The Empire Life Insurance Company

Management's Discussion and Analysis

For the three months ended March 31, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of May 9, 2023

This document provides Management's Discussion and Analysis (MD&A) of the unaudited operating results and financial condition of The Empire Life Insurance Company (Empire Life or the Company) for the first quarter of 2023. This MD&A should be read in conjunction with Empire Life's unaudited Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2023, as well as the MD&A and the audited Consolidated Financial Statements which form part of the Empire Life 2022 Annual Report dated February 24, 2023. Unless otherwise noted, both the unaudited Condensed Interim Consolidated Financial Statements and this MD&A are expressed in Canadian dollars. Some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components due to rounding.

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

The unaudited Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which are generally accepted accounting principles as set out in the Handbook of the Chartered Professional Accountants of Canada. This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information and complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information under IFRS. See Non-IFRS Measures section in this report. Note that certain comparative amounts have been reclassified and restated to conform with the presentation adopted in the current period.

Financial Analysis
Overview

	First quarter	
(in millions of dollars except per share amounts)	**2023**	2022 restated
Common shareholders' net income	**$ 52**	$ 47
Earnings per share - basic and diluted	**$ 52.66**	$ 47.87

Other Financial Highlights	**Mar 31 2023**	Dec 31 2022	Sep 30 2022	Jun 30 2022	Mar 31 2022
Return on common shareholders' equity[(1)]	**14.0 %**	2.1 %	9.2 %	(9.2)%	12.7 %
LICAT total ratio[(2)]	**152 %**	138 %	137 %	139 %	139 %

(1) See Non-IFRS Measures section.
(2) Amounts prior to January 1, 2023 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. See Note 2.4 in the Condensed Interim Consolidated Financial Statements for additional details.

Empire Life reported first quarter common shareholders' net income of $52 million for 2023, compared to a net income of $47 million for the first quarter of 2022. The increase in first quarter earnings over prior year was primarily a result of a more neutral economic environment.

Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended March 31, 2023 and 2022. A discussion of results is provided in the Product Line section of the MD&A.

	For the three months ended March 31, 2023				
(in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Insurance revenue	$ 58	$ 157	$ 111	$ —	$ 326
Insurance service expenses	(30)	(154)	(83)	—	(267)
Insurance service results	28	3	28	—	59
Net expense from reinsurance contracts held	—	(2)	(13)	—	(15)
Net insurance service result	28	1	15	—	44
Insurance finance income (expense) from insurance contracts issued, excluding segregated funds	(14)	(9)	(231)	—	(254)
Reinsurance finance income (expense) from reinsurance contracts held	—	4	(13)	—	(9)
Insurance finance result	(14)	(5)	(244)	—	(263)
Investment income, excluding segregated funds	15	5	250	50	320
Change in investment contracts	(24)	—	—	—	(24)
Net investment income, excluding segregated funds	(9)	5	250	50	296
Changes in underlying items of the segregated funds	(281)	—	—	—	(281)
Investment income (loss) related to segregated fund net assets	281	—	—	—	281
Segregated funds net finance and investment result	—	—	—	—	—
Net investment result	(23)	—	6	50	33
Fee and other income	15	2	—	5	22
Non-insurance operating expenses	(8)	(4)	(5)	(7)	(24)
Interest expenses (subordinated debt)	—	—	—	(7)	(7)
Total other income and expenses	7	(2)	(5)	(9)	(9)
Net income (loss) before taxes	12	(1)	16	41	68
Total income taxes	(3)	—	(3)	(7)	(13)
Net income (loss) after taxes	$ 9	$ (1)	$ 13	$ 34	$ 55
Less: net income (loss) attributable to the participating account					2
Less: preferred share dividends declared					1
Common shareholders' net income					$ 52

(in millions of dollars)	For the three months ended March 31, 2022 restated Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Insurance revenue	$ 57	$ 146	$ 101	$ —	$ 304
Insurance service expenses	(27)	(151)	(75)	—	(253)
Insurance service results	30	(5)	26	—	51
Net expense from reinsurance contracts held	—	1	(11)	—	(10)
Net insurance service result	30	(4)	15	—	41
Insurance finance income (expense) from insurance contracts issued, excluding segregated funds	35	15	790	—	840
Reinsurance finance income (expense) from reinsurance contracts held	(1)	(6)	48	—	41
Insurance finance result	34	9	838	—	881
Investment income, excluding segregated funds	(42)	(9)	(668)	(138)	(857)
Change in investment contracts	9	—	—	—	9
Net investment income, excluding segregated funds	(33)	(9)	(668)	(138)	(848)
Changes in underlying items of the segregated funds	119	—	—	—	119
Investment income (loss) related to segregated fund net assets	(119)	—	—	—	(119)
Segregated funds net finance and investment result	—	—	—	—	—
Net investment result	1	—	170	(138)	33
Fee and other income	(1)	1	—	1	1
Non-insurance operating expenses	(5)	(2)	(2)	(1)	(10)
Interest expenses (subordinated debt)	—	—	—	(5)	(5)
Total other income and expenses	(6)	(1)	(2)	(5)	(14)
Net income (loss) before taxes	25	(5)	183	(143)	60
Income taxes	(5)	1	(46)	36	(14)
Net income (loss) after taxes	$ 20	$ (4)	$ 137	$ (107)	$ 46
Less: net income (loss) attributable to the participating account					(2)
Less: preferred share dividends declared					1
Common shareholders' net income					$ 47

Net insurance service result increased $3 million or 8% compared to the same period in 2022, primarily due to improved long-term disability (LTD) experience and growth in the Group Solutions line. This growth was driven by higher premium earned in our specialty and specialty reinsurance partnerships, partially offset by an increase in claims.

Net investment result was consistent with the same period in 2022. The economic environment in the two quarters was very different, primarily due to significant yield curve increases in Q1 2022, which were not repeated in 2023. In addition, while strong equity markets drove net income gains in both quarters, the impact was greater in Q1 2023.

Total other income and expenses improved $5 million or 37% compared to the same period in 2022 due to higher net deposits on annuities in Wealth Management and net earnings from TruStone Financial Inc., which was acquired on March 10, 2022.

Net Contractual Service Margin

	First quarter	
(in millions of dollars)	**2023**	2022
Net contractual service margin, beginning of period	**$ 1,544**	$ 1,358
Impact of new insurance business	**21**	17
Insurance experience	**10**	6
Economic experience	**6**	166
CSM recognized for services provided	**(41)**	(43)
Net contractual service margin, end of period	**$ 1,540**	$ 1,504

The contractual service margin (CSM) in the first quarter of 2023 was relatively flat, compared to an increase of $146 million for the same period in 2022. The prior year's increase related mainly to segregated funds in the Wealth line of business, driven by increases in interest rates and credit spreads, which did not recur in the first quarter of 2023. The new insurance business CSM increased in the first quarter of 2023 primarily due to higher sales in the individual insurance line and higher margins from our Segregated fund products due to higher interest rates.

Product Line Results - Wealth Management

	First quarter	
(in millions of dollars)	**2023**	2022 restated
Fixed annuities		
Assets under management(1)	**$ 811**	$ 798
Gross sales(1)	**45**	23
Net sales(1)	**8**	(1)
Segregated funds		
Assets under management(1)	**$ 8,707**	$ 9,046
Gross sales(1)	**244**	262
Net sales(1)	**(52)**	(30)
Net insurance service result	**$ 28**	$ 30
Net investment result	**(23)**	1
Fee and other income	**15**	(1)
Non-insurance operating expenses	**(8)**	(5)
Total income taxes	**(3)**	(5)
Net income (loss) after taxes	**$ 9**	$ 20

(1) See Non-IFRS Measures section.

Fixed annuities assets under management were 2% higher relative to the same period in 2022. Gross sales in the first quarter were 96% higher than the same period in 2022, due to strong demand for the product, continuing since the latter half of 2022.

Segregated fund assets under management are lower relative to the same period in 2022, reflecting a decline in equity market performance within the funds, partially offset by the net inflows. For the first quarter of 2023, gross sales were 7% lower than the same period in 2022.

Although, net insurance service result held relatively stable year over year with a decrease of 3%, net income of $9 million decreased $11 million or 55% compared to the first quarter in 2022, primarily driven by interest rate movements and model refinements.

Product Line Results - Group Solutions

(in millions of dollars)	First quarter 2023	First quarter 2022 restated
Selected financial information		
Core	**$ 11**	$ 15
Other	**7**	7
Annualized premium sales[1]	**$ 18**	$ 22
Insurance revenue, gross	**$ 156**	$ 146
Net insurance service result	**$ 1**	$ (4)
Net investment result	**—**	—
Fee and other income	**2**	1
Non-insurance operating expenses	**(4)**	(2)
Total income taxes	**—**	1
Net income (loss) after taxes	**$ (1)**	$ (4)

(1) See Non-IFRS Measures section.

Total annualized premium sales decreased in the first quarter compared to the same period in 2022, primarily due to lower sales of the Company's core product offerings. The Company continues to focus on sales of its core products in the small to medium-sized business market while also entering into strategic partnerships to expand market share.

Total insurance revenue increased 7% in the first quarter compared to the same period in 2022, primarily due to growth in existing specialty partnerships and maintenance of the Company’s core group benefit offerings.

Net loss for the first quarter improved compared to the same period in 2022 due to the growth in our specialty and specialty reinsurance partnerships and improvements in long-term disability claims experience, partially offset by an increase in claims driven by utilization of health and dental benefits and inflationary pressures.

Product Line Results - Individual Insurance

(in millions of dollars)	First quarter 2023	First quarter 2022 restated
Shareholders'		
Shareholders' annualized premium sales[1]	**$ 10**	$ 6
Net income (loss) after taxes	**11**	139
Policyholders'		
Policyholders' annualized premium sales[1]	**$ 4**	$ 4
Net income (loss) after taxes	**2**	(2)
Net insurance service result	**$ 15**	$ 15
Net investment result	**6**	170
Non-insurance operating expenses	**(5)**	(2)
Income taxes	**(3)**	(46)
Net income (loss) after taxes	**$ 13**	$ 137

(1) See Non-IFRS Measures section.

Shareholders’ annualized premium sales increased by 67% in the first quarter compared to the same period in 2022, primarily from stronger sales on our term insurance products. Policyholders’ annualized premium sales was consistent with the prior year.

Shareholders' net income decreased $128 million or 92% compared to the first quarter of 2022. Although net insurance service result was consistent with the prior year, Shareholder' net income was impacted from large interest rate increases experienced in the first quarter of 2022 which were not experienced in 2023.

Results - Capital and Surplus

	First quarter	
(in millions of dollars)	**2023**	2022 restated
Net finance and investment results	**$ 50**	$ (138)
Other income and expenses	**(9)**	(5)
Net income (loss) before taxes	**41**	(143)
Income taxes	**(7)**	36
Net income (loss) after taxes	**$ 34**	$ (107)

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

Compared to the prior year, net income improved in the Capital and Surplus segment as the first quarter of 2023 included investment gains driven by the impact from decreasing interest rates. Net losses in the first quarter of 2022 were mainly due to the impact from rising interest rates and credit spreads on our investment portfolio.

Shareholder Dividends

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

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

On May 9, 2023, the Board of Directors declared a dividend of $19.29 per common share of Empire Life. The following table provides details of the amounts and dates for Empire Life's per share dividends.

	Amount of Dividend per share	Payable Date	Record Date
Common shares	$ 19.29	June 14, 2023	May 24, 2023
Non-Cumulative Rate Reset Preferred Shares, Series 3	$ 0.306250	July 17, 2023	June 19, 2023

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

Total Cash Flow

	First quarter	
(in millions of dollars)	**2023**	2022 restated
Cash flow provided from (used for)		
Operating activities	**$ 60**	$ 46
Investing activities	**(61)**	(77)
Financing activities	**(8)**	(23)
Net change in cash and cash equivalents	**$ (9)**	$ (54)

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

For the period, cash and cash equivalents decreased by $9 million. Cash flows provided by operating activities increased by $14 million primarily due to higher net income. Cash used for investing activities decreased by $16 million compared the same period in 2022 as the prior period included a non-recurring investment of the proceeds from financing activities. Cash used for financing activities was lower than the corresponding period in 2022, primarily due to the timing of dividend payments.

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

Financial Instruments

Empire Life buys investment quality bonds to support, to a very large extent, 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. 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. 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 Committee and Investment Committee of the Board. The Investment Committee actively monitors the portfolio and asset mix. Empire Life has a semi-static hedging program as part of its approach to managing this risk. Empire Life manages credit risk by applying its investment guidelines established by the Investment Committee of the Board of Directors.

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.

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 and note 2.6.2 of our Interim Condensed Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sources of Capital

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

(in millions of dollars)	As at March 31, 2023	As at 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 March 31, 2023	As at December 31, 2022
Subordinated debentures, Series 2017-1 (1)	September 2017	March 15, 2023	3.664%	**$ —**	$ 200
Subordinated debentures, Series 2021-1 (2)	September 2021	September 24, 2026	2.024%	**$ 199**	$ 199
Subordinated debentures, Series 2023-1 (3)	January 2023	January 13, 2028	5.503%	**$ 200**	$ —

(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.

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

(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	As at March 31, 2023	As at 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

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

Evaluation type	Rating	Trend	Date of last rating action
Financial strength rating	A	Stable	May 30, 2022
Issuer rating	A	Stable	May 30, 2022
Subordinated debt	A(low)	Stable	May 30, 2022
Preferred shares	Pfd-2	Stable	May 30, 2022
Limited Recourse Capital Notes	BBB(high)	Stable	May 30, 2022

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

Debenture Issue

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

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

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

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

Debenture Redemption

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

The redemption has been approved by the OSFI.

Regulatory Capital

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

LICAT (in millions of dollars)		**Mar 31 2023**	Dec 31 2022 (1)	Sep 30 2022 (1)	Jun 30 2022 (1)	Mar 31 2022 (1)
Available capital						
Tier 1	(A)	**$ 2,213**	$ 1,776	$ 1,729	$ 1,695	$ 1,775
Tier 2	(B)	**647**	600	587	576	573
Total	(C)	**$ 2,860**	$ 2,376	$ 2,316	$ 2,271	$ 2,348
Surplus allowance and eligible deposits	(D)	**598**	916	933	1,001	1,074
Base solvency buffer	(E)	**2,276**	2,393	2,366	2,363	2,410
LICAT total ratio	((C+D)/E * 100)	**152%**	138%	137%	139%	142%
LICAT core ratio	((A+70%D)/E * 100)	**116%**	101%	101%	101%	105%

(1) Amounts prior to January 1, 2023 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. See Note 2.4 in the Condensed Interim Consolidated Financial Statements for additional details.

The increase in the LICAT ratio in the first quarter of 2023 is due to the adoption of IFRS 17 and IFRS 9 as well as changes to OSFI’s regulatory capital calculations. Significant drivers of the change include OSFI's changes to the base solvency buffer (BSB) scalar from 105% to 100%, as well as the impact of revised valuation treatment for segregated fund contracts.

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 has 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) as prescribed by the CIA 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.
- Divides the insurance and reinsurance contracts held into groups of either assets or liabilities that it will recognize and measure.
- Recognizes profit from a group of insurance contracts over the period that insurance coverage is provided and as the Company is released from risk. 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 (RA); and
    - CSM.

Transition

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

For additional information on IFRS 17 refer to note 2.3 and note 2.4 in the Condensed Interim Consolidated Financial Statements.

IFRS 9

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

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

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

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

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

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

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

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, “Financial Instruments”, and IFRS 17, “Insurance Contracts”.

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 and note 2.6 of our Condensed Interim Consolidated Financial Statements.

Risk Management

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

Caution Related to Sensitivities

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

Significant Developments

Similar to the latter half of 2022, the first part of 2023 has continued to see significant volatility across global markets. While COVID risks continue to linger, many countries are treating it as endemic, countering it with far less stringent measures. The economic outlook is still uncertain due to global inflation, recessionary pressures and geopolitical tensions. In addition, the banking crisis experienced in the U.S. and collapse of Credit Suisse have added to the market volatility. In many countries, growth has slowed.

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

The Company has considered these events and their effects when applying the measurement techniques for critical accounting estimates and judgments provided in Note 2.3. The potential effects on the Company's financial results due to fluctuations in equity markets and interest rates are provided in Note 15.2.

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets supporting its life insurance and investment contract liabilities. 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 quarter, Empire Life experienced a loss of $6.1 million after tax, due to realized and unrealized fair value losses. This compares to a hedge loss of $1.9 million after tax over the same period 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 March 31, 2023, Empire Life had $8.7 billion of segregated fund assets and liabilities. Of this amount, approximately $8.4 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

	March 31 2023	December 31 2022
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**8%**	8%
75% maturity guarantee and a 100% death benefit guarantee	**44%**	44%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	**7%**	7%
Guaranteed minimum withdrawal benefit (GMWB)	**41%**	41%
Total	**100%**	100%

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 liabilities. Based on stock market levels as at March 31, 2023 and December 31, 2022, the sensitivity of Empire Life shareholders' net income resulting from stock market increases and decreases is provided in the following table.

Sensitivity to equity risk:	**Increase**		**Decrease**		
Impact on net income (in millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
As at March 31, 2023					
Segregated fund guarantees	**$ —**	**$ —**	**$ (2)**	**$ (4)**	**$ (17)**
Other equity risk	**61**	**30**	**(30)**	**(61)**	**(92)**
Equity hedge	**(3)**	**(2)**	**6**	**20**	**44**
Total	**$ 58**	**$ 28**	**$ (26)**	**$ (45)**	**$ (65)**
As at December 31, 2022 - restated					
Segregated fund guarantees	$ —	$ —	$ (2)	$ (4)	$ (17)
Other equity risk	66	34	(28)	(60)	(92)
Equity hedge	(4)	(3)	6	20	40
Total	$ 62	$ 31	$ (24)	$ (44)	$ (69)

Based on stock market levels as at March 31, 2023, the sensitivity of Empire Life LICAT Total ratio resulting from stock market increases and decreases is provided in the following table:

Sensitivity to equity risk:	**Increase**		**Decrease**		
Impact on LICAT	**20%**	**10%**	**10%**	**20%**	**30%**
As at March 31, 2023					
Segregated fund guarantees	**15 %**	**7 %**	**(2)%**	**(11)%**	**(22)%**
Other equity risk	**1 %**	**1 %**	**— %**	**(1)%**	**(2)%**
Equity hedge	**(2)%**	**(1)%**	**1 %**	**1 %**	**1 %**
Total	**14 %**	**7 %**	**(1)%**	**(11)%**	**(23)%**

(1) LICAT ratios 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 the audited Consolidated Financial Statements which form part of the Empire Life 2022 Annual Report dated February 24, 2023.

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

Segregated funds	**Withdrawal benefit > fund value**		**Maturity guarantee > fund value**		**Death benefit > fund value**			
(in millions of dollars)	**Fund value**	**Amount at risk**	**Fund value**	**Amount at risk**	**Fund value**	**Amount at risk**	**Policy liabilities(2)**	**LICAT capital(1)**
March 31, 2023	**$ 2,639**	**$ 987**	**$ 128**	**$ 6**	**$ 2,698**	**$ 58**	**$ 81**	**$ 480**
December 31, 2022	$ 2,651	$ 1,048	$ 160	$ 10	$ 3,073	$ 104	$ 79	

(1) LICAT ratios 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 the audited Consolidated Financial Statements which form part of the Empire Life 2022 Annual Report dated February 24, 2023.
(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 March 31, 2023, the aggregate amount at risk for all three categories of risk was $1,051 million. At December 31, 2022, the aggregate amount at risk for these three categories of risk was $1,163 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 policy liabilities and required regulatory capital in the above table is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist on future payments to GMWB policyholders, or upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders.

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of a 50 basis point parallel shift in interest rates for non-participating insurance business and segregated fund guarantees for March 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**
March 31, 2023 LICAT total ratio	**2%**

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

Internal Controls Over Financial Reporting

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.

Quarterly Results

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

(in millions of dollars, except per share amounts)	**Mar 31 2023**	Dec 31 2022 restated	Sep 30 2022 restated	Jun 30 2022 restated	Mar 31 2022 restated	Dec 31 2021[1]	Sep 30 2021[1]	Jun 30 2021[1]
Revenue						$ 655	$ 251	$ 618
Insurance revenue - Gross	**$ 326**	$ 323	$ 310	$ 318	$ 304			
Common shareholder's net income	**$ 52**	$ 8	$ 34	$ (34)	$ 47	$ 17	$ 33	$ 32
Earnings per share - basic and diluted	**$ 52.66**	$ 7.67	$ 34.26	$ (34.08)	$ 47.87	$ 16.96	$ 33.78	$ 32.09

(1) Amounts prior to January 1, 2022 have not been adjusted for the impacts from the adoption of IFRS 17 and IFRS 9. See note 2.4 in the Condensed Interim Consolidated Financial Statements for additional details.

Forward-Looking Statements and Information

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

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

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

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

Non-IFRS Measures

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

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

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

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

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

Reconciliation of Assets Under Management

As at (in millions of dollars)		March 31, 2023		December 31, 2022 - restated
Assets Under Management				
General fund assets	**$**	**9,288**	$	8,992
Segregated fund assets		**8,725**		8,566
Total assets per financial statements		**18,013**		17,558
Mutual fund assets		**—**		16
Assets under management	**$**	**18,013**	$	17,574

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

As at (in millions of dollars)		March 31, 2023		December 31, 2022
DB plan assets				
Segregated fund assets	**$**	**217**	$	209
Other		**16**		16

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 empire.ca for more information, including current ratings and financial results.

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301 - 100 Adelaide Street West
Toronto, Ontario M5H 4H1
Phone 416-682-3860
Toll Free 800-387-0825
www.tsxtrust.com

Reporting Procedure for Accounting and Auditing Matters
If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

Mr. John Brierley
The Empire Life Insurance Company
259 King Street East
Kingston, ON, K7L 3A8
Email: johnbrierley12@gmail.com
Phone: 705-250-3133

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

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