not limited to events and developments related to impacts of climate change and the transition to a lower-carbon economy, emerging regulatory and public policy developments, public health issues and issues of inequality. These risks may occur in the Company's direct operations, investment activities or other areas, such as through third party arrangements.

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 Statement, available at [www.empire.ca/about-us/community](http://www.empire.ca/about-us/community).

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.sedarplus.ca](http://www.sedarplus.ca). Additional disclosures of Empire Life's sensitivity to risks are included in Note 23 of the 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, 2023. Based on that evaluation, management concluded that Empire Life's disclosure controls and procedures were effective as at December 31, 2023.

## **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 Accounting Standards. Under the supervision of management, an evaluation of Empire Life's internal control over financial reporting was carried out as at December

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31, 2023. Based on that evaluation, management concluded that Empire Life's internal control over financial reporting was effective as at December 31, 2023.

As a result of the adoption of IFRS 17 on January 1, 2023, the Company revised its internal controls over financial reporting. The revisions were principally for implementation governance and controls over the initial implementation of IFRS 17 and ongoing controls in the Company's actuarial and financial reporting processes, including the adoption of IFRS 17 accounting policies and significant judgements and estimates, the use of new information technology systems and the reconciliation of financial data between existing reporting processes and IFRS 17.

## Outlook

Across all business lines, Empire Life is focused on growth and diversification of distribution as well digital enablement and adoption, all while maintaining exceptional personalized service. The Company is well-positioned following investments made in product development, digital capabilities and operational improvements throughout 2023. While the Canadian financial services regulatory landscape continues to evolve, Empire Life is proud to continue serving Canadian individuals and small business owners.

2023 started off with turbulence as a regional banking crisis in March was triggered by the failure of Silicon Valley Bank, leading to widespread fears of a broader banking crisis. However, credit spreads and other risky assets rallied and priced in the potential for a soft landing in the economy.

Central banks across the developed world continued their monetary tightening campaigns in 2023. The Bank of Canada increased rates from 5% in Q1 2023 to 5.5% in Q3 before holding rates steady for the remainder of the year. The Federal Reserve held rates at 5.25-5.5% at its last policy meeting of the year and indicated that rate cuts were likely in the coming year.

Out-sized enthusiasm surrounding the technology sector was a key performance driver of the S&P 500 in 2023. A handful of stocks dubbed the "Magnificent Seven" accounted for about two-thirds of the gains in the S&P 500 in 2023. Most major indexes ended the year strong in 2023. The S&P/TSX Composite and S&P 500 were up 11.8% and 26.3% respectively. The Dow Jones Industrial Average was up more than 16% and the tech-heavy Nasdaq closed the year up 44.6%.

Heading into 2024, monetary policy and its impact on global growth, is expected to slightly decline from 3.0% to 2.9% in 2024. We expect to see the lagged effects of tighter policy, especially in Canada where high consumer debt levels and shorter duration mortgages make the economy more sensitive to interest rates.

We continue to monitor the impact of emerging technologies, particularly around generative AI, the transition to a green economy and other innovative technologies in healthcare, to ensure that the Empire Life products are appropriately positioned to withstand volatility and benefit from opportunities as they arise.

The individual insurance market continues to grow modestly even with the increase in long-term interest rates. Empire Life has increased its emphasis on long-term life insurance products while continuing to maintain its position in shorter-term products, such as 10-year renewable term life insurance. Long-term interest rates, product mix and product pricing are expected to continue to be challenges for Empire Life's Individual Insurance product line. The segregated fund product line saw a decline in net sales while experiencing a market shift toward fixed income and guaranteed interest products; increased competition and fee pressures may impact this line going forward. Empire Life will continue to develop low-cost efficient products and new digital services to satisfy consumer needs.

Empire Life maintained market share for group solutions for small to medium-sized employers amid a challenging environment with inflationary headwinds and competitive pricing pressures from increased rate guarantees and renewal caps. Across the industry, the previous upward trajectory on long-term disability claims, particularly mental health claims, has leveled off. Plan flexibility and sustainability remains a key focus, balancing access with affordability for plan sponsors. Empire Life will continue to closely manage drug costs via transition to biosimilars, use of prior authorization, agreements negotiated with pharmaceutical manufacturers and other cost managing levers.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2023, digital capabilities were strengthened, including a new mobile app for benefit plan members, a new digital enrollment tool for plan administrators, as well as continued emphasis on connectivity with distribution partners. Heading into 2024, Empire Life is focused on profitable growth and service excellence with our distribution partners. On the product expansion side, Empire Life has introduced a digital retirement savings ecosystem along with five new target date segregated funds. The Group Solutions line of business, including a new Group Retirement Savings offering, enables plan sponsors to facilitate physical, mental and financial well-being for their employees; the market has seen an increase in groups placing benefits and retirement savings with the same carrier.

In March 2023, OSFI released its final Guideline B-15 - Climate Risk Management, which will require disclosure of Empire Life's management of climate-related risks, effective fiscal year-end 2025. In June 2023, the International Sustainability Standards Board (ISSB) also finalized its standards for disclosure of sustainability-related financial information. As these are subject to jurisdictional adoption, the Company continues to monitor communication from Canadian Securities Administrators for further guidance. In November 2023, the Quebec regulator, the Autorité des marchés financiers (AMF) released its draft Climate Risk Management Guideline, with broader requirements than OSFI's Guideline B-15, including consideration of product design and marketing, and underwriting processes. The Company has initiated work to comply with these regulatory requirements and continues to monitor requirements related to climate risk.

In April 2023, OSFI released its final Guideline B-10 - Third-Party Risk Management, which sets out expectations for managing risks associated with third-party arrangements for federally regulated financial institutions (FRFIs), which is effective May 1, 2024. In addition, Guideline B-13 Technology and Cyber Risk Management came into effect on January 1, 2024, which is intended to help FRFIs develop greater resilience to technology and cyber risks. The Company has assessed these requirements and does not anticipate any issues with compliance by the effective date.

OSFI is developing a new framework for determining capital requirements for segregated fund guarantees. Changes to the capital required for products with guaranteed income may ultimately impact the industry's ability to offer some of these products at reasonable prices to the consumer. OSFI has indicated that the new requirements will become effective in January 2025.

In October 2023, OSFI released its draft Integrity and Security Guideline outlining expectations for all FRFIs to have in place adequate policies and procedures to protect against threats to integrity and security threats, including foreign interference. The final guideline was released in January 2024, with a phased implementation timeline.

OSFI also announced its comprehensive update to its supervisory framework, effective April 2024, which will provide a structure to OSFI's risk assessment, guide oversight activities and help in the identification and management of risks.

The Company has existing risk management programs in place covering a broad range of risks. The program is continually reviewed for relevance and in response to emerging regulatory guidance. In addition, the Company continues to manage the cost of increasing regulatory requirements. The insurance industry faces increasing consumer and financial solvency regulation which the Company must absorb. Empire Life must continue to grow its business and improve operating efficiency to absorb these costs while creating shareholder value.

## Selected Financial Information

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

<b>Selected quarterly financial results</b> (in millions of dollars, except per share amounts)	<b>Dec 31</b> <b>2023</b>	Sep 30 2023	Jun 30 2023	Mar 31 2023	Dec 31 2022 restated	Sep 30 2022 restated	Jun 30 2022 restated	Mar 31 2022 restated
<b>Insurance revenue - Gross</b>	\$ 335	\$ 337	\$ 328	\$ 326	\$ 323	\$ 310	\$ 318	\$ 304
<b>Common shareholder's net income</b>	\$ 111	\$ (5)	\$ (1)	\$ 52	\$ 5	\$ 36	\$ (34)	\$ 47
<b>Earnings per share - basic and diluted</b>	\$ 112.15	\$ (5.25)	\$ (0.86)	\$ 52.66	\$ 5.32	\$ 36.61	\$ (34.08)	\$ 47.87

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table summarizes various financial results on an annual basis for the most recent three years:

Selected annual financial information (in millions of dollars, except per share amounts)	For the years ended December 31		
	2023	2022 restated	2021 <sup>(1)</sup>
Insurance revenue	\$ 1,326	\$ 1,255	
Net investment result, excluding segregated funds	789	(1,654)	
Fee and other income	31	24	
Total revenue			1,259
Common shareholders' net income (loss)	156	55	239
Earnings per share - basic and diluted (\$)	158.70	55.72	242.66
Total assets	18,665	17,558	19,531

(1) Amounts prior to January 1, 2022 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. Amounts were reported under IFRS 4 and IAS 39.

## Critical Accounting Estimates

Empire Life's significant accounting policies are described in Note 2 of the Consolidated Financial Statements. Certain of these policies require management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the Consolidated Financial Statements, and the reported amounts of revenue and expenses during the year. On an on-going basis, management evaluates its judgements, estimates, and critical assumptions in relation to assets, liabilities, revenue and expenses.

### Insurance and reinsurance contracts held

Key assumptions and sources of estimation can result in a material adjustment to the carrying amounts of assets and liabilities. The Company bases assumptions and estimates on parameters available when the insurance and reinsurance contracts held are measured. Actuarial assumptions relate to events that are anticipated to occur, however, these may not be realized due to market changes, developing experience or circumstances arising that are unpredictable. Management applied judgement in determining the level of aggregation of information in which the disclosures are presented in Note 10 of the Consolidated Financial Statements.

### The methods used to measure insurance contracts

The Company uses the probability weighted average of cash flows to estimate the present value of expected future cash flows. Product guarantees for universal life, participating products and segregated funds are valued using stochastic models. Assumptions relating to mortality rates, morbidity rates, longevity, expenses, and policyholder behavior are discussed further in Note 2 of the Consolidated Financial Statements.

### Discount rates

IFRS 17 differentiates the requirements for discount rates for cash flows that do not vary based on the returns of any underlying items from cash flows that do vary based on the returns of any underlying items. For those that do not vary, cash flows are discounted using risk free rates, plus an illiquidity premium. For the observable period (30 years), risk free rates are determined by reference to the yields of highly liquid AAA-rated Canadian sovereign securities. The ultimate (year 70) risk free rate was determined to be 3.15%, with an ultimate illiquidity premium of 1.50% for both 2022 and 2023. The total discount rate between the observable and the ultimate periods were derived using linear interpolation. For additional information refer to Note 2.3.1 Insurance and reinsurance contracts held, of our Consolidated Financial Statements.

Investment contracts, which represent deferred annuities and guaranteed annuities, require discount rates that include a provision to reflect the Company's own credit risk and an illiquidity adjustment.

### Risk adjustment for non-financial risk

The risk adjustment (RA) for non-financial risk represents the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the entity fulfills

# MANAGEMENT'S DISCUSSION AND ANALYSIS

insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the current estimate amount.

The Company derives risk adjustment for non-financial risk using a margin for adverse deviation (MfAD) approach. The approach adds a margin (conservatism) to each insurance risk assumption.

## **Amortization of the CSM**

The CSM is a component of the carrying amount of the asset or liability for a group of insurance contracts representing the expected future profits the Company will recognize as it provides insurance contract services under the insurance contracts in the group. An amount of the CSM for a given group of insurance contracts is recognized in insurance service revenue in each period to reflect the insurance services provided.

For universal life contracts, the coverage units are defined as the total current death benefit. Empire Life's position is that universal life products contain investment return services, whereas products with fixed Cash Surrender Values (CSVs) do not contain investment return services. Hence, the coverage units for individual non-participating contracts with fixed or no CSVs, are the sum insured less the CSVs.

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

For contracts measured using the GMM, coverage units are discounted at locked-in rates in order to determine the CSM amortization.

Amortization of the segregated funds CSM's use fund values as the coverage units and incorporates adjustments that reflect the impact of economic returns.

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

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

## **Accounting model eligibility**

IFRS 17 requires the application of one of three models to groups of insurance contracts:

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

For further details on the application of each model, refer to Note 2.3.1 of the Consolidated Financial Statements.

## **Fair value estimates**

In measuring the fair value of financial instruments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate. Judgment is also required in the classification of fair value measurements within the levels of the fair value hierarchy, in particular those items categorized within Level 3 of the hierarchy. Additional information regarding the fair value of financial instruments in Note 3 of the Consolidated Financial Statements.

## **Pension and other post-employment benefits**

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions affect the pension and other employee future benefits expense included in Statements of Operations. If actual experience differs from the assumptions used, the resulting experience

# MANAGEMENT'S DISCUSSION AND ANALYSIS

gain or loss is recorded in OCI. Additional information regarding Pension and other post-employment benefits is included in Notes 2.19 and 11 of the Consolidated Financial Statements.

## Changes in Accounting Policies

### IFRS 17 *Insurance Contracts* (IFRS 17) and IFRS 9 *Financial Instruments* (IFRS 9) adopted in 2023

For periods beginning on or after January 1, 2023, the Company adopted IFRS 17, which replaces IFRS 4 *Insurance Contracts*, and has restated comparative information for 2022 applying the transition provisions in IFRS 17. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Effective January 1, 2023, we have also adopted IFRS 9, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

### IFRS 17

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

The primary principles of IFRS 17 are that the Company:

- Identifies insurance contracts as those under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
- Identifies and separates distinct investment components and distinct services other than insurance contract services from insurance contracts and accounts for them in accordance with other standards.
- Aggregates insurance contracts issued and reinsurance contracts held into portfolios of contracts which represent similar insurance risks to the Company and which are managed together. Portfolios of contracts consist of groups of insurance contracts which are separated at initial recognition between contracts expected to produce a loss (onerous contracts) and the remaining contracts. Each group contains contracts which are issued no more than one year apart except those transitioned to IFRS 17 under the Fair Value method.
- Recognizes each group of insurance contracts separately at initial recognition and measures each separately in each future accounting period.
- Recognizes and measures groups of insurance contracts at the risk-adjusted present value of the expected future cash flows that incorporates all available information about the fulfilment cash flows in a way that is consistent with observable market information.
- Establishes a contractual service margin (CSM), representing the unearned profit in the group of insurance contracts.
- Recognizes insurance service revenue from a group of insurance contracts over the period that insurance contract services are provided. If a group of insurance contracts is expected to be onerous (loss making, exclusive of ceded risks) over the remaining coverage period, losses are recognized immediately.
- Measures insurance contract liabilities as the total of the following measurement components:
  - probability weighted, discounted, future cash flows;
  - a risk adjustment for non-financial risk; and
  - CSM.

### Transition

IFRS 17 transition is applied using a full retrospective approach unless impracticable. Due to the lack of historical data, the Company applied the fair value approach (defined below) in determining the transition values for all lines of business except for group insurance. Full retrospective approach was used for the Group insurance contracts which qualified for the PAA. The Company has derecognized any existing balances that would not exist had IFRS 17 always applied. Resulting net differences are recognized in equity.

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For additional information on IFRS 17 refer to Note 2.3 Estimates, assumptions and judgments and Note 2.4.1 IFRS 17 Insurance Contracts, in the Consolidated Financial Statements.

## IFRS 9

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

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

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.

For additional information on the change to the classification and measurement of financial assets and liabilities upon the adoption of IFRS 9, refer to Note 2.4.2 IFRS 9 *Financial Instruments* in the Consolidated Financial Statements.

## Overlay approach

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

## Transition

Changes in accounting policies resulting from the adoption of IFRS 9 was initially applied on January 1, 2023 without restatement of comparatives. For additional information on the impact of the Overlay approach and the IFRS 9 transition, refer to Note 2.4.2 IFRS 9 *Financial Instruments* and Note 2.6 Financial instruments, of our Consolidated Financial Statements.

## 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 anticipates 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: investment risk, including market risk (including equity risk, interest rate risk, and foreign exchange rate risk), liquidity risk, credit risk (including counterparty risk), and hedging risk; product risk, including product design and pricing risk, underwriting and claims risk, and 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; pension risk, and risk with respect to risk management policies; business and strategic risk, including environmental and social risk, risk with respect to financial strength, capital adequacy risk, risk with respect to competition, risk with respect to distribution channels, risk with respect to changes to applicable income tax



# MANAGEMENT'S DISCUSSION AND ANALYSIS

legislation, risk with respect to brand, risk with respect to intellectual property and risk with respect to significant ownership of common shares; risk relating to the securities of Empire Life, including risk with respect to market value, and risk with respect to regulatory constraints. Please see the section titled "Risk Factors" in Empire Life's Annual Information Form available at [www.sedarplus.ca](http://www.sedarplus.ca) 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 insurance contract liabilities; and that 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, assets under management, annualized premium sales, gross and net sales for 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 Accounting Standards 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 Accounting Standards and a comparable measure under IFRS Accounting Standards 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, on a trailing 4-quarters basis.

**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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Reconciliation of Assets Under Management

<b>As at</b> (in millions of dollars)	<b>December 31, 2023</b>	December 31, 2022 restated
<b>Assets Under Management</b>		
General fund assets	\$ 9,855	\$ 8,992
Segregated fund assets	8,813	8,566
Total assets per financial statements	<b>18,668</b>	17,558
Mutual fund assets	—	16
Assets under management	<b>\$ 18,668</b>	\$ 17,574

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

<b>As at</b> (in millions of dollars)	<b>December 31, 2023</b>	December 31, 2022
<b>DB plan assets</b>		
Segregated fund assets	\$ 227	\$ 209
Other	—	16
	<b>\$ 227</b>	\$ 225

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# Empire Life Management's Discussion and Analysis

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 [www.empire.ca](http://www.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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