

The Empire Life Insurance Company

Annual Report 2022



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2022 FINANCIAL HIGHLIGHTS

138%

LICAT total ratio
as at December 31, 2022

Strength of our capital base

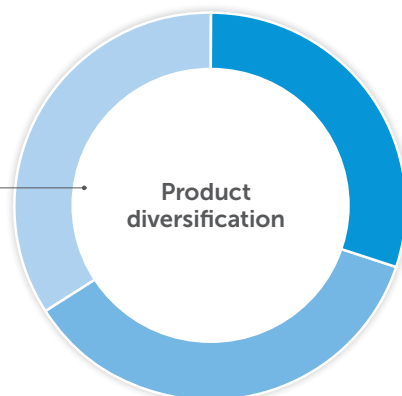
Our Life Insurance Capital Adequacy Test (LICAT) ratio is well above the minimum requirements set by the industry regulator. A high LICAT ratio demonstrates our long-term ability to pay claims and our prudent capital management.

What is an LICAT ratio?

The LICAT is intended to measure the life insurer's solvency position by recognizing the long-term economics of the life insurance business. OSFI has established supervisory target levels of 70% for Core and 100% for Total ratio.

Financial ratings

These financial ratings give you an independent opinion of our financial strength as an insurer and our ability to meet policyholder obligations.



Product diversification

by net premium and fee income for the 12 months ended December 31, 2022

Empire Life is well-diversified across three product lines:

Wealth Management

30%



Group Solutions

36%



Individual Insurance

34%



Financial Strength Rating: A

Issuer Rating: A

Subordinated Debt Rating: A (low)

DBRS (as at May 30, 2022)

Common Shareholders'
Net Income
2022 (in millions)

\$204

Common Shareholders'
Net Income
2021 (in millions): \$239

Net Premium and Fee Income
2022 (in millions)

\$1,325

Net Premium and Fee Income
2021 (in millions): \$1,188

Total Assets Under Management
2022 (in millions)

\$17,320

Total Assets Under Management
2021 (in millions): \$19,644

Note: The selected financial information presented above is derived from the audited financial statements of The Empire Life Insurance Company and Management's Discussion and Analysis included in the Empire Life 2022 Annual Report.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

An annual report is a comprehensive report detailing a company's activities throughout the preceding year. Its purpose is to provide shareholders or potential investors with information about the company's operations and financial performance.

For me, this 2022 report also includes reflecting on my 25 years serving with the Empire Life Board of Directors, almost 20 of those as its Chair. Over that time, much has changed—in the industry and indeed the world. As an insurance company, our business is to manage risk and help our customers plan for the unexpected. Nothing was more unexpected than COVID-19 pandemic, whose impacts continue to affect each of us.

What was not unexpected, however, is how Empire Life rallied to support our customers and investors and deliver outstanding results despite ongoing and exceptional circumstances. Our products and services are more vital than ever, and we continue to lead industry innovations and make strategic and significant investments. The creation of TruStone Financial Inc. and our minority shareholder investment in EXOS Wealth Systems Inc., for example, clearly demonstrate our continuing commitment to helping our customers meet their financial goals.

It is because of this dedication and commitment that I am most proud to lead and serve with our Board members who provide careful counsel and strategic leadership to the management team.

After more than a decade of service on the Empire Life Board of Directors, we said farewell to Harold Hillier who did not seek re-election. On behalf of the Board, we thank Harold for his lengthy and dedicated service for which we have all benefited greatly.

The Board continues to be impressed by the work of management and employees during these challenging times. As I told staff during a recent webinar, the continued strength and success of Empire Life is due to its people. Despite all the changes and challenges over the past 100 years, employees remain focused on service and innovation. That is what fuels our success.

No one has a crystal ball to predict what the coming years will bring; however, I do know we will continue to be a people-centric organization. As we celebrate our centennial anniversary in 2023, Empire Life will continue to help individuals, families and small businesses build wealth and achieve financial security—just as we have done since 1923.



Duncan N. R. Jackman

Chair of the Board

February 24, 2023

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Purpose, people, and progress. Three words that accurately tell the story of Empire Life as we look back at 2022 and ahead to 2023—our centennial anniversary year.

Purpose

While adapting and meeting the challenges and changes in how we work and live as a result of the continuing pandemic, we have stayed true to our purpose to make it simple, fast and easy for Canadians to get the products and solutions they need to build wealth, generate income and achieve financial security.

Our approach to managing our business has always been to concentrate on doing the fundamental things to provide great value in our products and good service to our customers. We only do business in Canada, and that gives us a unique perspective and understanding of our customers. Our careful management style will serve us and our customers well as we continue to embrace the emerging technology age.

People

People and relationships are the foundation of our business. We have succeeded in fulfilling our mission during these difficult times because our people make the difference. Every time I meet with advisors, they tell me about the exceptional customer service they receive from the people who work at Empire Life. It makes a real difference to them and to their customers. A commitment to service, resilience and optimism is what has made Empire Life stand apart for the past 100 years.

Strong and engaged leadership is key to setting our vision for the future and supporting our teams to achieve results. In 2022, we welcomed two new senior executives: Mark Rogers as Senior Vice-President, Corporate Development and Paul Holba as Senior Vice-President and Chief Investment Officer. I continue to be proud of how our senior leadership team remains focused on the health and safety of our employees and providing service to our customers and distribution partners no matter the obstacle or circumstance. I would also like to thank our Board of Directors for their ongoing support and guidance.

Working together, our Empire team is extraordinary.

Progress

Technology continues to drive change. The world refuses to stand still. As an organization, we have adapted and made continuous progress in several areas of our business.

At Empire Life, we are always focused on our 3D strategy of digital, data and distribution. This strategy has been buoyed by innovations accelerated by the pandemic and the shift to more virtual and hybrid operations. Our innovation as a digital leader was recognized by NMG Group which recently produced its first-ever Canadian Individual Life Insurance study, collecting data from key decision makers in group benefits consultancies, brokerages, third-party administrators (TPAs) and managing general agencies (MGAs) across Canada. The survey explored industry challenges, trends shaping the individual life insurance industry and insurer competitive positioning. Empire Life was ranked number one in two areas where we have been striving to differentiate ourselves from the rest of the industry: digital technology leadership and service excellence.

Ensuring an optimal online experience for our customers and advisors is an important part of our digital strategy. In June 2022, we launched a new enhanced web-based illustrator based on advisor feedback. The eVision Insurance Illustrator™ ('eVision') improves the digital life insurance application process and makes it faster and easier for advisors to run insurance illustrations. This new addition aligns nicely with existing digital tools like our Fast & Full Life Application and our advisor portal.

We continued to enhance our product line including a new "juvenile experience" for customers. We introduced a simpler application process with fewer medical questions and a higher probability for automatic approvals for consumers applying for life insurance coverage for their children and grandchildren. In most cases, policies for children are approved instantly through our electronic Fast & Full® Life Application process.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Next, we added two new features to support the mental health and well-being of Canadians. We added a new grief counselling service to our Voyageur Global Benefits (VGB) life insurance plans administered by MetLife Worldwide Benefits for globally mobile employees who are experiencing personal challenges. In addition to counselling, the service provides information to help plan members address financial or legal needs. In December 2022, we introduced a new service through Medaca to provide plan members with rapid access to psychiatric care within days, not months, for those who are on disability leave due to a mental health condition. These new products will provide enormous value to our plan members and plan sponsors.

We are measuring service and performance levels and investing in innovation to continuously improve our products and process. We are well on our way; there will always be more to do and higher levels to aspire to and we are ready to meet those challenges head-on.

Empire Life continues to be a leader in our industry thanks, in part, to our focus on corporate development and acquisitions. In March 2022, we purchased 100% of the shares of six financial services firms and amalgamated them into one wholly owned subsidiary of Empire Life under the name TruStone Financial Inc. Two months later, in May, we invested in EXOS Wealth Systems Inc. (EXOS) as a minority shareholder. These strategic investments clearly demonstrate our commitment to independent financial advice and the critical role it plays in helping Canadians select the financial products and solutions that best match their needs.

Environmental, social and governance (ESG)

We are continuing to make progress in environmental, social and governance (ESG) by focusing on areas that are important to all Canadians. We believe that corporate responsibility and a sustainable approach to business operations is a hallmark of quality. We also believe that strong corporate governance aligns management and shareholder interests, and that analyzing environmental and social factors can assist in identifying business models that may create sustainable value while reducing risk.

In 2022, we launched a five-year diversity and inclusion action plan to support our goal to cultivate an engaged and sustainable organization while building an inclusive community. Our plan includes addressing topics such as communications, training, human resources, policy and talent processes.

We continue to adapt to our new hybrid working environment to ensure we are providing our employees with flexibility, job satisfaction and work/life balance while maintaining productivity. We remain committed to recruiting and retaining the best people in the industry to provide the best solutions and service to our customers.

What's next

This year, Empire Life celebrates 100 years of serving Canadians—a remarkable milestone for any organization. In 2023, we will mark our centennial by looking back and recognizing our people, our purpose, our innovation, our community and our culture—but most of all, we will be looking forward to what the next 100 years will bring for future generations of Empire Life customers, advisors, employees and shareholders.



Mark Sylvia

President and Chief Executive Officer

February 24, 2023

SOURCE OF EARNINGS DISCLOSURE

Source of earnings is a methodology for identifying and quantifying the various sources of International Financial Reporting Standards (IFRS) income of a life insurance company. It presents shareholders' net income in a different format from the traditional income statement form and provides a better understanding of Empire Life's sources of profit for each major product line.

Expected Profit from In-Force Business

This source of earnings represents the profit the Company expects to generate on in-force business if experience is in line with the Company's best estimate assumptions for mortality, morbidity, persistency, investment returns, expenses and taxes.

Impact of New Business

Writing new business typically adds economic value to a life insurance company. However, as of the point of sale, new business may have a positive or negative impact on earnings. A negative impact (new business strain) will result when the assumptions used in determining the profits in the actuarial liabilities at the point of sale exceeds the expected profit margin assumed in the product pricing. The impact of new business also includes acquisition expenses not covered by product pricing at the point of issue.

Experience Gains and Losses

This item represents gains or losses due to the difference between actual experience and the best estimate assumptions. Possible areas of variances include benefit claims, policy persistency, expenses, investment income and others.

Management Actions and Changes in Assumptions

This component includes earnings generated by management actions during the year (e.g., acquisition or sale of a block of business, changes to product price, fees or asset mix, etc.) or the impact of changes in assumptions or methodology used for the calculation of actuarial liabilities for in-force business.

Other

This item includes any source of earnings from operations not included above.

Earnings on Surplus

This component represents the pre-tax earnings on the shareholders' capital and surplus funds.

Source of Earnings by Line of Business

For the twelve months ended December 31 (in millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital and Surplus		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Expected profit on in-force business	\$ 142	\$ 118	\$ 28	\$ 26	\$ 47	\$ 55			\$ 217	\$ 199
Impact of new business	(14)	(16)	(7)	(11)	16	7			(5)	(20)
Experience gains & losses	(8)	168	(23)	(17)	(22)	7			(53)	159
Management actions and changes in assumptions	(18)	16	(1)	(1)	118	(53)			99	(38)
Earnings (losses) on operations before income taxes	102	287	(3)	(3)	159	16	—	—	258	299
Earnings on surplus	—	—	—	—	—	—	14	14	14	14
Income (loss) before income tax	102	287	(3)	(4)	159	16	14	14	272	313
Income taxes	27	72	(1)	(2)	34	(5)	3	1	63	67
Shareholders' net income (loss)	75	215	(2)	(3)	125	21	11	13	209	246

SOURCE OF EARNINGS DISCLOSURE

Wealth Management

Wealth Management profits were below expected primarily due to below expected fund growth on Segregated Funds which was attributable to equity markets performing below expected and market value reductions on bond funds due to rising interest rates. These negative variances were partially offset through better than expected income in the Investment Products results due to favourable annuitant mortality experience and gains from access to higher interest rates in 2022. Wealth Management's 2021 results were abnormally high due to a significant decrease in Segregated Fund reserves and this was not expected to be a recurring event in 2022.

Group Solutions

Group Solutions experienced a loss in 2022, primarily due to unfavourable claims experience within the long term disability (LTD) and extended health benefit (EHB) product lines. Losses on the LTD product line are primarily attributable to temporary operational staffing disruptions that caused delays in claim management activity, extending claim durations. On the EHB product line, losses were primarily attributable to higher-than-priced for drug trend experience as well as adverse industry drug claim pooling assessments.

Individual Insurance

Individual Insurance Non-Participating net income was substantially greater in 2022 than 2021. The 2022 results were materially impacted by increased market interest rates - leading to lower liability levels and increased income. This was partially offset by continued reserve strengthening for lapses on universal life and term business. Offsetting this were policyholder claims greater than expected. In 2021 policy liabilities increased significantly primarily due to the update of lapse assumptions on renewable term business.

Capital & Surplus

Earnings from Capital and Surplus in 2022 were lower than 2021. In 2021, Capital and Surplus results were high due to opportunistic asset trades as credit spreads widened, which resulted in realized gains on the sale of fixed income assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of February 24, 2023

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

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

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

Financial Analysis Overview

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Financial Information

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Financial Information (in millions of dollars)	As at December 31		
	2022	2021	2020
Assets under management¹			
General fund assets ¹	\$ 8,738	\$ 10,273	\$ 10,259
Segregated fund assets ¹	8,566	9,257	8,457
Subordinated debt	399	399	399
Preferred shares and other equity	297	297	250
Available regulatory capital			
Tier 1	\$ 1,776	\$ 1,898	\$ 1,623
Tier 2	600	591	677
Total	2,376	2,489	2,300
Surplus allowance and eligible deposits	\$ 916	\$ 1,115	\$ 1,156
Base solvency buffer	\$ 2,393	\$ 2,508	\$ 2,541
LICAT total ratio	138%	144%	136%
LICAT core ratio	101%	107%	96%
	For the years ended December 31		
	2022	2021	2020
Cash dividends per share			
Preferred shares series 1	\$ —	\$ 0.72	\$ 1.44
Preferred shares series 3	\$ 1.23	\$ 1.23	\$ 1.23
Common shares	\$ 73.80	\$ 53.27	\$ 179.65

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results by Major Product Line

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Total Revenue

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

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

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

Total Expenses

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Product Line Results - Wealth Management

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Product Line Results - Group Solutions

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

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

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

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

Product Line Results - Individual Insurance

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

Results - Capital and Surplus

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Shareholder Dividends

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

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

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

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

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

Total Cash Flow

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Instruments

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

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

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

Sources of Capital

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Debenture Issue

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

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

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

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

Debenture Redemption

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

The redemption has been approved by the OSFI.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Regulatory Capital

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

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

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

Other Comprehensive Income

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

IFRS 17

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

The primary principles of IFRS 17 are that the Company:

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

IFRS 9

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

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Transition

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

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

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

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

Industry Dynamics and Management's Strategy

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Risk Management

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Caution Related to Sensitivities

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Significant Developments

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

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

The Company has considered these events and their effects when applying the measurement techniques for critical accounting estimates and judgments provided in Note 2(c). The potential effects on the Company's financial results due to fluctuations in equity markets and interest rates are provided in Note 28(a).

Acquisition

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

Market Risk

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

Operational Risk

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

(1) Legal and Regulatory Compliance Risk

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

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

(2) Model Risk

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

(3) Human Resources Risk

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

(4) Third-Party Risk

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

(5) Technology and Information Security Risk

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

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

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

(6) Business Continuity Risk

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

Business and Strategic Risk

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

Environmental and Social Risk

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pandemic Risk

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

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

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

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

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

Critical Accounting Estimates

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Policy Liabilities

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

Financial Instrument Classification

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

Pension and Other Employee Future Benefits

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

Provision for Impaired Investments

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

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

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

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

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

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

Quarterly Results

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements and Information

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-IFRS Measures

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

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

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

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

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

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

Reconciliation of Assets Under Management

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

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements in this annual report have been prepared by management, who is responsible for their integrity, objectivity and reliability. This responsibility includes selecting and applying appropriate accounting policies, making judgments and estimates, and ensuring information contained throughout the annual report is consistent with these statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI).

The Company maintains a system of internal control over financial reporting which is designed to provide reasonable assurance that assets are safeguarded, expenditures are made in accordance with authorizations of management and directors, transactions are properly recorded, and the financial records are reliable for preparing the consolidated financial statements in accordance with (IFRS). Under the supervision of management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out as at December 31, 2022. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2022.

The Board of Directors, acting through the Audit Committee which is comprised of directors who are not officers or employees of the Company, oversees management's responsibility for financial reporting and for internal control systems. The Audit Committee is responsible for reviewing the consolidated financial statements and annual report and recommending them to the Board of Directors for approval. The Audit Committee meets with management, internal audit and the external auditors to discuss audit plans, internal controls over accounting and financial reporting processes, auditing matters, and financial reporting issues.

The Appointed Actuary is appointed by the Board of Directors and is responsible for ensuring that the assumptions and methods used in the valuation of the policy liabilities are in accordance with accepted actuarial practice and regulatory requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities at the consolidated statement of financial position date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The Appointed Actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company under adverse economic and business conditions for the current year and the next four years.

PricewaterhouseCoopers' responsibility as external auditor is to report to the policyholders and shareholders regarding the fairness of presentation of the Company's annual consolidated financial statements. The external auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit. The Independent Auditor's Report outlines the scope of their examination and their opinion.



Mark Sylvia

President and Chief Executive Officer
Kingston, Ontario
February 24, 2023



Rebecca Rycroft

Senior Vice-President and Chief Financial Officer
Kingston, Ontario
February 24, 2023

APPOINTED ACTUARY'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

I have valued the policy liabilities and reinsurance liabilities of The Empire Life Insurance Company for its Consolidated statements of financial position at December 31, 2022 and their change in the Consolidated statements of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance liabilities, makes appropriate provision for all policy obligations and the Consolidated financial statements fairly present the results of the valuation.



Dan Doyle, FSA, FCIA, MAAA

Fellow, Canadian Institute of Actuaries

Kingston, Ontario

February 24, 2023

INDEPENDENT AUDITOR'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Empire Life Insurance Company and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

INDEPENDENT AUDITOR'S REPORT

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of insurance contract liabilities</p> <p>Refer to note 2 – Significant Accounting Policies and note 11 – Insurance Contract Liabilities and Reinsurance Assets/Liabilities to the consolidated financial statements.</p> <p>The Company has gross insurance contract liabilities of \$5.6 billion and reinsurance liabilities of \$0.2 billion as at December 31, 2022 on its consolidated statement of financial position (collectively, insurance contract liabilities). Insurance contract liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and premium taxes on policies in force.</p> <p>Insurance contract liabilities are determined using the Canadian Asset Liability Method (CALM), as established by the Canadian Institute of Actuaries (CIA) (actuarial models). The CALM incorporates best-estimate assumptions for mortality, policy lapses, surrenders and future investment yields that require management judgment. The assumptions are based on experience studies, industry studies and requirements of the CIA.</p> <p>We considered this a key audit matter due to the judgment applied by management when developing their valuation of the insurance contract liabilities, which in turn led to a high degree of auditor judgment and effort in evaluating the best-estimate assumptions. Professionals with specialized skill and knowledge in the field of actuarial sciences assisted us in performing our procedures.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> • Tested how management determined the valuation of the insurance contract liabilities, which included the following: <ul style="list-style-type: none"> – Understood management’s method (CALM) for determining the valuation of insurance contract liabilities. – Tested the operating effectiveness of relevant controls over the completeness and accuracy of the underlying policy data used in management’s valuation of insurance contract liabilities. – With the assistance of professionals with specialized skill and knowledge in the field of actuarial science assessed the reasonableness of management’s best-estimate assumptions for policy lapses, surrenders, mortality and future investment yields by: <ul style="list-style-type: none"> ◦ Evaluating these assumptions in accordance with actuarial principles and requirements of the CIA. ◦ Evaluating experience studies conducted by the Appointed Actuary for appropriateness and considering the relationship of the results with industry studies. – With the assistance of professionals with specialized skill and knowledge in the field of actuarial science, tested the appropriateness of the actuarial models used in developing the valuation of insurance contract liabilities, by: <ul style="list-style-type: none"> ◦ Assessing a sample of actuarial models to ensure the correct modelling of product features. ◦ Assessing a sample of actuarial models to ensure the correct application of best-estimate assumptions for policy lapses, surrenders, mortality and future investment yields. • Tested the disclosures made in the consolidated financial statements, particularly on the sensitivity of best-estimate assumptions on insurance contract liabilities.

INDEPENDENT AUDITOR'S REPORT

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Owen Thomas.



PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

February 24, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31	2022	2021
Assets		
Cash and cash equivalents (Note 3)	\$ 175,523	\$ 193,217
Investments		
Short-term investments (Note 3)	9,031	8,647
Bonds (Note 3)	6,744,757	8,149,460
Preferred shares (Note 3)	402,165	441,339
Common shares (Note 3)	830,633	1,019,434
Derivative assets (Note 3)	9,776	6,302
Mortgages (Note 3)	119,556	153,564
Loans on policies (Note 3)	59,979	56,917
Policy contract loans (Note 3)	46,865	52,808
Total cash and cash equivalents and investments	8,398,285	10,081,688
Accrued investment income	50,291	42,379
Insurance receivables (Note 4)	81,083	48,700
Current income taxes	46,946	15,242
Other assets (Note 5)	33,506	19,452
Property and equipment (Note 6)	13,642	14,889
Intangible assets (Note 7)	60,571	28,511
Goodwill (Note 8)	24,465	—
Investment in associates	29,815	22,504
Segregated fund assets (Note 9)	8,565,675	9,257,298
Total assets	\$ 17,304,279	\$ 19,530,663
Liabilities		
Accounts payable and other liabilities (Note 12)	\$ 100,638	\$ 95,583
Insurance payables (Note 10)	156,585	115,793
Reinsurance liabilities (Note 11)	163,212	253,330
Insurance contract liabilities (Note 11)	5,640,342	7,091,053
Investment contract liabilities	27,246	27,872
Policyholders' funds on deposit	35,652	35,094
Provision for profits to policyholders	41,490	38,665
Deferred income taxes (Note 19)	37,646	45,539
Subordinated debt (Note 14)	399,129	398,858
Segregated fund policy liabilities	8,565,675	9,257,298
Total liabilities	15,167,615	17,359,085
Equity		
Preferred shares (Note 21)	100,000	100,000
Other equity instruments (Note 21)	196,664	196,664
Common shares (Note 21)	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,935,141	1,802,325
Accumulated other comprehensive income	(115,513)	52,217
Total equity	2,136,664	2,171,578
Total liabilities and equity	\$ 17,304,279	\$ 19,530,663



Duncan N. R. Jackman
Chairman of the Board



Mark Sylvia
President and Chief Executive Officer

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Canadian dollars except per share amounts and shares authorized and outstanding)

For the year ended December 31	2022	2021
Revenue		
Gross premiums (Note 15)	\$ 1,339,836	\$ 1,182,899
Premiums ceded to reinsurers (Note 15)	(297,282)	(267,356)
Net premiums (Note 15)	1,042,554	915,543
Investment income (Note 3)	358,068	329,693
Fair value change in fair value through profit or loss assets	(1,737,377)	(363,415)
Realized gain (loss) on fair value through profit or loss assets sold	20,727	105,609
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	(33,914)	(1,477)
Fee income (Note 16)	283,136	272,774
Total revenue	(66,806)	1,258,727
Benefits and expenses		
Gross benefits and claims paid (Note 17)	865,858	789,050
Claims recovery from reinsurers (Note 17)	(192,648)	(158,932)
Gross change in insurance contract liabilities (Note 17)	(1,450,711)	(54,408)
Change in insurance contract liabilities ceded (Note 17)	(90,118)	(131,431)
Change in investment contracts provision	1,088	471
Policy dividends	39,773	36,820
Operating expenses (Note 18)	202,064	176,513
Commissions	281,148	265,337
Commission recovery from reinsurers	(31,785)	(31,559)
Interest expense	18,898	21,472
Total benefits and expenses	(356,433)	913,333
Premium tax	22,359	18,229
Investment and capital tax	3,452	3,822
Net income before income taxes	263,816	323,343
Income taxes (Note 19)	53,401	64,409
Net income	\$ 210,415	\$ 258,934
Less: net income (loss) attributable to participating policyholders	1,292	12,849
Shareholders' net income (loss)	209,123	246,085
Less: preferred share dividends declared (Note 22)	4,900	7,049
Common shareholders' net income	\$ 204,223	\$ 239,036
Earnings per share - basic and diluted (Note 20)	\$ 207.32	\$ 242.66
(2,000,000 shares authorized; 985,076 shares outstanding)		

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

For the year ended December 31	2022	2021
Net income	\$ 210,415	\$ 258,934
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified subsequently to net income:		
Unrealized fair value change on available for sale investments (Note 19)	(217,174)	(57,228)
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 19)	24,902	1,201
Net unrealized fair value increase (decrease)	(192,272)	(56,027)
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 19)	24,542	33,961
Total other comprehensive income (loss)	(167,730)	(22,066)
Comprehensive income (loss)	\$ 42,685	\$ 236,868
Comprehensive income (loss) attributable to:		
Participating policyholders	\$ (2,147)	\$ 14,064
Shareholders	44,832	222,804
Total	\$ 42,685	\$ 236,868

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

For the year ended December 31	2022			2021		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Preferred shares (Note 21)	\$ 100,000	\$ —	\$ 100,000	\$ 100,000	\$ —	\$ 100,000
Other equity instruments (Note 21)	196,664	—	196,664	196,664	—	196,664
Common shares (Note 21)	985	—	985	985	—	985
Contributed surplus	19,387	—	19,387	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	1,746,945	55,380	1,802,325	1,560,384	42,531	1,602,915
Net income (loss)	209,123	1,292	210,415	246,085	12,849	258,934
Preferred share dividends declared	(4,900)	—	(4,900)	(7,049)	—	(7,049)
Common share dividends declared	(72,699)	—	(72,699)	(52,475)	—	(52,475)
Retained earnings - end of period	1,878,469	56,672	1,935,141	1,746,945	55,380	1,802,325
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	49,385	2,832	52,217	72,666	1,617	74,283
Other comprehensive income (loss)	(164,291)	(3,439)	(167,730)	(23,281)	1,215	(22,066)
Accumulated other comprehensive income (loss) - end of period	(114,906)	(607)	(115,513)	49,385	2,832	52,217
Total equity	\$ 2,080,599	\$ 56,065	\$ 2,136,664	\$ 2,113,366	\$ 58,212	\$ 2,171,578
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ (138,962)	\$ (3,338)	\$ (142,300)	\$ 47,840	\$ 2,132	\$ 49,972
Remeasurements of post-employment benefit liabilities	24,288	2,499	26,787	1,397	848	2,245
Shareholder portion of policyholders' accumulated other comprehensive income	(232)	232	—	148	(148)	—
Total accumulated other comprehensive income (loss)	\$ (114,906)	\$ (607)	\$ (115,513)	\$ 49,385	\$ 2,832	\$ 52,217

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the year ended December 31	2022	2021
Operating activities		
Net income	\$ 210,415	\$ 258,934
Non-cash items affecting net income:		
Change in contract liabilities	(1,449,623)	(53,937)
Change in reinsurance liabilities	(90,118)	(131,431)
Fair value change in fair value through profit or loss assets	1,737,377	363,415
Realized (gain) loss on assets including impairment write downs on available for sale assets	13,187	(104,132)
Amortization related to discount on debt instruments	(76,850)	(71,236)
Amortization related to property and equipment and intangible assets (Notes 6 & 7)	21,466	13,181
Share of loss (income) from associates	(1,466)	(1,323)
Deferred income taxes (Note 19)	(16,688)	(2,342)
Other items	29,116	45,814
Cash provided from (used for) operating activities	376,816	316,943
Investing activities		
Portfolio investments		
Purchases and advances	(2,091,096)	(2,726,524)
Sales and maturities	1,873,830	2,443,363
Loans on policies		
Advances	(9,107)	(8,541)
Repayments	12,006	15,701
(Increase) decrease in short-term investments	(384)	4,361
Purchases of property and equipment and intangible assets (Notes 6 & 7)	(19,779)	(10,845)
Investment in associates	(6,340)	(150)
Dividends from associates	495	270
Acquisition of business (Note 29)	(57,910)	—
Cash provided from (used for) investing activities	(298,285)	(282,365)
Financing activities		
Dividends paid to common shareholders (Note 22)	(72,699)	(52,475)
Dividends paid to preferred shareholders (Note 22)	(4,900)	(9,198)
Interest paid on subordinated debt and limited recourse capital notes issue	(18,626)	(15,508)
Issuance of subordinated debt (Note 14)	—	199,300
Subordinated debt redemption (Note 14)	—	(200,000)
Preferred share redemption (Note 21)	—	(149,500)
Limited recourse capital notes issue (Note 21)	—	196,664
Cash provided from (used for) financing activities	(96,225)	(30,717)
Net change in cash and cash equivalents	(17,694)	3,861
Cash and cash equivalents - beginning of year (Note 3)	193,217	189,356
Cash and cash equivalents - end of year (Note 3)	\$ 175,523	\$ 193,217
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 40,277	\$ 22,790
Interest income received	224,779	201,253
Dividend income received	49,857	56,482

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

1. Description of Company and Summary of Operations

The Empire Life Insurance Company (the Company or Empire Life) was founded in 1923 when it was organized under a provincial charter in Toronto, Ontario. Authorization to continue as a federal corporation was obtained in 1987. The Company underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products for individuals and groups across Canada. The Company is a subsidiary of E-L Financial Corporation Limited (the Parent or E-L). The head office, principal address and registered office of the Company are located at 259 King Street East, Kingston, Ontario, K7L 3A8. Empire Life is a Federally Regulated Financial Institution, regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). Empire Life became a public company on August 5, 2015 and registered as a reporting issuer with the Ontario Securities Commission. The Company owns 100% of the voting shares and maintains control of its mutual fund subsidiary, Empire Life Investments Inc. (ELII), which was established in 2011. ELII became a registered Investment Funds Manager on January 5, 2012. The head office for ELII is located at 165 University Avenue, 9th Floor, Toronto, Ontario, M5H 3B8. The Company owns 100% of the voting shares and maintains control of its subsidiary, TruStone Financial Inc. (TSFI), which was established in 2022. The head office for TSFI is located at 259 King Street East, Kingston, Ontario, K7L 3A8.

These Consolidated Financial Statements were approved by the Company's Board of Directors (the Board) on February 24, 2023.

2. Significant Accounting Policies

(a) Basis of preparation

The annual Consolidated Financial Statements of the Company for the year ended December 31, 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These Consolidated Financial Statements have been prepared on a fair value measurement basis, with the exception of certain assets and liabilities. Insurance contract liabilities and Reinsurance assets/liabilities are measured on a discounted basis in accordance with accepted actuarial practice. Investment contract liabilities, Mortgages, Policy contract loans and Loans on policies are carried at amortized cost. Certain other assets and liabilities are measured on a historical cost basis, as explained throughout this note. All amounts included in the Consolidated Financial Statements are presented in thousands of Canadian dollars except for per share amounts and where otherwise stated. These Consolidated Financial Statements also comply with the accounting requirements of OSFI, none of which are an exception to IFRS.

(b) Basis of consolidation

The Company's Consolidated Financial Statements include the assets, liabilities, results of operations and cash flows of the Company and its subsidiaries. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All significant inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

(c) Critical accounting estimates and judgments

The preparation of the Consolidated Financial Statements, in accordance with IFRS, requires management to make judgments and estimates and form assumptions that affect 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 ongoing basis, management evaluates its judgments, estimates and critical assumptions in relation to assets, liabilities, revenues and expenses. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

The Company considers the following items to be particularly susceptible to changes in estimates and judgments:

(i) Insurance-related liabilities

Liabilities for insurance contracts are determined using the Canadian Asset Liability Method (CALM), as permitted by IFRS 4 - *Insurance Contracts*, which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends and, administration costs and also incorporates margins for adverse deviation. These assumptions are reviewed at least annually and are updated to reflect actual experience and market conditions. Changes in the best-estimate assumptions and margins for adverse deviation can have a significant impact on the valuation of insurance related liabilities.

Additional information regarding insurance-related liabilities is included in Notes 2(e), 2(m), 11 and 28.

(ii) Financial instruments classification

Management judgment is used to classify financial instruments as fair value through profit or loss (FVTPL), available for sale (AFS) or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in Net income or Other comprehensive income (OCI).

Additional information regarding financial instrument classification is included in Notes 2(d), 3(a), 3(b) and 11(c).

(iii) 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 Net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI.

Additional information regarding pension and other post-employment benefits is included in Notes 2(l) and 13.

(iv) Impairment

AFS securities and loans and receivables are reviewed at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. For AFS securities and loans and receivables, impairment losses are recognized if there is objective evidence of impairment as a result of an event that reduces the estimated future cash flows of the instrument and the impact can be reliably estimated. Objective evidence of impairment includes, but is not limited to, bankruptcy or default, delinquency by a debtor, and specific adverse conditions affecting an industry or a region. In addition, for equity securities, a significant or prolonged decline in the fair value of a security below its cost is objective evidence of impairment. The decision to record a write-down, its amount and the period in which it is recorded could change if management's assessment of those factors were different. Impairment write-downs on debt securities are not recorded when impairment is due to changes in market interest rates, if future contractual cash flows associated with the debt security are still expected to be recovered.

Additional information regarding impairment is included in Notes 2(d), 3(b), 11(c) and 28(c).

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(d) Financial instruments

(i) Fair value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset or liability quoted in an active market is generally the closing price. For financial instruments such as cash equivalents and short-term investments that have a short duration, the carrying value of these instruments approximates fair value.

Fair value measurements used in these Consolidated Financial Statements have been classified using a fair value hierarchy based upon the transparency of the inputs used in making the measurements. The three levels of the hierarchy are:

Level 1 - Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial instruments classified as Level 1 generally include cash and exchange traded common and preferred shares and derivatives.

Level 2 - Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of financial instruments classified as Level 2 generally include cash equivalents, government bonds, certain corporate and private bonds, short-term investments, certain common shares (real estate limited partnership units) and over the counter derivatives.

Level 3 - Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect the Company's expectations about the assumptions market participants would use in pricing the asset or liability.

All of the Company's financial instruments requiring fair value measurement meet the requirements of Level 1 or Level 2 of the fair value hierarchy.

(ii) Cash and cash equivalents and investments

Cash and cash equivalents are short-term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition.

Short-term investments comprise financial assets with maturities of greater than three months and less than one year when acquired.

Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. These assets may be comprised of cash and cash equivalents, short-term investments, bonds and debentures, common and preferred shares, futures, forwards and options. Changes in the fair value of these financial assets are recorded in Fair value change in FVTPL assets in the Consolidated Statements of Operations in the period in which they occur.

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Most financial assets supporting capital and surplus and participating accounts are classified as AFS. These assets may be comprised of short-term investments, bonds and debentures or common and preferred shares. AFS assets are carried at fair value in the Consolidated Statements of Financial Position. Except for foreign currency gains and losses on monetary AFS assets and impairment losses, any changes in the fair value are recorded, net of income taxes, in OCI. Gains and losses realized on sale or maturity of AFS assets are reclassified from OCI to Realized gain (loss) on AFS assets in the Consolidated Statements of Operations.

Loans and receivables may include mortgage loans, loans on policies and policy contract loans. These assets are recorded at amortized cost, using the effective interest rate method, net of provisions for impairment losses, if any. Mortgage loans are secured by real estate. Loans on policies and policy contract loans are secured by policy values. Loans and receivables are defined as non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

All transactions are recorded on the trade date. Transaction costs are expensed for FVTPL instruments and capitalized for all others.

(iii) Derivative financial instruments

The Company uses derivative financial instruments to manage exposure to foreign currency, equity and other market risks associated with certain assets and liabilities. Derivative financial assets and liabilities are classified as FVTPL. Therefore, they are initially recorded at fair value on the acquisition date and subsequently revalued at their fair value at each reporting date. Derivative financial instruments with a positive fair value are disclosed as Derivative assets while derivative financial instruments with a negative fair value are disclosed as Other liabilities. Changes in fair value are recorded in Fair value change in FVTPL assets in the Consolidated Statements of Operations.

(iv) Impairment

All investments other than FVTPL instruments are assessed for impairment at each reporting date. Impairment is recognized in Net income when there is objective evidence that a loss event has occurred which has impaired the estimated future cash flows of an asset.

(1) AFS debt instruments

An AFS debt instrument would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through Net income. Impairment losses previously recorded in Net income are reversed if the fair value subsequently increases and can be objectively related to an event occurring after the impairment loss was recognized.

(2) AFS equity instruments

Objective evidence of impairment of an AFS equity instrument exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

The accounting for an impairment that is recognized in Net income is the same as described for AFS debt instruments above with the exception that impairment losses previously recognized in Net income cannot be subsequently reversed through Net income. Any subsequent increase in value is recorded in OCI.

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(3) Loans and receivables

Mortgages and loans are individually evaluated for impairment in establishing the allowance for impairment.

Objective evidence of impairment exists if there is no longer reasonable assurance of full collection of loan principal or loan interest related to a mortgage, policy contract loan or a loan on a policy. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability and credit worthiness of the borrower, repayment history or an assessment of the impact of current economic conditions. If objective evidence of impairment is found, allowances for credit losses are established to adjust the carrying value of these assets to their net recoverable amount and the impairment loss is recorded in Net income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed by adjusting the allowance account and the reversal is recognized in Net income.

(v) Derecognition

A financial asset is derecognized when the contractual rights to its cash flows expire or the Company has transferred its economic rights to the asset and substantially all risks and rewards. In instances where substantially all risks and rewards have not been transferred or retained, the assets are derecognized if the asset is not controlled through rights to sell or pledge the asset.

(vi) Other

Insurance receivables and trade accounts receivables have been classified as loans or receivables and are carried at amortized cost. Trade accounts receivables are presented as Other assets. Accounts payable and other liabilities (excluding derivative liabilities) and Insurance payables have been classified as Other financial liabilities and are carried at amortized cost. For these financial instruments, carrying value approximates fair value due to their short-term nature.

(vii) Securities lending

The Company engages in securities lending through its custodian as lending agent. Loaned securities are not derecognized and continue to be reported within Investments in the Consolidated Statements of Financial Position, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities. For further details, refer to Note 3(e).

(e) Reinsurance

The Company enters into reinsurance agreements in order to limit its exposure to excess risk. The Company has a Reinsurance Risk Management policy which requires that such arrangements be placed with well-established, highly rated reinsurers. Reinsurance is measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance treaty. Amounts due to or from reinsurers with respect to premiums received or claims paid are included in Insurance receivables and Insurance liabilities in the Consolidated Statement of Financial Position. Premiums for reinsurance ceded are presented as Premiums ceded to reinsurers in the Consolidated Statements of Operations. Reinsurance recoveries on claims incurred are recorded as Claims recovery from reinsurers in the Consolidated Statements of Operations. The reinsurers' share of Insurance contract liabilities is recorded as Reinsurance assets or Reinsurance liabilities in the Consolidated Statements of Financial Position at the same time as the underlying insurance contract liability to which it relates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that not all amounts due under the terms of the contract will be received. If a reinsurance asset is determined to be impaired, it is written down to its recoverable amount and the impairment loss is recorded in the Consolidated Statements of Operations.

Gains or losses on buying reinsurance are recognized in the Consolidated Statements of Operations immediately at the date of purchase and are not amortized.

(f) Property and equipment

Property and equipment comprises own use land, buildings, leasehold improvements and furniture and equipment. All classes of assets are carried at cost less accumulated amortization including any impairment losses, except for land, which is not subject to amortization. Cost includes all expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Amortization is calculated to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

Land	No amortization
Building	Five percent (declining balance)
Furniture and equipment	Three to five years (straight-line)
Leasehold improvements	Remaining lease term (straight-line)

Amortization is included in Operating expenses in the Consolidated Statements of Operations.

The estimated useful lives, residual values and amortization methods are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment losses are recognized in the Consolidated Statements of Operations.

(g) Intangible assets

Intangible assets include computer software, related licenses and software development costs, which are carried at cost less accumulated amortization and any impairment losses. Amortization of intangible assets is calculated using the straight-line method to allocate the costs over their estimated useful lives, which are generally between three and seven years. Amortization is included in Operating expenses in the Consolidated Statements of Operations. For intangible assets under development, amortization begins when the asset is available for use. The Company does not have intangible assets with indefinite useful lives.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Impairment losses are recognized in the Consolidated Statements of Operations.

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(h) Goodwill

Goodwill represents the portion of purchase price that is in excess of the net fair value assigned to assets purchased and liabilities assumed in a business acquisition. It is initially recorded at cost and subsequently measured at cost less any impairment charges incurred.

An impairment assessment is conducted at least annually or when circumstances indicate possible presence of goodwill impairment, which is when there is evidence that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment losses are recognized in the Consolidated Statement of Operations during the period in which they occur and cannot be reversed in future periods.

Impairment assessment involves significant judgments and use of a variety of forward-looking inputs, estimates, and assumptions, including but not limited to factors such as discount rates, projected cash flow patterns, expenses, and external market and competitive environment. Due to these uncertainties, the actual experience may differ materially from the results obtained from impairment assessment modelling.

(i) Investment in associates

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Company's share of the income or loss of the investee after the date of acquisition.

The Company's share of post-acquisition income or loss is recognized in the Consolidated Statements of Operations, and its share of OCI is recognized in the Consolidated Statements of Comprehensive Income. The Company determines at each reporting date whether there is any objective evidence that each investment in associates is impaired. The Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as share of income (loss) of associates in the Consolidated Statements of Operations. Income and losses resulting from transactions between the Company and its associates are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

(j) Segregated funds

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. Although the underlying assets are registered in the Company's name and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. Segregated fund assets are not available to pay liabilities of the general fund. The assets of these funds are carried at their period-end fair values. The Company records a segregated fund policy liability equal to the fair value of the assets and any guarantees are recorded as an insurance contract liability. The Company's Consolidated Statements of Operations includes fee income earned for management of the segregated funds, as well as expenses related to the acquisition, investment management, administration and death benefit, maturity benefit and withdrawal guarantees of these funds. See Note 9 for details on segregated fund assets and changes in segregated fund assets.

The Company provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within Insurance contract liabilities. Sensitivity of the Company's liability for segregated fund guarantees to market fluctuations is disclosed in Note 28(a)(1).

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(k) Subordinated debt

Subordinated debt is recorded at amortized cost using the effective interest rate method. Interest on subordinated debt is reported as Interest expense in the Consolidated Statements of Operations.

(l) Employee benefits

The Company provides employee pension benefits through either a defined benefit or a defined contribution component of its pension plan. The Company discontinued new enrolments in the defined benefit component effective October 1, 2011 and introduced a defined contribution component effective January 1, 2012 for new enrolments and for any existing employees who chose to transfer from the defined benefit component. The Company also provides other post-employment benefits.

(i) Pension benefits

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit component is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using current interest rates of high-quality corporate bonds.

Defined benefit expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds as of prior-year end. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise, and remain in Accumulated other comprehensive income (AOCI). Past-service costs are recognized immediately in net income.

The defined contribution component of the Plan is a component under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

(ii) Other post-employment benefits

The Company also provides other post-employment benefits to their retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise and remain in AOCI. These obligations are valued annually by independent actuaries and are not funded.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

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(m) Insurance and investment contracts

(i) Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder and the insurance contract has commercial substance. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or service contracts, as appropriate. Products issued by the Company that transfer significant insurance risk have been classified as insurance contracts in accordance with IFRS 4 *Insurance Contracts*. Otherwise, products issued by the Company are classified as either investment contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or service contracts in accordance with IFRS 15 *Revenue from Contracts with Customers*. The Company defines significant insurance risk as the possibility of paying at least 2% more than the benefits payable if the insured event did not occur. When referring to multiple contract types, the Company uses the terminology policy liabilities.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts, however, can be reclassified as insurance contracts after inception if insurance risk becomes significant.

The Company classifies its insurance and investment contracts into three main categories: short-term insurance contracts, long-term insurance contracts and investment contracts.

(1) Insurance contracts

The Company's insurance contract liabilities are determined using Canadian Actuarial Standards of Practice and the requirements of OSFI. The Company uses CALM for valuation of insurance contracts, which satisfies the IFRS 4 *Insurance Contracts* requirements for eligibility for use under IFRS.

(a) Short-term insurance contracts

These contracts include both annuity products and group benefits.

The annuity products classified as short-term insurance contracts are guaranteed investment options that provide for a fixed rate of return over a fixed period. Contracts include certain guarantees that are initiated upon death of the annuitant. The liabilities are determined using CALM.

The group benefits classified as short-term insurance contracts include short-term disability, health and dental benefits. Benefits are typically paid within one year of being incurred. Liabilities for unpaid claims are estimated using statistical analysis and Company experience for claims incurred but not reported.

(b) Long-term insurance contracts

These contracts include insurance products, annuity products and group benefits. In all cases, liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and premium taxes on policies in force.

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The insurance products so classified are life insurance and critical illness that provide for benefit payments related to death, survival or the occurrence of a critical illness. Terms extend over a long duration. The annuity products classified as long-term insurance contracts include both annuities that provide for income payments for the life of the annuitant and guarantees associated with the Company's segregated fund products. The group benefits classified as long-term insurance contracts are life benefits which are payable upon death of the insured and disability benefits that provide for income replacement in case of disability.

The determination of long-term insurance contract liabilities requires best estimate assumptions that cover the remaining life of the policies. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that insurance contract liabilities are adequate to pay future benefits. The resulting provisions for adverse deviation have the effect of increasing insurance contract liabilities and decreasing the income that otherwise would have been recognized at policy inception. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in Gross change in insurance contract liabilities and/or change in insurance contract liabilities ceded in the Consolidated Statements of Operations in the year of the change.

Annually, the Appointed Actuary determines whether insurance contract liabilities (for both short-term and long-term categories) make appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation. A number of valuation methods are applied, including CALM, discounted cash flows and stochastic modeling. Aggregation levels and the level of prudence applied in assessing liability adequacy are consistent with requirements of the CIA. Any adjustment is recorded as a Gross change in insurance contract liabilities and/or change in insurance contract liabilities ceded in the Consolidated Statements of Operations.

(2) Investment contracts

These contracts include annuity products that do not involve the transfer of significant insurance risk, either at inception or during the life of the contract. For the Company, products so classified are limited to term certain annuities that provide for income payments for a specified period of time.

Investment contract liabilities are recognized when contracts are entered into and deposits are received. These investment contract liabilities are initially recognized at fair value, and subsequently they are carried at amortized cost based on expected future cash flows using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the Consolidated Statements of Operations. Deposits and withdrawals are recorded in Investment contract liabilities on the Consolidated Statements of Financial Position.

(ii) Premiums

Gross premiums for all types of insurance contracts are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, policy liabilities are computed, with the result that benefits and expenses are matched with such revenue. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund and investment contract products.

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(iii) Benefits and claims paid

Benefits are recorded as an expense when they are incurred. Annuity payments are expensed when due for payment. Health insurance claims are accounted for when there is sufficient evidence of their existence and a reasonable assessment can be made of the monetary amount involved. Benefits and claims paid include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

(iv) Deferred acquisition costs

Distribution costs of segregated funds having a deferred sales charge are deferred and amortized over the term of the related deposits or the applicable period of such sales charge, as appropriate. These deferred costs form part of Insurance contract liabilities on the Consolidated Statements of Financial Position. The costs deferred in the period and amortization of deferred costs form part of the Gross change in insurance contract liabilities on the Consolidated Statements of Operations.

(n) Participating policies

The Company maintains an account in respect of participating policies (“participating account”), separate from those maintained in respect of other policies, in the form and manner determined by OSFI under sections 456-464 of the *Insurance Companies Act*. The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account. Dividends are paid annually, with a few older plans paying dividends every five years as per contractual provisions. Participating policyholder dividends are recognized as Policy dividends expense in the Consolidated Statements of Operations.

At the end of the reporting period all participating insurance contract liabilities, both guaranteed and discretionary, are held within Insurance contract liabilities, Policyholders’ funds on deposit and Provision for profits to policyholders. All participating policy reinsurance ceded at the end of the reporting period is held within Reinsurance assets or Reinsurance liabilities. Net income attributable to participating policyholders is shown on the Consolidated Statements of Operations. Comprehensive income attributable to participating policyholders is shown on the Consolidated Statements of Comprehensive Income. The portion of Retained earnings and AOCI in respect of participating policies is reported separately in the Policyholders’ equity section of the Consolidated Statements of Changes in Equity.

(i) Investment policy

The investments in the participating account are subject to limits established by the *Insurance Companies Act* and to investment guidelines established by the Investment Committee of the Board. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable and measurable low levels.

(ii) Investment income allocation

Investment income is recorded directly to each asset segment. When there is a deficiency of funds over assets, a portion of investment income is allocated to the Shareholders’ Capital and Surplus segment from the participating account’s asset segments in proportion to the deficiency of funds over assets of each segment. When there is an excess of funds over assets, a portion of investment income is allocated from the Shareholders’ Capital and Surplus segment to the participating account’s asset segments in proportion to the excess of funds over assets of each segment.

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(iii) Expense allocation

For purposes of allocation of profits to the participating account, expenses associated directly with the participating account will be attributed to the participating account. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost centres are charged to the participating account in proportion to expenses directly charged. Investment expenses are allocated monthly to the participating account in proportion to the Company's total funds at the beginning of each month. Premium taxes are allocated in proportion to taxable premiums. Other taxes, licenses, and fees are allocated to lines of business using cost centre methods.

(iv) Income tax allocation

For the purpose of allocation of profits to the participating account, income taxes are allocated to the participating account in proportion to total taxable income for the Company.

(o) Fee income

Fee income includes investment management, policy administration and guarantee fees that are recognized on an accrual basis, and surrender charges that are recognized as incurred. Fee income earned for investment management, administration and guarantees of the investment funds is based on the funds' closing net asset values.

(p) Investment income

Interest income is recognized using the effective interest rate method. Fees that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the effective interest rate of the instrument.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Interest income and dividend income are included in Investment income in the Consolidated Statements of Operations for all financial assets.

(q) Income taxes

Income tax expense for the period is comprised of current and deferred tax. Tax is recognized in the Consolidated Statements of Operations except to the extent that it relates to items recognized in OCI or directly in equity. In these cases, the tax is recognized in OCI or directly in equity, respectively.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been reflected in the consolidated financial statements. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between tax and financial statement bases for assets and liabilities and for certain carry-forward items.

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of their substantive enactment.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

(r) Foreign currency translation

The Company uses the Canadian dollar as both its functional and presentational currency.

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Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the Consolidated Statements of Operations.

For monetary financial assets designated as AFS, translation differences are recognized in the Consolidated Statements of Operations. Translation differences on non-monetary items, such as foreign denominated AFS common equities, are recognized in OCI and included in the AFS component within AOCI. On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in AOCI is recognized in the Consolidated Statements of Operations.

(s) Comprehensive income

Comprehensive income consists of Net income and OCI. OCI includes items that may be reclassified subsequently to Net income: Unrealized fair value change on AFS investments, net of amounts reclassified to net income and the Amortization of loss on derivative investments designated as cash flow hedges. OCI also includes items that will not be reclassified to net income: Remeasurements of post-employment benefit liabilities. All OCI amounts are net of taxes.

(t) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed unless the possibility of an outflow of economic benefits is remote. Any change in estimate of a provision is recorded in Net income. Provisions are not recognized for future operating losses. Provisions are measured as the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(u) Leases

The Company leases certain property and equipment. When the Company enters into a lease as a lessee, a right-of-use asset and a lease liability is recognized in the Statements of Financial Position. The initial lease liability is computed based on the present value of the lease payments, discounted at the Company's incremental borrowing rate. Subsequent to the initial recognition the lease liability is measured at the amortized cost using the effective interest rate method and is included in Accounts payable and other liabilities. Interest expense is included in operating expenses. The depreciation on the corresponding right-of-use asset is included in operating expenses.

The Company has elected to apply the option to recognize lease payments for short-term and low level assets on a straight-line basis over the lease term in operating expenses.

(v) Earnings per share (EPS)

Basic EPS is calculated by dividing the Net income for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The Company does not have any potentially dilutive instruments. As a result, diluted EPS are the same as basic EPS.

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(w) Accounting changes

New and Amended International Financial Reporting Standards to be Adopted in 2023 or Later

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17) to establish a comprehensive global standard which provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. Amendments to IFRS 17 were issued in June 2020 which deferred the effective date of IFRS 17 to January 1, 2023, with a transition date of January 1, 2022. IFRS 17 is to be applied retrospectively unless impracticable, in which case the Company may elect to use a modified retrospective or fair value method. The Company has chosen the fair value method.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ("IFRS 9") which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting, and does not require restatement of comparative periods.

Under the amendments to IFRS 17 issued in June 2020, eligible insurers were also permitted the option of deferring the adoption of IFRS 9 to coincide with the adoption of IFRS 17 (the "temporary exemption"). We have elected to apply this deferral option, and the effective date of both IFRS 17 and IFRS 9 will be January 1, 2023. Companies applying the temporary exemption are required to disclose fair value information with respect to their investments in financial assets whose contractual cash flows reflect solely payments of principal and interest on the principal amount outstanding (SPPI), to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. The Company's fixed income invested assets presented in Note 3(a) include cash equivalents, short-term investments, bonds, mortgages, loans on policies and policy contract loans and primarily have cash flows that qualify as SPPI. Fixed income invested assets which do not have SPPI qualifying cash flows as at December 31, 2022 include bonds and mortgages with fair values of \$460 million (2021 \$257 million) and \$7 million (2021 \$8 million), respectively.

In December 2021, the IASB issued an amendment to IFRS 17 to allow for a transition option, the overlay approach, that permits insurers to present comparative information on financial assets as if IFRS 9 were applicable during the comparative period. The Company opted to adopt the overlay approach.

IFRS 17

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

The primary principles of IFRS 17 are that the Company:

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

The measurement of insurance contracts under IFRS 17 differs from the CALM approach applied under IFRS 4. The most significant differences by measurement component are as follows:

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Best-estimate liability (BEL):

The best-estimate liability under IFRS 17 represents the present value of future cash flows, which are projected under best-estimate assumptions. The discount rates used are based on current market interest rates, adjusted to reflect the liquidity characteristics of the insurance contracts. Under IFRS 4, projected cash flows are discounted using rates that are based on the portfolio of assets supporting the insurance contract liabilities.

Estimates for financial guarantees under IFRS 17 are calculated to be consistent with market information where available. Under IFRS 4 the value was estimated as the expected future cost of the guarantee.

Expenses included in the cash flows under IFRS 17 are limited to those directly attributable to fulfillment of the obligations under the insurance contracts. Under IFRS 4, future cash flows include an allocation for expenses, some of which would be considered non-attributable under IFRS 17.

The effect of income taxes is excluded from IFRS 17 insurance contract liabilities whereas the effect of income tax differences is included in IFRS 4 insurance contract liabilities.

Risk adjustment (RA):

Under IFRS 4 the provision for adverse deviations includes the compensation required for uncertainty related to non-financial risk, such as mortality, morbidity, surrender and expenses, as well as providing for uncertainty related to asset/liability mismatch risk (financial risk).

Under IFRS 17, the risk adjustment measures the compensation required for uncertainty related to non-financial risk, such as mortality, morbidity, surrender and attributable expenses. No amount is provided for asset/liability mismatch risk.

Contractual service margin (CSM):

The CSM represents an estimate of unearned future profits. This is a new component of insurance contract liabilities under IFRS 17, which was not required under IFRS 4.

For new business issued under IFRS 4, the estimated profit or loss over the lifetime of the business is recognized in income at the date of issue. Expected future profits on new business under IFRS 17 are deferred and recorded in the CSM and amortized into income as insurance services are provided over the term of the contract. Under IFRS 17, expected losses on new business are recognized at the date of issue. In addition, the Company established a CSM on in-force insurance contracts at the date of transition, which will be amortized into income over the term of the contracts.

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.

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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.

Transition

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

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

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

Presentation and disclosure

IFRS 17 introduces changes to the way in which the Company will present and disclose financial results.

On the Statement of Financial Position, insurance contracts issued and reinsurance contracts held will be separated into portfolios of insurance/reinsurance contracts that are in an asset versus a liability position. Under IFRS 17, a number of insurance related assets and liabilities that were previously reported on the face of the statement of financial position will be incorporated into the Insurance contract liabilities line item. Examples include Loans on policies, Policy contract loans, Insurance receivables, Insurance payables, Policyholders' funds on deposit (insurance A/P) and Provision for profit to policyholders.

Under IFRS 17 the changes to the Statement of Operations will be significant. The Statement of Operations will no longer report gross and ceded premiums written, benefits and claims paid, change in insurance contract liabilities or commissions. Instead it will report an insurance service result comprising insurance revenue and insurance service expenses, reinsurance service result, investment results and net insurance finance result.

IFRS 17 requires significant new disclosures about amounts recognized in the Financial Statements, at a more granular level than under IFRS 4. There will be extensive roll-forward schedules on Insurance contract liabilities, as well as disclosure information on discount rates, new business, the expected emergence pattern of CSM and significant judgements made when applying IFRS 17. There will also be expanded disclosures about the nature and extent of risks from insurance, investment and reinsurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. Financial Instruments

(a) Summary of Cash and cash equivalents and investments

The carrying values of cash and cash equivalents and investments are as follows:

As at December 31	2022			2021			
	Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Cash and cash equivalents							
Cash	\$ 78,310	\$ —	\$ 78,310	\$ 62,512	\$ —	\$ 62,512	
Cash equivalents	97,213	—	97,213	130,705	—	130,705	
Total cash and cash equivalents	175,523	—	175,523	193,217	—	193,217	
Short-term investments							
Canadian federal government	8,439	—	8,439	3,499	4,998	8,497	
Corporate	—	—	—	150	—	150	
Foreign	—	592	592	—	—	—	
Total short-term investments	8,439	592	9,031	3,649	4,998	8,647	
Canadian government bonds							
Canadian federal government	16,871	169,248	186,119	16,558	326,450	343,008	
Canadian provincial governments	2,359,257	371,473	2,730,730	3,186,187	552,848	3,739,035	
Canadian municipal governments	80,378	29,535	109,913	107,940	89,463	197,403	
Total Canadian government bonds	2,456,506	570,256	3,026,762	3,310,685	968,761	4,279,446	
Canadian corporate bonds by industry sector:							
Energy	295,613	136,918	432,531	258,757	100,759	359,516	
Materials	10,880	3,989	14,869	12,999	10,898	23,897	
Industrials	67,245	29,901	97,146	87,008	47,090	134,098	
Consumer discretionary	34,682	17,253	51,935	24,616	13,433	38,049	
Consumer staples	160,552	16,390	176,942	190,959	43,407	234,366	
Health care	69,391	6,806	76,197	87,831	8,578	96,409	
Financial services	648,221	534,646	1,182,867	728,328	473,799	1,202,127	
Information Technology	259	3,882	4,141	469	4,424	4,893	
Communication services	258,323	49,236	307,559	363,448	58,522	421,970	
Utilities	498,000	83,107	581,107	589,261	80,637	669,898	
Real estate	40,305	21,694	61,999	50,984	12,782	63,766	
Infrastructure	377,142	66,371	443,513	448,848	68,898	517,746	
Total Canadian corporate bonds	2,460,613	970,193	3,430,806	2,843,508	923,227	3,766,735	
Foreign bonds							
Government	79,200	69,605	148,805	103,279	—	103,279	
Corporate	65,993	72,391	138,384	—	—	—	
Total foreign bonds	145,193	141,996	287,189	103,279	—	103,279	
Total bonds	5,062,312	1,682,445	6,744,757	6,257,472	1,891,988	8,149,460	
Total preferred shares - Canadian	384,927	17,238	402,165	433,295	8,044	441,339	

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As at December 31	2022			2021		
	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Common shares						
Canadian common shares	235,186	41,064	276,250	240,742	57,725	298,467
Exchange-traded funds	348,714	—	348,714	503,434	—	503,434
Canadian real estate limited partnership units	136,029	—	136,029	138,352	—	138,352
U.S.	50,474	—	50,474	50,020	—	50,020
Other	19,166	—	19,166	29,161	—	29,161
Total common shares	789,569	41,064	830,633	961,709	57,725	1,019,434
Total derivative assets	9,776	—	9,776	6,302	—	6,302
Loans and receivables						
Mortgages	—	—	119,556	—	—	153,564
Loans on policies	—	—	59,979	—	—	56,917
Policy contract loans	—	—	46,865	—	—	52,808
Total financial instruments	\$ 6,430,546	\$ 1,741,339	\$ 8,398,285	\$ 7,855,644	\$ 1,962,755	\$ 10,081,688

The following table presents the fair value of cash and cash equivalents and investments classified by the fair value hierarchy:

As at December 31	2022			2021		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 78,310	\$ 97,213	\$ 175,523	\$ 62,512	\$ 130,705	\$ 193,217
Short-term investments	—	8,439	8,439	—	3,649	3,649
Bonds	—	5,062,312	5,062,312	—	6,257,472	6,257,472
Preferred shares	296,924	88,003	384,927	433,295	—	433,295
Common shares	646,734	142,835	789,569	821,560	140,149	961,709
Derivative assets	7,604	2,172	9,776	6,301	1	6,302
Available for sale:						
Short-term investments	—	592	592	—	4,998	4,998
Bonds	—	1,682,445	1,682,445	—	1,891,988	1,891,988
Preferred shares	2,600	14,638	17,238	8,044	—	8,044
Common shares	41,064	—	41,064	57,725	—	57,725
Loans and Receivables						
Mortgages	—	113,901	113,901	—	158,658	158,658
Loans on policies	—	59,979	59,979	—	56,917	56,917
Policy contract loans	—	46,865	46,865	—	52,808	52,808
Total	\$ 1,073,236	\$ 7,319,394	\$ 8,392,630	\$ 1,389,437	\$ 8,697,345	\$ 10,086,782

The fair value of mortgages has been calculated by discounting cash flows of each mortgage at a discount rate appropriate to its remaining term to maturity. The discount rates are determined based on regular competitive rate surveys. The fair values of Loans on policies and Policy contract loans approximates their carrying values, due to the life insurance contracts that secure them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 and there were no Level 3 investments during the year ended December 31, 2022 or during the year ended December 31, 2021.

For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments refer to Note 28 Risk Management.

(b) Impairments

(i) Loans and receivables

Investments in individual assets have been reduced by the following specific allowances for impairment:

As at December 31	2022			2021		
Impaired Loans	Recorded investment	Allowance for impairment	Carrying value	Recorded investment	Allowance for impairment	Carrying value
Mortgages	\$ 3,354	\$ 1,573	\$ 1,781	\$ 3,939	\$ 1,550	\$ 2,389
Policy contract loans	813	406	407	813	424	389
Total	\$ 4,167	\$ 1,979	\$ 2,188	\$ 4,752	\$ 1,974	\$ 2,778

The Company holds collateral with a fair value of \$1,789 (2021 \$2,389) in respect of these mortgages and \$407 (2021 \$389) in respect of these policy contract loans as at December 31, 2022. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

For the year ended December 31	2022	2021
Continuity of allowance for loan impairment:		
Allowance - beginning of year	\$ 1,974	\$ 3,591
Provision for loan impairment	465	(44)
Write-off of loans	(460)	(1,573)
Allowance - end of year	\$ 1,979	\$ 1,974

The Company has recorded interest income of \$450 (2021 \$513) on these assets.

(ii) Available for sale

For the year ended December 31, 2022, the Company performed quarterly impairment testing and did not experience any impairment on AFS common or preferred shares. For the year ended December 31, 2021, the Company reclassified a pre-tax gain of \$1,506 from OCI to Net income due to write downs of impaired AFS common and preferred shares.

For additional information on the fair values of the Company's AFS investments, refer to Note 3(a). For analysis of the Company's risks arising from financial instruments, refer to Note 28.

(c) Investment income

Investment income is comprised of the following:

For the year ended December 31	2022	2021
Interest income	\$ 308,480	\$ 271,391
Dividend income	48,960	55,761
Other	1,093	2,171
Provision for loan impairment	(465)	370
Investment income	\$ 358,068	\$ 329,693

Interest income includes \$70,196 (2021 \$60,827) relating to assets not classified as FVTPL.

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(d) Derivative financial instruments

The values of derivative instruments are set out in the following table. The use of derivatives is measured in terms of notional principal amounts, which serve as the basis for calculating payments and are generally not actual amounts that are exchanged.

As at December 31	2022			2021		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 57,846	\$ 1,008	\$ 2,193	\$ 69,166	\$ 2,669	\$ 1,170
Equity options	430,061	6,268	—	448,381	3,632	—
Over-the-counter						
Foreign currency forwards	172,979	19	32	33,158	1	663
Cross currency swaps	44,943	2,481	1,388	20,980	—	596
Total	\$ 705,829	\$ 9,776	\$ 3,613	\$ 571,685	\$ 6,302	\$ 2,429

All contracts mature in less than one year, except for cross currency swaps which mature in more than five years. Fair value asset amounts are reported in the Consolidated Statements of Financial Position as Derivative assets. Fair value liability amounts are reported in the Consolidated Statements of Financial Position as part of Accounts payable and other liabilities. Fair value of exchange traded derivatives is determined based on Level 1 inputs. Foreign currency forward contracts are valued based primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency, interest rates and credit spreads.

Cross currency swaps are valued by discounting the future cash flows for both legs at the underlying market interest rate curves in each currency applicable at the valuation date. The sum of the cash flows denoted in the foreign currency is converted with the spot rate applicable at that time. The foreign currency leg, where Empire Life owes interest and principal, produces a negative fair value to Empire Life while the Canadian dollar leg produces a positive fair value to Empire Life. The net of these amounts represents the reported fair value of the cross currency swap. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit-related inputs are determined not to be significant to fair value, are classified as Level 2.

For analysis of the Company's risks arising from financial instruments, refer to Note 28.

(e) Securities Lending

The Company has a securities lending agreement with its custodian. Under this agreement, the custodian may lend securities from the Company's portfolio to other institutions, as approved by the Company, for periods of time. In addition to a fee, the Company receives collateral which exceeds the market value of the loaned securities, which is retained by the Company until the underlying security has been returned to the Company. In the event that any of the loaned securities are not returned to the custodian, at its option the custodian may either restore to the Company securities identical to the loaned securities or it will pay to the Company the value of the collateral up to but not exceeding the market value of the loaned securities on the date on which the loaned securities were to have been returned (Valuation Date) to the custodian. If the collateral is not sufficient to allow the custodian to pay such market value to the Company, the custodian shall indemnify the Company only for the difference between the market value of the securities and the value of such collateral on the Valuation Date. As a result, there is no significant exposure to credit risk associated with this securities lending agreement.

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Income recognized from securities lending activities was as follows:

For the year ended December 31	2022	2021
General funds	\$ 2,184	\$ 1,748
Segregated funds	2,036	1,564
Total	\$ 4,220	\$ 3,312

As at December 31, 2022 and December 31, 2021, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at December 31	2022			2021		
	General Funds	Segregated Funds	Total	General Funds	Segregated Funds	Total
Value of securities loaned	\$ 1,183,898	\$ 1,839,056	\$ 3,022,954	\$ 1,514,071	\$ 1,508,807	\$ 3,022,878
Value of collateral received	\$ 1,207,628	\$ 1,877,197	\$ 3,084,825	\$ 1,544,381	\$ 1,539,045	\$ 3,083,426

4. Insurance Receivables

As at December 31	2022	2021
Due from policyholders	\$ 5,802	\$ 4,786
Due and accrued from reinsurers	47,941	21,287
Fees receivable	13,451	13,806
Other	13,889	8,821
Insurance receivables	\$ 81,083	\$ 48,700

All amounts are expected to be recovered within one year of the Consolidated Statements of Financial Position date. These financial instruments are short-term in nature and their fair values approximate carrying values.

5. Other Assets

Other assets consist of the following:

As at December 31	2022	2021
Trade accounts receivable	\$ 8,506	\$ 6,696
Prepaid expenses	8,422	7,336
Right-of-use assets	5,192	5,420
Net post-employment benefit asset (Note 13)	11,386	—
Other assets	\$ 33,506	\$ 19,452

Of the above total, \$16,578 (2021 \$5,420) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. Trade accounts receivable are short-term in nature and their fair values approximate carrying value. In the absence of an active market for post-employment benefit liabilities, the actuarially determined value provides a reasonable approximation of fair value.

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6. Property and Equipment

		Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Cost						
As at January 1, 2021	\$	2,318	\$ 13,039	\$ 47,259	\$ 9,730	72,346
Additions		—	—	1,351	28	1,379
Disposals		—	—	—	—	—
As at December 31, 2021		2,318	13,039	48,610	9,758	73,725
Additions		—	—	1,224	465	1,689
Disposals		—	—	—	—	—
As at December 31, 2022	\$	2,318	\$ 13,039	\$ 49,834	\$ 10,223	75,414
Amortization						
As at January 1, 2021	\$	—	\$ (5,584)	\$ (40,777)	\$ (7,684)	(54,045)
Charge for the year		—	(372)	(3,976)	(443)	(4,791)
Disposals		—	—	—	—	—
As at December 31, 2021		—	(5,956)	(44,753)	(8,127)	(58,836)
Charge for the year		—	(355)	(2,178)	(403)	(2,936)
Disposals		—	—	—	—	—
As at December 31, 2022	\$	—	\$ (6,311)	\$ (46,931)	\$ (8,530)	(61,772)
Carrying amount						
December 31, 2022	\$	2,318	\$ 6,728	\$ 2,903	\$ 1,693	13,642
December 31, 2021	\$	2,318	\$ 7,083	\$ 3,857	\$ 1,631	14,889

There were no asset impairments in 2022 or 2021.

7. Intangible Assets

		Intangible assets	
Cost			
As at January 1, 2021		\$	86,926
Additions			9,363
Disposals			(444)
As at December 31, 2021			95,845
Additions			50,590
Disposals			—
As at December 31, 2022		\$	146,435
Amortization			
As at January 1, 2021		\$	(58,943)
Charge for the year			(8,605)
Disposals			214
As at December 31, 2021			(67,334)
Charge for the year			(18,530)
Disposals			—
As at December 31, 2022		\$	(85,864)
Carrying amount			
December 31, 2022		\$	60,571
December 31, 2021		\$	28,511

There were no asset impairments during 2022 or 2021.

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8. Goodwill

The goodwill represents the excess amount after the allocation of the purchase price to identifiable tangible and intangible net assets. Goodwill is not subject to amortization however is assessed annually for impairment. There was no impairment charge booked against goodwill in 2022.

As at December 31		2022	2021
Goodwill	\$	24,465	\$ —
Total	\$	24,465	\$ —

9. Segregated Funds

(a) The following table identifies segregated fund assets by category of asset:

As at December 31		2022	2021
Cash	\$	7,737	\$ 39,880
Short-term investments		579,148	467,829
Bonds		1,754,518	1,880,326
Common and preferred shares		6,301,258	6,935,850
		8,642,661	9,323,885
Add other assets		15,360	30,271
Less segregated funds held within general fund investments		(92,346)	(96,858)
Total	\$	8,565,675	\$ 9,257,298

(b) The following table presents the investments of the segregated funds measured on a recurring basis at fair value classified by the fair value hierarchy:

As at December 31	2022			2021		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash	\$ 7,737	\$ —	\$ 7,737	\$ 39,880	\$ —	\$ 39,880
Short-term investments	—	579,148	579,148	—	467,829	467,829
Bonds	—	1,754,518	1,754,518	—	1,880,326	1,880,326
Common and preferred shares	6,301,258	—	6,301,258	6,935,850	—	6,935,850
Total	\$ 6,308,995	\$ 2,333,666	\$ 8,642,661	\$ 6,975,730	\$ 2,348,155	\$ 9,323,885

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2022 and December 31, 2021. There were no Level 3 investments as at December 31, 2022 and December 31, 2021.

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(c) The following table presents the change in segregated fund assets:

For the year ended December 31	2022	2021
Segregated fund assets - beginning of year	\$ 9,257,298	\$ 8,457,417
Additions to segregated funds:		
Amount received from policyholders	872,244	997,002
Interest	77,045	58,995
Dividends	178,688	204,465
Other income	23,332	22,441
Net realized gains on sale of investments	102,624	382,696
Net unrealized increase in fair value of investments	—	538,711
	1,253,933	2,204,310
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	964,437	1,131,098
Net unrealized decrease in fair value of investments	735,370	—
Management fees and other operating costs	250,261	258,979
	1,950,068	1,390,077
Net change in segregated funds held within general fund investments	4,512	(14,352)
Segregated fund assets - end of year	\$ 8,565,675	\$ 9,257,298

(d) Exposure to segregated fund guarantee risk

Segregated fund products issued by Empire Life contain death, maturity, and withdrawal benefit guarantees. Market price fluctuations impact the Company's estimated liability for those guarantees.

10. Insurance Payables

As at December 31	2022	2021
Claims due and accrued	\$ 72,915	\$ 47,237
Payable to agents	24,544	20,342
Premiums paid in advance	1,639	1,506
Due to reinsurance companies	8,430	18,289
Other	49,057	28,419
Insurance payables	\$ 156,585	\$ 115,793

Of the above total, \$721 (2021 \$786) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. Most of these financial instruments are short-term in nature and their fair value approximates carrying values.

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11. Insurance Contract Liabilities and Reinsurance Assets/Liabilities

(a) Nature and composition of insurance contract liabilities and related reinsurance

Insurance contract liabilities include life, health and annuity contracts on a participating and non-participating basis.

Changes in actuarial assumptions are made based on emerging and evolving experience with respect to major factors affecting estimates of future cash flows and consideration of economic forecasts of investment returns, industry and internal studies and the Standards of Practice of the Canadian Institute of Actuaries (CIA) and OSFI guidelines.

Insurance contract liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses, and premium taxes on policies in force. Insurance contract liabilities are determined using accepted actuarial practice according to standards established by the CIA and the requirements of OSFI.

The Company reinsures excess risks with Canadian registered reinsurance companies. The reinsurance assets (liabilities) are determined based on both the premiums expected to be paid by the Company under reinsurance agreements over the duration of the insurance contracts that they support and the insurance claims expected to be received by the Company when an insured event occurs under those insurance contracts. The liability position of some of the reinsurance is due to the excess of future premiums payable over the expected benefit of reinsurance. The change in reinsurance liabilities is primarily related to the Company's revised mortality assumptions, which reduce the present value of insurance claims expected to be recovered from the reinsurance companies. The Company enters into reinsurance agreements only with reinsurance companies that have an independent credit rating of "A-" or better.

Reinsurance transactions do not relieve the original insurer of its primary obligation to policyholders.

The Company is active in most life insurance and annuity product lines across Canada and does not operate in foreign markets. The table below shows the concentration of insurance contract liabilities and related reinsurance assets (liabilities) by type of contract:

As at December 31	2022			2021		
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Participating Individual						
Life	\$ 781,827	\$ 5,153	\$ 786,980	\$ 878,191	\$ 6,975	\$ 885,166
Annuity	82	—	82	79	—	79
Non-participating Individual						
Life	3,613,338	341,985	3,955,323	4,836,301	413,301	5,249,602
Health	203,021	(7,130)	195,891	260,617	(8,332)	252,285
Annuity	700,728	(5,719)	695,009	792,840	(7,314)	785,526
Non-participating Group						
Life	43,040	(9,416)	33,624	41,063	(6,880)	34,183
Health	333,058	(161,661)	171,397	318,024	(144,420)	173,604
Annuity	36,170	—	36,170	41,178	—	41,178
Segregated fund deferred acquisition costs	(70,922)	—	(70,922)	(77,240)	—	(77,240)
Total	\$ 5,640,342	\$ 163,212	\$ 5,803,554	\$ 7,091,053	\$ 253,330	\$ 7,344,383

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The Company expects to pay \$5,529,304 (2021 \$6,996,900) of Insurance contract liabilities and \$197,935 (2021 \$279,162) of Reinsurance liabilities more than one year after the Consolidated Statements of Financial Position date. The remaining balance is expected to be settled within one year.

The following segregated fund deferred acquisition costs are included in Insurance contract liabilities:

		2022		2021
Segregated funds deferred acquisition costs - beginning of year	\$	77,240	\$	78,412
Deferred during year		23,522		28,170
Amortized during year		(29,840)		(29,342)
Segregated funds deferred acquisition costs - end of year	\$	70,922	\$	77,240

Of the above total, \$29,903 (2021 \$31,701) is expected to be amortized during the next year.

(b) Change in insurance contract liabilities and reinsurance assets/liabilities

For the year ended December 31	2022			2021		
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance - beginning of year	\$ 7,091,053	\$ 253,330	\$ 7,344,383	\$ 7,145,461	\$ 384,761	\$ 7,530,222
Changes in methods and assumptions						
Non-participating policies						
Changes for expected mortality/morbidity	(68,557)	46,421	(22,136)	83,021	(57,640)	25,381
Lapse/premium assumption updates	28,972	6,429	35,401	150,691	(37,459)	113,232
Update of investment return assumptions	(91,606)	(4,615)	(96,221)	(79,112)	(3,352)	(82,464)
Model enhancements and other changes	20,711	(7,021)	13,690	2,480	2	2,482
Reinsurance recapture	—	—	—	(11,357)	—	(11,357)
Participating policies						
Model enhancements and other changes	486	(4)	482	145	(53)	92
Normal changes						
New business	60,778	(8,199)	52,579	(31,000)	213	(30,787)
In-force business	(1,401,495)	(123,129)	(1,524,624)	(169,276)	(33,142)	(202,418)
Balance - end of year	\$ 5,640,342	\$ 163,212	\$ 5,803,554	\$ 7,091,053	\$ 253,330	\$ 7,344,383

Net changes in methods and assumptions summarized in the above tables are further explained as follows:

Liability reduction related to changes in mortality assumptions are due to normal updates of the Company's experience studies while changes in 2021 are related to experience updates and changes to the calculation of mortality improvement used in the valuation of liabilities.

In both 2022 and 2021 the lapse/premium assumption change is related to updates of assumed lapse rates on renewable term and universal life policies as experience continues to unfold.

The investment return assumption in 2022 is primarily related to an increase in the initial reinvestment rate (IRR) used in the valuation of the liabilities. This change reflects the increased market rates in 2022. The changes in 2021 were for similar reasons but to a smaller scale. In addition, 2021 changes were made to the assumed reinvestment mix used in the calculation of valuation credit spreads and to the CALM risk-free reinvestment scenario. Also, regular annual updates were made to the preferred share maturity value assumption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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In 2019, the Company enacted significant changes to its reinsurance programs. Specifically, the reinsurers of the Company's individual life policies were notified that in 2020 the Company would increase its individual life retention from \$500,000 to \$1.5 million and the recapture provisions of all eligible reinsurance treaties would be enacted. The recapture resulted in a substantial net liability decrease on both the universal life and non-participating blocks of business as the present value of future reinsurance premiums was greater than the estimated future claims. Additional amounts were recognized in 2020 and 2021 as provisions from the actuarial liabilities were released. No such releases occurred in 2022.

(c) Mix of assets allocated to insurance, annuity, investment contract liabilities and equity

As at December 31, 2022					
	Insurance liabilities	Annuity liabilities	Investment contract liabilities	Equity and other liabilities	Total
Cash and cash equivalents & Short-term investments	\$ 130,341	\$ 19,340	\$ 723	\$ 34,150	\$ 184,554
Bonds	4,124,128	484,377	18,120	2,118,132	6,744,757
Mortgages	17,359	93,275	1,902	7,020	119,556
Preferred shares	251,758	120,282	11,780	18,345	402,165
Common shares	789,463	—	106	41,064	830,633
Derivative assets	3,492	—	16	6,268	9,776
Loans on policies	59,071	—	908	—	59,979
Policy contract loans	269	14,622	—	31,974	46,865
Other	31,297	4,804	1,442	291,390	328,933
Total	\$ 5,407,178	\$ 736,700	\$ 34,997	\$ 2,548,343	\$ 8,727,218

As at December 31, 2021					
	Insurance liabilities	Annuity liabilities	Investment contract liabilities	Equity and other liabilities	Total
Cash and cash equivalents & Short-term investments	\$ 154,696	\$ 46,514	\$ 2,499	\$ (1,845)	\$ 201,864
Bonds	5,102,016	587,909	198,079	2,261,456	8,149,460
Mortgages	25,885	114,628	5,877	7,174	153,564
Preferred shares	216,149	149,182	8,354	67,654	441,339
Common shares	961,671	—	37	57,726	1,019,434
Derivative assets	2,670	—	—	3,632	6,302
Loans on policies	56,197	—	720	—	56,917
Policy contract loans	256	16,852	—	35,700	52,808
Other	27,041	4,893	971	158,772	191,677
Total	\$ 6,546,581	\$ 919,978	\$ 216,537	\$ 2,590,269	\$ 10,273,365

Provisions made for anticipated future losses of principal and interest on investments and included as a component of insurance contract liabilities are \$204,900 (2021 \$259,200).

(d) Fair value of insurance and investment contract liabilities and reinsurance assets/liabilities

In the absence of an active market for the sale of insurance and investment contract liabilities and reinsurance assets/liabilities, the actuarially determined values provide a reasonable approximation of their fair value. Investment contract liabilities are term certain annuities with a relatively short duration.

(e) Liquidity

The Company defines liquid assets as high quality marketable investments that may be easily sold, meaning there exists an active market and observable prices for the investments. Liquid asset values are based on fair value as at the reporting date.

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The Company defines cash demands or demand liabilities as those policyholder obligations that may be called on immediately at the discretion of the policyholder. More specifically, demand liabilities include cash surrender values under whole life insurance products as well as current accumulated values of annuity products. Amounts would be gross of any surrender charge or market value adjustment allowed under the terms of the contract. Demand liabilities are determined as though all such policyholders made their call at the same time and as such cannot be readily compared to insurance contract liabilities that are determined based on actuarial assumptions associated with lapse as well as other decrements.

The Company maintains a high level of liquid assets so that cash demands can be readily met. The Company's liquidity position is as follows:

As at December 31	2022	2021
Assets:		
Cash and cash equivalents & Short-term investments	\$ 184,554	\$ 201,864
Canadian federal and provincial bonds	2,916,849	4,082,043
Other readily-marketable bonds and stocks	4,658,541	4,816,579
Total liquid assets	\$ 7,759,944	\$ 9,100,486
Liabilities:		
Demand liabilities with fixed values	\$ 915,899	\$ 875,418
Demand liabilities with market value adjustments	1,192,870	1,227,633
Total liquidity needs	\$ 2,108,769	\$ 2,103,051

12. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

As at December 31	2022	2021
Accounts payable	\$ 82,893	\$ 46,406
Net post-employment benefit liability (Note 13)	—	23,503
Accrued interest on subordinated debt	4,735	4,735
Derivative liabilities (Note 3d)	3,613	2,429
Lease liabilities	5,509	5,690
Other	3,888	12,820
Accounts payable and other liabilities	\$ 100,638	\$ 95,583

Of the above total, \$4,408 (2021 \$28,236) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. In the absence of an active market for post-employment benefit liabilities, the actuarially determined value provides a reasonable approximation of fair value. Derivative liabilities are carried at fair value, as disclosed in Note 3(d). All other amounts are short-term in nature and their fair value approximates carrying value.

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13. Employee Benefit Plans

Empire Life sponsors pension and other post-employment benefit plans for eligible employees. The Empire Life Insurance Company Staff Pension Plan (the Plan) consists of a defined benefit component and a defined contribution component. The Company discontinued enrolments in the defined benefit component effective October 1, 2011. The Company has supplemental arrangements that provide defined pension benefits in excess of statutory limits. In addition to pension benefits, the Company also provides for post-employment health and dental care coverage and other future benefits to qualifying employees and retirees.

The defined benefit component of the Plan is a final average salary pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' age, length of service and their salary in the final years leading up to retirement. Pensions generally do not receive inflationary increases once in payment. In the past, however, the Company has provided ad-hoc pension increases on its defined benefit staff pension plan. Increases take place at the discretion of the Board. The pension benefit payments are from trustee-administered funds.

The Plan is governed by the *Pension Benefits Act of the Province of Ontario*, as amended, which requires that the plan sponsor fund the defined benefits determined under the plan. The Company's supplemental employee retirement benefit plan is governed by provisions of the plan, which requires that the plan sponsor fund the defined benefits determined under the plan. The amount of funds contributed to these defined benefit pension plans is determined by an actuarial valuation of the Plans.

Under the defined contribution component, contributions are made in accordance with the provisions of the Plan documents.

A pension committee, composed of selected senior members of management and that of its parent, E-L Financial Corporation, oversees the Pension Plan of the Company. The Pension Committee reports to the Human Resources Committee of the Board at least three times each year. The Audit Committee of the Board approves the audited annual financial statements of the Pension Plan.

The other post-employment benefit plan provides for health, dental care, and other future defined benefits to qualifying employees and retirees. It is unfunded and the Company meets the benefit payment obligation as it falls due.

The following tables present financial information for the Company's defined benefit plans:

As at December 31	Pension benefits		Other post-employment benefits	
	2022	2021	2022	2021
Present value of obligations	\$ 197,258	\$ 245,593	\$ 6,785	\$ 8,706
Fair value of plan assets	218,165	232,426	—	—
Post-employment benefit asset (liability)	20,907	(13,167)	(6,785)	(8,706)
Effect of asset limit	(2,736)	(1,630)	—	—
Net post-employment benefit asset (liability)	\$ 18,171	\$ (14,797)	\$ (6,785)	\$ (8,706)

The post-employment benefit asset (liability), net of the cumulative impact of the asset ceiling, is included in the Consolidated Statements of Financial Position in Accounts payables and other liabilities (Note 12).

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The movement in the present value of the defined benefit obligations over the year is as follows:

As at December 31	Pension benefits		Other post-employment benefits	
	2022	2021	2022	2021
Present value of defined benefit obligation - beginning of year	\$ 245,593	\$ 280,587	\$ 8,706	\$ 8,919
Current service cost	5,512	6,811	—	—
Interest expense	7,476	6,936	253	207
Decrease (increase) in net income before tax	12,988	13,747	253	207
Remeasurements				
(Gain) loss from changes in demographic assumptions	—	—	—	155
(Gain) loss from changes in financial assumptions	(53,121)	(25,650)	(1,581)	(563)
Actuarial (gain) loss from member experience	3,715	(112)	(162)	377
Decrease (increase) in OCI before tax	(49,406)	(25,762)	(1,743)	(31)
Employee contributions	1,213	1,249	—	—
Benefits paid	(13,130)	(24,228)	(431)	(389)
Present value of defined benefit obligation - end of year	\$ 197,258	\$ 245,593	\$ 6,785	\$ 8,706

The movement in the fair value of the Plan's defined benefit assets over the year is as follows:

As at December 31	Pension benefits	
	2022	2021
Fair value of defined benefit assets - at beginning of year	\$ 232,426	\$ 220,979
Interest income	7,181	5,519
Administrative expense	(337)	(291)
Increase (decrease) in net income before tax	6,844	5,228
Remeasurements		
Return on plan assets, excluding amounts included in interest income	(16,758)	21,969
Increase (decrease) in OCI before tax	(16,758)	21,969
Employer contributions	7,570	7,229
Employee contributions	1,213	1,249
Benefits paid	(13,130)	(24,228)
Fair value of defined benefit assets - end of year	\$ 218,165	\$ 232,426

The change in the asset ceiling/onerous liability over the year is as follows:

As at December 31	Pension benefits	
	2022	2021
Asset ceiling/onerous liability beginning year	\$ 1,630	\$ —
Interest income	51	—
Change in asset ceiling/onerous liability (excluding interest income)	1,055	1,630
Asset ceiling/onerous liability end of year	\$ 2,736	\$ 1,630

The actual return on defined benefit assets net of administrative expense, for the year ended December 31, 2022 was a loss of \$9,914 (2021 gain of \$27,197).

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Defined benefit plan expense is recognized in Operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include \$2,964 (2021 \$2,488) of employer contributions related to the defined contribution component of the Plan.

Expected contributions (including both employer and employee amounts) to the Company's defined benefit pension plans for the year ending December 31, 2023 are approximately \$7,413.

The Plan invests primarily in Empire Life segregated and mutual funds. The fair value of the underlying assets of the funds and other investments are included in the following table:

As at December 31	2022		2021	
Equity				
Canadian	\$ 38,626	18%	\$ 82,532	36%
Foreign	90,731	41%	57,173	24%
Total equity	129,357	59 %	139,705	60 %
Debt				
Canadian	67,801	31%	71,278	31%
Cash, cash equivalent, accruals	3,864	2%	3,551	2%
Mutual funds	8,970	4%	9,229	4%
Other	8,173	4 %	8,663	3 %
Total fair value of assets	\$ 218,165	100%	\$ 232,426	100%

Fair value is determined based on Level 1 inputs for equities and Level 2 inputs for debt.

The following weighted average assumptions were used in actuarial calculations:

As at December 31	Pension benefits		Other post-employment benefits	
	2022	2021	2022	2021
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	5.25%	3.15%	5.25%	3.00%
Discount rate - net interest	3.15%	2.55%	3.00%	2.40%
Rate of compensation increase	5% in 2022, 4% in 2023 and 3% thereafter		3.00%	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	n/a	n/a	5.4%	5.4%
Cost trend rate declines to	n/a	n/a	4.0%	4.0%
Year ultimate health care cost trend rate is reached	n/a	n/a	2040	2040

Assumptions (in number of years) relating to future mortality, to determine the defined benefit obligation and the net benefit cost for the defined benefit pension plans are as follows:

As at December 31	2022	2021
Males aged 65 at measurement date	22.21	22.13
Females aged 65 at measurement date	24.88	24.81
Males aged 40 at measurement date	24.04	23.97
Females aged 40 at measurement date	26.54	26.47

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The following table provides the sensitivity of the defined benefit pension and other post-employment benefit obligations to changes in significant actuarial assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the Post-employment benefit liability recognized within the Consolidated Statements of Financial Position.

As at December 31, 2022	Change in assumption	Impact on Pension Benefit Obligation		Impact on Other Post Employment Benefit Obligations	
		Increase	Decrease	Increase	Decrease
Discount rate	1% \$	(15,443) \$	19,111 \$	(644) \$	531
Rate of compensation increase	1% \$	6,351 \$	(5,653)	n/a	n/a
Health care cost increase	1%	n/a	n/a \$	512 \$	(636)
Life expectancy	1 year \$	3,137 \$	(3,265) \$	185 \$	(384)

As at December 31, 2021	Change in assumption	Impact on pension benefits		Impact on other post employment benefits	
		Increase	Decrease	Increase	Decrease
Discount rate	1% \$	(24,760) \$	31,816 \$	(968) \$	820
Rate of compensation increase	1% \$	10,665 \$	(10,099)	n/a	n/a
Health care cost increase	1%	n/a	n/a \$	760 \$	(932)
Life expectancy	1 year \$	5,121 \$	(5,197) \$	285 \$	(575)

The weighted average duration, in number of years, of the defined benefit obligations are:

As at December 31	2022	2021
Staff pension plan	9	12
Supplemental employee retirement plan	7	9
Other post-employment benefits	9	10

Risks

Through its defined benefit pension plan and the other post-employment benefit plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The Plan obligations are calculated using a discount rate set with reference to corporate bond yields. If Plan assets underperform against this yield, this will create a deficit. The Plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while producing volatility and risk in the short-term.

Changes in bond yields

A decrease in corporate bond yields will increase Plan obligations, although this will be partially offset by an increase in the value of the Plans' bond holdings.

Life expectancy

The majority of the Plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plans' liabilities. In case of the funded plans, the Pension Committee ensures that the investment positions are managed in accordance with the investment philosophy outlined in the investment policy approved by the Human Resources Committee of the Board. The fundamental philosophy is to achieve acceptably high investment return over the long term without

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jeopardizing the level of security of the members' benefits and without introducing too much volatility into the Company's future expense. The Company's objective is to match assets to the pension obligations by investing in equities as well as fixed interest securities. The Company monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Plan has not changed the processes used to manage its risks from previous periods. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The Plan invests primarily in Canadian Bonds and Equities through its ownership of units in Empire Life segregated and mutual funds.

In February 2023, the Plan withdrew 100% of its investment in Empire Life Aggressive Growth Mutual Fund. The proceeds were reinvested in exchange traded funds with exposure to Canadian (30%), US (35%) and International (35%) markets.

The last triennial valuation on the Staff Pension Plan was completed in August 2022, as at December 31, 2021. The next triennial valuation will be completed in 2025, as at December 31, 2024

14. Subordinated Debt

The table below presents the obligations included in Subordinated debt as at December 31.

As at December 31	Interest rate	Earliest par call or redemption Date	Maturity	2022	2021
				Carrying value	Carrying value
Series 2017-1 ⁽¹⁾	3.664 %	March 15, 2023	2028	199,964	199,790
Series 2021-1 ⁽²⁾	2.024 %	September 24, 2026	2031	199,165	199,068
Total Subordinated Debt				\$ 399,129	\$ 398,858
Fair Value				\$ 374,616	\$ 401,850

⁽¹⁾ Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

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

15. Insurance Premiums

For the year ended December 31	2022			2021		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 609,163	\$ (140,415)	\$ 468,748	\$ 583,034	\$ (132,918)	\$ 450,116
Health premiums	590,879	(156,651)	434,228	525,119	(134,295)	390,824
Total life and health premiums	1,200,042	(297,066)	902,976	1,108,153	(267,213)	840,940
Annuity premiums	139,794	(216)	139,578	74,746	(143)	74,603
Total insurance premiums	\$ 1,339,836	\$ (297,282)	\$ 1,042,554	\$ 1,182,899	\$ (267,356)	\$ 915,543

16. Fee Income

For the year ended December 31	2022	2021
Investment management, policyholder administration and guarantee fees	\$ 272,253	\$ 260,409
Surrender charges and other miscellaneous fees	10,883	12,365
Fee income	\$ 283,136	\$ 272,774

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17. Benefits and Expenses

(a) Insurance contract benefits and claims paid

For the year ended December 31	2022			2021		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 306,199	\$ (100,104)	\$ 206,095	\$ 260,545	\$ (77,663)	\$ 182,882
Health claims	408,843	(91,003)	317,840	356,449	(80,514)	275,935
Total life and health claims	715,042	(191,107)	523,935	616,994	(158,177)	458,817
Annuity benefits	150,816	(1,541)	149,275	172,056	(755)	171,301
Benefits and claims paid	\$ 865,858	\$ (192,648)	\$ 673,210	\$ 789,050	\$ (158,932)	\$ 630,118

(b) Change in insurance contract liabilities and reinsurance ceded

For the year ended December 31	2022			2021		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ (1,317,354)	\$ (75,674)	\$ (1,393,028)	\$ 144,478	\$ (103,124)	\$ 41,354
Health	(42,560)	(16,039)	(58,599)	44,314	(29,838)	14,476
Total life and health	(1,359,914)	(91,713)	(1,451,627)	188,792	(132,962)	55,830
Annuity	(90,797)	1,595	(89,202)	(243,200)	1,531	(241,669)
Change in insurance contract liabilities	\$ (1,450,711)	\$ (90,118)	\$ (1,540,829)	\$ (54,408)	\$ (131,431)	\$ (185,839)

18. Operating Expenses

Operating expenses include the following:

For the year ended December 31	2022	2021
Salary and benefits expense	\$ 116,533	\$ 104,923
Professional services	21,420	15,492
Rent, maintenance and amortization of right-of-use assets	27,238	18,306
Amortization of property and equipment and intangibles	9,924	13,396
Other	26,949	24,396
Total	\$ 202,064	\$ 176,513

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19. Income Taxes

(a) Income tax expense

The Company's income tax expense includes provisions for current and deferred taxes as follows:

For the year ended December 31	2022	2021
Current income tax expense	\$ 70,089	\$ 66,751
Deferred income tax expense (benefit)		
Relating to the origination and reversal of temporary differences	(16,688)	(2,342)
Income tax expense	\$ 53,401	\$ 64,409

During 2022 the Company paid income tax installments totaling \$40,277 (2021 \$22,790).

(b) Variance from statutory provision

Income taxes provided varies from the expected statutory provision as follows:

For the year ended December 31	2022	2021
Net income before income taxes	\$ 263,816	\$ 323,343
Income tax provision at statutory rates	69,595	85,310
Increase (decrease) resulting from:		
Tax paid on dividends	(10,074)	(12,132)
Miscellaneous	(6,120)	(8,769)
Income tax expense	\$ 53,401	\$ 64,409

The current enacted corporate tax rates as they impact the Company in 2022 stand at 26.38% (2021 26.38%). Expected future tax rates are as follows:

2022	26.38 %
2023	26.38 %
2024	26.38 %
2025	26.38 %
2026	26.38 %

The impact of future enacted corporate tax rates has been taken into consideration in the deferred tax calculation.

(c) Deferred income taxes

In certain instances the tax basis of assets and liabilities differs from the carrying amount. These differences will give rise to deferred income taxes, which are reflected on the Consolidated Statements of Financial Position. These differences arise in the following items:

As at December 31	2022	2021
Insurance contracts	\$ (28,005)	\$ (39,452)
Portfolio investments	(6,279)	(9,553)
Post-employment benefit plans	(2,981)	6,786
Other, net	(381)	(3,320)
Deferred income tax asset (liability)	\$ (37,646)	\$ (45,539)

Of the above total, \$37,050 is expected to be paid (2021 \$44,663) more than one year after the Consolidated Statements of Financial Position date.

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The net movement on the deferred income tax account is as follows:

For the year ended December 31		2022	2021
Deferred income tax asset (liability) - beginning of year	\$	(45,539) \$	(35,711)
Deferred income tax benefit (expense)			
Statement of operations		16,688	2,342
Other comprehensive income		(8,795)	(12,170)
Deferred income tax asset (liability) - end of year	\$	(37,646) \$	(45,539)

(d) Income taxes included in other comprehensive income

Other comprehensive income (loss) is presented net of income taxes.

The following income tax amounts are included in each component of **total OCI**.

For the year ended December 31	2022			2021		
	Before tax	Tax (provision) recovery	After tax	Before tax	Tax (provision) recovery	After tax
Unrealized fair value change on available for sale investments	\$ (294,992) \$	77,818 \$	(217,174) \$	(77,892) \$	20,664 \$	(57,228)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	34,286	(9,384)	24,902	1,477	(276)	1,201
Remeasurements of post-employment benefit liabilities	33,336	(8,794)	24,542	46,132	(12,171)	33,961
Total other comprehensive income (loss)	\$ (227,370) \$	59,640 \$	(167,730) \$	(30,283) \$	8,217 \$	(22,066)

The following income tax amounts are included in each component of **shareholders' OCI**:

For the year ended December 31	2022			2021		
	Before tax	Tax (provision) recovery	After tax	Before tax	Tax (provision) recovery	After tax
Unrealized fair value change on available for sale investments	\$ (286,369) \$	75,544 \$	(210,825) \$	(77,152) \$	20,468 \$	(56,684)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	33,051	(9,028)	24,023	2,360	(512)	1,848
Remeasurements of post-employment benefit liabilities	31,093	(8,202)	22,891	42,979	(11,339)	31,640
Shareholder portion of policyholder other comprehensive income (loss)	\$ (513) \$	133 \$	(380) \$	(116) \$	31 \$	(85)
Total other comprehensive income (loss)	\$ (222,738) \$	58,447 \$	(164,291) \$	(31,929) \$	8,648 \$	(23,281)

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The following income tax amounts are included in each component of **policyholders' OCI**:

For the year ended December 31	2022			2021		
	Before tax	Tax (provision) recovery	After tax	Before tax	Tax (provision) recovery	After tax
Unrealized fair value change on available for sale investments	\$ (8,623)	\$ 2,274	\$ (6,349)	\$ (740)	\$ 196	\$ (544)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	1,235	(356)	879	(883)	236	(647)
Remeasurements of post-employment benefit liabilities	2,243	(592)	1,651	3,153	(832)	2,321
Shareholder portion of policyholder other comprehensive income (loss)	513	(133)	380	116	(31)	85
Total other comprehensive income (loss)	\$ (4,632)	\$ 1,193	\$ (3,439)	\$ 1,646	\$ (431)	\$ 1,215

20. Earnings Per Share

Earnings per share is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred shares issued (refer to Note 21) do not dilute EPS as the preferred shares are not convertible into common shares.

Details of the calculation of the net income and the weighted average number of shares used in the EPS computations are as follows:

For the year ended December 31	2022	2021
Basic and diluted EPS		
Common shareholders' net income	\$ 204,223	\$ 239,036
Weighted average number of common shares outstanding	985,076	985,076
Basic and diluted EPS	\$ 207.32	\$ 242.66

21. Capital Stock

As at	December 31, 2022			December 31, 2021		
	Shares authorized	Shares issued and outstanding	Amount	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 3	unlimited	4,000,000	\$ 100,000	unlimited	4,000,000	\$ 100,000
Limited recourse capital notes		200,000	\$ 200,000		200,000	\$ 200,000
Common shares	2,000,000	985,076	\$ 985	2,000,000	985,076	\$ 985

In the fourth quarter of 2017, Empire Life issued to E-L Financial Corporation Limited 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 (Series 3 Preferred Shares) at \$25 per share. Holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 4.90% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including January 17, 2023. 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%. Holders of Series 3 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 4 (Series 4 Preferred Shares), subject to certain conditions, on January 17, 2023 and on January 17 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the 3-month Government of Canada Treasury Bill yield plus 3.24%. Subject to regulatory approval, Empire Life may redeem the Series 3 Preferred Shares, in whole or in part, at par, on January 17, 2023 and every five years thereafter.

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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%.

On February 17, 2021, the Company issued \$200 million of Limited Recourse Capital Notes Series 1 (LRCN Series 1) with recourse limited to assets held by a third party trustee in a trust which is consolidated in these financial statements. Payments of interest and principal in cash on the LRCN Series 1 are made at the discretion of the Company and non-payment of interest and principal in cash does not constitute an event of default. In the event of a non-payment of interest, the sole remedy of noteholders shall be the delivery of the holders' proportionate share of the trust assets. In such an event, the delivery of the trust assets will represent the full and complete extinguishment of the Company's obligations under the LRCN Series 1.

The trust assets consist of \$200 million of Empire Life Non-Cumulative 5-year Fixed Rate Reset Preferred Shares, Series 5 which were issued concurrently with the LRCN Series 1 at a rate of \$1,000 per Series 5. Holders of the LRCN Series 1 are entitled to receive semi-annual payments at a rate of 3.625% per annum until April 17, 2026. Thereafter, the yield will reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.082%.

22. Dividends

	Dividend declaration date	Shares issued and outstanding	Dividend rate per share	Total dividend (\$ 000's)	Dividend payment date
Common shareholder dividends					
Common shares	October 27, 2022	985,076	\$ 18.450000	\$ 18,175	December 6, 2022
	July 28, 2022	985,076	\$ 18.450000	\$ 18,175	September 7, 2022
	April 28, 2022	985,076	\$ 18.450000	\$ 18,175	June 7, 2022
	February 23, 2022	985,076	\$ 18.450000	\$ 18,175	March 31, 2022
	October 28, 2021	985,076	\$ 14.210000	\$ 13,998	December 7, 2021
	July 29, 2021	985,076	\$ 14.212101	\$ 14,000	September 8, 2021
	April 29, 2021	985,076	\$ 14.212101	\$ 14,000	June 8, 2021
	February 24, 2021	985,076	\$ 10.635322	\$ 10,477	April 1, 2021
Preferred shareholder dividends					
Series 1	February 24, 2021	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2021
Series 3	October 27, 2022	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2023
	July 28, 2022	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2022
	April 28, 2022	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2022
	February 23, 2022	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2022
	October 28, 2021	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2022
	July 29, 2021	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2021
	April 29, 2021	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2021
	February 24, 2021	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2021

On February 23, 2023, the Board approved the following cash dividends:

- \$18,175 (\$18.45 per share) on the issued and outstanding Common Shares, payable on April 4, 2023.
- \$1,547 (\$0.3866875 per share) on the issued and outstanding Series 3 Preferred Shares, payable on April 17, 2023.

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23. Shareholders' Equity Entitlement

Shareholders' entitlement to \$3,934 (2021 \$4,328) of shareholders' equity is contingent upon future payment of dividends to participating policyholders.

24. Segmented Information

The Company operates in the Canadian life insurance industry and follows a product line management approach for internal reporting and decision making. A description of the product lines is as follows:

The Wealth Management product line includes segregated funds, mutual funds, guaranteed interest rate annuities and annuities providing income for life.

The Group Solutions product line offers group benefit plans to employers for medical, dental, disability, critical illness and life insurance coverage of their employees.

The Individual Insurance product line includes both non-participating and participating individual life and health insurance products.

Capital and Surplus is made up of assets held in the shareholders' and participating policyholders' equity accounts, TruStone and other corporate items not allocated to other segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Operating results are segmented into three product lines along with the Company's capital and surplus as follows:

	For the year ended December 31, 2022				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Revenue					
Gross premiums (Note 15)	\$ 139,794	\$ 615,174	\$ 584,868	\$ —	\$ 1,339,836
Premiums ceded to reinsurers (Note 15)	(216)	(162,882)	(134,184)	—	(297,282)
Net premiums (Note 15)	139,578	452,292	450,684	—	1,042,554
Investment income	33,359	8,129	249,552	67,028	358,068
Fair value change in fair value through profit or loss assets	(102,404)	(23,118)	(1,613,281)	1,426	(1,737,377)
Realized gain (loss) on fair value through profit or loss assets sold	363	—	29,598	(9,234)	20,727
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	(61)	(48)	(10)	(33,795)	(33,914)
Fee income	251,290	15,441	115	16,290	283,136
Total revenue	322,125	452,696	(883,342)	41,715	(66,806)
Benefits and expenses					
Gross benefits and claims paid (Note 17)	150,816	422,839	292,203	—	865,858
Claims recovery from reinsurers (Note 17)	(1,541)	(93,487)	(97,620)	—	(192,648)
Gross change in insurance contract liabilities (Note 17)	(90,797)	16,681	(1,376,595)	—	(1,450,711)
Change in insurance contract liabilities ceded (Note 17)	1,595	(19,354)	(72,359)	—	(90,118)
Change in investment contracts provision	1,088	—	—	—	1,088
Policy dividends	—	—	39,773	—	39,773
Operating expenses	65,145	61,864	63,681	11,374	202,064
Commissions	86,813	86,141	100,321	7,873	281,148
Commission recovery from reinsurers	—	(31,429)	(356)	—	(31,785)
Interest expense	—	—	—	18,898	18,898
Total benefits and expenses	213,119	443,255	(1,050,952)	38,145	(356,433)
Premium tax	—	11,851	10,508	—	22,359
Investment and capital tax	—	—	3,452	—	3,452
Net income (loss) before income taxes	109,006	(2,410)	153,650	3,570	263,816
Income taxes	26,537	(697)	28,081	(520)	53,401
Net income	\$ 82,469	\$ (1,713)	\$ 125,569	\$ 4,090	\$ 210,415

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For the year ended December 31, 2021

	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Revenue					
Gross premiums (Note 15)	\$ 74,746	\$ 547,405	\$ 560,752	\$ —	\$ 1,182,903
Premiums ceded to reinsurers (Note 15)	(143)	(140,075)	(127,142)	—	(267,360)
Net premiums (Note 15)	74,603	407,330	433,610	—	915,543
Investment income	35,519	3,511	226,531	64,132	329,693
Fair value change in fair value through profit or loss assets	(9,725)	(4,030)	(344,918)	(4,742)	(363,415)
Realized gain (loss) on fair value through profit or loss assets sold	777	5	122,588	(17,761)	105,609
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	471	430	423	(2,801)	(1,477)
Fee income	258,532	13,604	536	102	272,774
Total revenue	360,177	420,850	438,770	38,930	1,258,727
Benefits and expenses					
Gross benefits and claims paid (Note 17)	172,058	366,419	250,573	—	789,050
Claims recovery from reinsurers (Note 17)	(757)	(80,840)	(77,335)	—	(158,932)
Gross change in insurance contract liabilities (Note 17)	(243,200)	58,543	130,248	—	(54,409)
Change in insurance contract liabilities ceded (Note 17)	1,531	(33,022)	(99,939)	—	(131,430)
Change in investment contracts provision	471	—	—	—	471
Policy dividends	—	—	36,820	—	36,820
Operating expenses	58,355	54,948	61,818	1,392	176,513
Commissions	84,874	79,639	100,823	—	265,336
Commission recovery from reinsurers	—	(31,170)	(388)	—	(31,558)
Interest expense	—	—	—	21,472	21,472
Total benefits and expenses	73,332	414,517	402,620	22,864	913,333
Premium tax	—	10,520	7,709	—	18,229
Investment and capital tax	—	—	3,822	—	3,822
Net income (loss) before income taxes	286,845	(4,187)	24,619	16,066	323,343
Income taxes	71,897	(1,657)	(7,287)	1,456	64,409
Net income	\$ 214,948	\$ (2,530)	\$ 31,906	\$ 14,610	\$ 258,934

Supplemental information:

	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Interest income					
For the year ended December 31, 2022	\$ 30,105	\$ 10,235	\$ 203,273	\$ 64,867	\$ 308,480
For the year ended December 31, 2021	27,768	7,416	182,072	54,135	271,391
Amortization of property and equipment and intangibles					
For the year ended December 31, 2022	\$ 3,836	\$ 7,531	\$ 10,099	\$ —	\$ 21,466
For the year ended December 31, 2021	2,394	4,700	6,302	—	13,396

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Assets are segmented into three product lines along with the Company's capital and surplus as follows:

	For the year ended December 31, 2022				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 755,544	\$ 218,208	\$ 5,205,123	\$ 2,559,729	\$ 8,738,604
Segregated funds	8,547,562	—	18,113	—	8,565,675
Total assets	\$ 9,303,106	\$ 218,208	\$ 5,223,236	\$ 2,559,729	\$ 17,304,279

	For the year ended December 31, 2021				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 919,978	\$ 216,545	\$ 6,546,573	\$ 2,590,269	\$ 10,273,365
Segregated funds	9,237,282	—	20,016	—	9,257,298
Total assets	\$ 10,157,260	\$ 216,545	\$ 6,566,589	\$ 2,590,269	\$ 19,530,663

While specific general fund assets are nominally matched against specific types of general fund liabilities or held in the shareholders' and policyholders' equity accounts, all general fund assets are available to pay all general fund liabilities, if required. Segregated fund assets are not available to pay liabilities of the general fund.

25. Commitments and Contingencies

Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. There were \$5,543 (December 31, 2021, \$21,742) of outstanding commitments as at December 31, 2022. The outstanding commitments are payable at any time up to and including June 30, 2025.

Other contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

The Company by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against contractual indemnities and liabilities arising from their service to the Company. The broad general nature of these indemnification by-laws does not permit a reasonable estimate of the maximum potential amount of any liability.

In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

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26. Related Party Transactions

The Company is a 98.3% owned subsidiary of E-L Financial Services Limited (ELFS) which in turn is a 100.0% owned subsidiary of E-L Financial Corporation Limited (E-L). E-L owns, directly and indirectly through ELFS, 99.4% of the common shares of Empire Life. The Company's ultimate controlling party is The Honourable Henry N. R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman. In the normal course of business, the Company enters into transactions with E-L and other companies under common control or common influence involving the leasing of office property, investment management services and miscellaneous office services. The amounts earned and expensed were not significant. Some directors and officers have insurance and investment policies underwritten by the Company.

In the fourth quarter of 2017, the Company issued 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 to E-L Financial Corporation Limited at \$25 per share. Refer to Note 21 for further details.

Compensation of key management personnel

Key management personnel are comprised of directors and executive officers of the Company. The remuneration of key management personnel is as follows:

For the year ended December 31	2022	2021
Salaries and other short-term and long-term employee benefits	\$ 7,861	\$ 7,260
Post-employment benefits	508	468
Total	\$ 8,369	\$ 7,728

Post-employment benefits are comprised of employer current service costs for pension and other post-employment benefits.

27. Capital Management

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act* (Canada) as established and monitored by OSFI. OSFI has implemented the Life Insurance Capital Adequacy Test (LICAT) framework to monitor capital adequacy. Under this framework, the Company's capital adequacy is measured as a ratio of Available Capital plus Surplus Allowance and Eligible Deposits divided by a Base Solvency Buffer. The components of the LICAT ratio are determined in accordance with the guidelines defined by OSFI. OSFI has established a Supervisory Target Total Ratio of 100% and a Supervisory Target Core Ratio of 70%. As at December 31, 2022 and December 31, 2021 the Company was in compliance with the applicable regulatory capital ratios.

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28. Risk Management

The Company is exposed to risks arising from its investing activities and its insurance operations and to general reputation risk associated with these activities and its ability to manage specific risks. The following sections describe the principal risks and associated risk management strategies for the risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company: market, liquidity, credit and product.

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, OCI, 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.

(a) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices such as interest rates, trading prices of equities, real estate and other securities, credit spreads, foreign exchange rates and inflation.

Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. Under the Canadian insurance accounting and regulatory regime the Company's results for any period reflect equity market values and interest rates at the end of the period through mark-to-market accounting. Consequently, a decline in public equity market values or changes in interest rates or spreads could result in material changes to net income attributed to shareholders, increases to regulatory capital requirements and reduction in the Company's capital ratios.

The Company buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of the Company. The Company's investment strategy also includes the use of publicly-listed common stocks or exchange-traded funds (ETFs) to support the liabilities under its insurance policies. Cash flows arising from these investments are intended to match the liquidity requirements of the Company's policies, within the limits prescribed by the Company. However, if the Company does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected.

Furthermore, a decrease in the fair value of the Company's common stock portfolio results in reduced shareholders' equity, reduced policyholders' surplus and a reduced LICAT position. Regulatory pressure to increase capital escalates as the LICAT position approaches OSFI's supervisory minimum. Net income would also be reduced if the declines in value are realized through dispositions or recognized in provisions for impairment.

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The Company manages this risk exposure mainly through investment limits and oversight of its investment managers by the Chief Investment Officer, Chief Actuary, the Asset Management Committee, and the Investment Committee of the Board. The Investment Committee actively monitors the investment portfolio and asset mix.

The Company's general fund investments are subject to limits established by the *Insurance Companies Act* and to investment guidelines established by the Investment Committee of the Board. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments by segment. On at least a quarterly basis, management and the Company's investment managers report to the Investment Committee, and through the Investment Committee to the Board, on the performance of general and segregated funds and compliance with the investment guidelines.

The Company has an Asset Management Committee, which meets regularly and reports at least quarterly to the Investment Committee of the Board. The mandate of the Asset Management Committee includes monitoring of the matched position of Empire Life's investments in relation to its liabilities within the various segments of the Company's operations. The matching process is designed so that assets supporting policy liabilities closely match the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Investments and asset/liability management guidelines, which are reviewed regularly with the Investment Committee, have been established to govern these activities. The Asset Management Committee reports regularly to the Investment Committee on the Company's matched positions, asset mixes, and investment allocation decisions relative to the Company's asset segments.

The Company has established a Capital Management Policy, capital management levels that exceed regulatory minimums and Financial Condition Testing (FCT) that takes into account the potential effect of adverse risk scenarios (including adverse market conditions and adverse interest rates) on the Company's capital position and liquidity. Management monitors its LICAT position on a regular basis and reports at least quarterly to the Board on the Company's LICAT.

For the Company, the most significant market risks are equity risk, interest rate risk and foreign exchange rate risk.

(1) Equity risk

The Company's investment portfolio consists primarily of bonds and equity securities and the fair value of its investments varies according to changes in general economic and securities market conditions, including volatility and declines in equity markets. Equity market volatility could occur as a result of general market volatility or as a result of specific social, political or economic events. A decline in securities markets could have an adverse impact on the return on assets backing capital, capital adequacy, and the management fees collected on segregated fund contracts, mutual funds and on index funds within universal life contracts and insurance policy liabilities and capital requirements, particularly in respect of segregated fund guarantees.

The risk of fluctuation of the market value of the Company's segregated funds and mutual funds is generally assumed by the policyholders and unit holders, respectively. Market value variations of such assets will result in variations in the income of the Company to the extent management fees are determined in relation to the value of such funds. A significant and steady decline of the securities markets may result in net losses on such products which could adversely affect the Company. Additionally, the majority of the Company's segregated fund products contain guarantees upon death, maturity or withdrawal, where the guarantee may be triggered by the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on the Company's financial position, LICAT position and results of operations. The Company has reinsured a portion of its segregated fund death benefit guarantee. The Company also has a semi-static, economic hedging program. The objective of the economic hedging program is to partially

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protect the Company from possible future LICAT ratio declines that might result from adverse stock market price changes. The program presently employs put options and futures on key equity indices. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits 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.

The Company has an Equity Risk Hedging Policy to support general fund economic hedging programs. The policy outlines objectives, risk limits and authorities associated with its economic hedging activities. Management monitors its economic hedging activities on a regular basis and reports, at least quarterly, to the Risk and Capital Committee of the Board on the status of the economic hedging program.

The Company uses stochastic models to monitor and manage risk associated with segregated fund guarantees and establishes policyholder liability provisions in accordance with the Standards of Practice of the CIA. Product development and pricing policies also require consideration of portfolio risk and capital requirements in the design, development and pricing of the products. The Chief Actuary reports quarterly to the Risk and Capital Committee of the Board on the nature and value of the Company's segregated fund guarantee liabilities, including capital requirements.

The following table summarizes the estimated potential impact on the Company of a change in global equity markets. The Company uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. The Company has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. The amounts in the following table include the effect of Empire Life's general fund equity risk economic hedging program (described above). For segregated fund guarantees 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 equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased.

	As at December 31, 2022			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 9,099	\$ (12,968)	\$ 19,396	\$ (83,028)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 3,023	\$ (3,023)	\$ 6,046	\$ (6,046)
Policyholders' other comprehensive income	\$ nil	\$ nil	\$ nil	\$ nil

	As at December 31, 2021			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 17,836	\$ (23,535)	\$ 38,214	\$ (80,708)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 4,250	\$ (4,250)	\$ 8,500	\$ (8,500)
Policyholders' other comprehensive income	\$ nil	\$ nil	\$ nil	\$ nil

*Includes the estimated impact on fee income net of trailer commissions after tax for a three month period.

For the life insurance business, the Company's policy is to use equity investments to cover a portion of the estimated insurance liability cash flows of non-participating life and universal life products beyond 20 years following the balance sheet date. The value of the liabilities supported by these equity investments depends on assumptions about the future level of equity markets. The best-estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 8.9%

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(2021 9.2%). The Company uses an assumption of 7.6% (2021 7.2%) to include provisions for moderate changes in equity rates of return determined in accordance with Canadian actuarial standards of practice. The returns are then reduced by margins to determine the net returns used in the valuation. Changes in the current market would result in changes to these assumptions.

The impact of an immediate change in equity markets is described above. If the change in equity markets persisted for one year, then a change to the actuarial future equity market return assumption would be made. For non-participating insurance business, a 1.0% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing Net income by approximately \$87,300 (2021 \$129,800).

The following table identifies the concentration of the Company's common equity holdings in Empire Life's investment portfolios:

As at December 31		2022		2021
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$	574,892	\$	709,451
Percentage of total cash and investments		6.8%		7.0%
Exposure to the largest single issuer of common equities	\$	348,714	\$	454,457
Percentage of total cash and investments		4.2%		4.5%

(2) Interest rate risk

Interest rate risk arises when economic losses are incurred due to the need to reinvest or divest during periods of changing interest rates. Changes in interest rates, as a result of the general market volatility or as a result of specific social, political or economic events, could have an adverse effect on the Company's business and profitability in several ways. Certain of the Company's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, the Company may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited to customers, thereby adversely affecting the Company's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased surrenders. Fluctuations in interest rates may cause losses to the Company due to the need to reinvest or divest during periods of changing interest rates, which may force the Company to sell investment assets at a loss. In addition, an interest rate sensitivity mismatch between assets and the liabilities that they are designated to support could have an adverse effect on the Company's financial position and operating results.

The following tables summarize the estimated immediate financial impact on Net income and OCI as a result of an immediate change in interest rates.

	As at December 31, 2022			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 6,049	\$ (7,528)	\$ 10,158	\$ (15,641)
Policyholders' net income	\$ 199	\$ (218)	\$ 382	\$ (457)
Shareholders' other comprehensive income	\$ (43,588)	\$ 51,364	\$ (79,519)	\$ 110,403
Policyholders' other comprehensive income	\$ (1,885)	\$ 2,101	\$ (3,551)	\$ 4,422

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	As at December 31, 2021			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 6,366	\$ (7,068)	\$ 12,109	\$ (14,929)
Policyholders' net income	\$ 281	\$ (310)	\$ 538	\$ (651)
Shareholders' other comprehensive income	\$ (52,995)	\$ 62,918	\$ (96,042)	\$ 135,784
Policyholders' other comprehensive income	\$ (1,363)	\$ 1,447	\$ (2,647)	\$ 2,974

The computation of policy liabilities takes into account projected investment income net of investment expenses from the assets supporting policy liabilities, and investment income expected to be earned on reinvestments. The assets supporting the policy liabilities are segmented from the assets backing shareholders' and policyholders' equity. For life and health insurance, the projected cash flows from the assets supporting policy liabilities are combined with estimated future reinvestment rates based on both the current economic outlook and the Company's expected future asset mix. In order to provide a margin that recognizes the mismatch of assets and liabilities, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the policy liabilities are then adjusted to provide for credible adverse future scenarios.

In order to match the savings component of policy liabilities that vary with a variety of indices and currencies, the Company maintains certain equity, bond and currency financial instruments as part of its general fund assets. Asset-liability mismatch risk for these liabilities is monitored regularly.

For the life insurance business, where the Insurance contract liabilities have a longer term than most available bonds and mortgages, the Company will need to reinvest net cash flows arising in the future to extend the duration of its assets. Under the Standards of Practice of the CIA, the yields assumed for these future reinvestments are related to current interest rates, the current economic outlook and the Company's expected future asset mix. The reinvestment assumption grades from the initial reinvestment rate (IRR) assumption to the ultimate reinvestment rate (URR) assumption over the rolling 40-year period following the balance sheet date.

The estimated impact of an immediate change in interest rates is described above. If interest rates increase or decrease during the next year, then a change to the IRR assumption would be required to take into account the then-current economic outlook. For non-participating insurance business, a 1.0% decrease in interest rates would cause a decrease in reinvestment assumption for the next 40-years, resulting in an increase to policy liabilities thereby reducing net income by approximately \$43,700 (2021 \$50,800). This assumes no change in the URR assumption.

For investment income expected to be earned on reinvestments beyond the rolling 40-year period, the Company uses an URR assumption. Under the Canadian Asset Liability Method (CALM), the URR assumption is prescribed as a long-term ultimate risk-free reinvestment rate of 2.9% (2021 2.9%) plus a maximum amount for credit spreads minus asset default rates of 0.9% (2021 0.9%). The Company uses a total URR of 3.8% (2021 3.8%). The prescribed level of the URR assumption may be periodically changed by the Actuarial Standards Board.

In order to provide a margin that recognizes the longer-term mismatch, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios (as prescribed under CALM), and the insurance contract liabilities reflect amounts for credible adverse future scenarios.

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For annuity business, where the timing and amount of the benefit obligations can be more readily determined, much closer matching of the asset and liability cash flows is possible, and applied, which helps mitigate the potential impact on the business from a sudden increase or decrease in interest rates. For annuity business, the impact a 1.0% decrease in assumed IRR has on policy liabilities and subsequently on Net income is negligible as a result of the matching process described above.

Interest rate risk in Empire Life's investment portfolio is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Company's investment guidelines establish investment objectives and eligible interest rate sensitive investments, as well as establish diversification criteria, exposure, concentration and asset quality limits for these investments. The Asset Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable levels and within risk tolerances. Product development and pricing policies and practices also require consideration of interest rate risk in the design, development and pricing of the products.

(3) Foreign exchange rate risk

Foreign exchange rate risk arises when the fair value of cash flows of a financial instrument fluctuate due to changes in exchange rates. This can create an adverse effect on earnings and equity when measured in the Company's functional currency.

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. A 10% fluctuation in the US dollar would have an impact of approximately \$ nil (2021 \$ nil) on shareholders' Net income, \$ nil (2021 \$ nil) on policyholder's Net income, \$ nil (2021 \$ nil) on shareholders' OCI and \$ nil (2021 \$ nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

The Company uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage foreign exchange risks. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits 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.

The Company has a Foreign Exchange Risk Management Policy which outlines objectives, risk limits and authority associated with any foreign exchange rate exposure. Oversight and management of this policy falls under the responsibility of the Asset Management Committee, which reports exposures and any breaches to the Risk and Capital Committee of the Board.

(b) Liquidity risk

Liquidity risk is the risk that an entity will not be able to fund all cash outflow commitments or obligations as they fall due or that, in order to fund commitments, an entity may have to sell assets at depressed prices resulting in losses at time of sale. Cash outflows could be in the form of benefit payments to policyholders, expenses, asset purchases and interest on debt. The majority of the Company's obligations relate to its policy liabilities, the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e., cash withdrawal, mortality, and morbidity). The remaining obligations of the Company relate to the subordinated debt (refer to Note 14 - Subordinated Debt) and the Limited Recourse Capital Notes, and to ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

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The Company's liquidity risk management program is monitored by management and by the Board of the Company through regular reporting to the Investment Committee. The Company monitors its cash flow obligations and meets its liquidity needs by holding high quality marketable investments that may be easily sold, if necessary, and by maintaining a portion of investments in cash and short-term investments.

The Company maintains a liquidity policy requiring an assessment of the Company's liquidity risk and specific procedures so that liquidity needs are met. Compliance with the policy is monitored by the Asset Management Committee and exposures and breaches are reported to the Investment Committee of the Board. The Company's current liquidity position as at December 31 is provided in a table in Note 11(e). Based on the Company's historical cash flows and current financial performance, management believes that the cash flows from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

The following table shows details of the expected maturity profile of the Company's undiscounted obligations with respect to its financial liabilities and estimated cash flows of policy liabilities. Subordinated debt that are not due at a single maturity date are included in the tables in the year of final maturity. Actual maturities could differ from contractual maturities because of the borrower's right to call or extend prepay obligations, with or without prepayment penalties. Policy liability cash flows include estimates related to the timing and payment of death and disability claims, policy maturities, annuity payments, policyholder dividends, amounts on deposit, commission and premium taxes offset by contractual future premiums and fees on in-force business. Recoverables from reinsurance agreements are also reflected. Segregated fund liabilities are excluded from this analysis. These estimated cash flows are based on the best estimate assumptions, with margins for adverse deviations, used in the determination of policy liabilities. The actuarial and other policy liability amounts included in the Company's 2022 Consolidated Financial Statements are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

As at December 31, 2022					
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	\$ 76,242	\$ 271,902	\$ 776,718	\$ 26,503,823	\$ 27,628,685
Investment contract liabilities	3,554	13,637	10,092	7,011	34,294
Subordinated debt	14,726	69,672	439,308	—	523,706
Preferred shares	5,865	24,748	101,547	—	132,160
Limited recourse capital notes	7,250	39,024	248,668	—	294,942
Accounts payable and Other liabilities	330,508	30,117	—	—	360,625
Total	\$ 438,145	\$ 449,100	\$ 1,576,333	\$ 26,510,834	\$ 28,974,412

As at December 31, 2021					
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	\$ 69,210	\$ 175,021	\$ 706,802	\$ 25,147,726	\$ 26,098,759
Investment contract liabilities	3,365	13,457	10,686	7,840	35,348
Subordinated debt	11,548	228,852	206,760	—	447,160
Preferred shares	4,900	101,225	—	—	106,125
Limited recourse capital notes	7,250	33,296	261,646	—	302,192
Accounts payable and Other liabilities	266,240	40,104	24,339	—	330,683
Total	\$ 362,513	\$ 591,955	\$ 1,210,233	\$ 25,155,566	\$ 27,320,267

The Asset Management Committee, which meets regularly, monitors the matched position of the Company's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match, to the extent possible, the timing and amount of policy obligations, and to plan for the appropriate amount of

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liquidity in order to meet its financial obligations as they fall due. The Company maintains a portion of its investments in cash, cash equivalents and short-term investments to meet its short-term funding requirements. As at December 31, 2022, 2.2% (2021 2.0%) of cash and investments were held in these shorter duration investments.

(c) Credit risk

Credit risk is the possibility of loss from amounts either owed by financial counterparties, such as debtors, reinsurers and other financial institutions, or in connection with issuers of securities held in an asset portfolio. The Company is subject to credit risk which arises from debtors or counterparties who are unable to meet their obligations under debt or derivative instruments. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, cash and cash equivalents, mortgages and from reinsurers under reinsurance agreements.

The Company manages this risk by applying its investment guidelines and reinsurance risk management policy established by the Investment Committee and Risk and Capital Committee of the Board respectively. 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 and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of the Company's Board on the credit risk to which the portfolio is exposed. The Reinsurance Risk Management Policy (along with supporting material in the Product Design and Pricing Risk Management Policy) establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. The Company enters into long-term reinsurance agreements only with reinsurance companies that have a credit rating of "A-" or better.

Credit risk analysis includes the consideration of credit spreads. From an investment perspective, when buying credit the Company is guided by two principles; first that there is a high likelihood of return of principal and second that there is an acceptable return on investment. The Company looks to obtain a risk/reward balance that aligns with its objectives and risk philosophy. When determining Insurance contract liabilities, credit spreads and changes in credit spreads are reflected in the interest rate assumption.

The Company has the following assets that are exposed to credit risk:

As at December 31	2022	2021
Cash and cash equivalents	\$ 175,523	\$ 193,217
Short-term investments	9,031	8,647
Bonds	6,744,757	8,149,460
Preferred shares	402,165	441,339
Derivative assets	9,776	6,302
Mortgages	119,556	153,564
Reinsurance	192,058	175,933
Loans on policies	59,979	56,917
Policy contract loans	46,865	52,808
Accrued investment income	50,291	42,379
Insurance receivables	81,083	48,700
Trade accounts receivable	8,506	6,696
Total	\$ 7,899,590	\$ 9,335,962

Mortgages, Loans on policies and Policy contract loans are fully or partially secured.

The Company has made provision in its Consolidated Statements of Financial Position for credit losses. Provisions have been made partly through reduction in the value of the assets (see Note 3(b)) and partly through a provision in policy liabilities (see Note 11(c)).

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Concentration of credit risk

(1) Bonds and debentures

The concentration of the Company's bond portfolio by investment grade is as follows:

As at December 31	2022		2021	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 351,680	5 %	\$ 484,746	6 %
AA	1,537,528	23 %	2,059,678	25 %
A	3,078,452	45 %	3,879,522	47 %
BBB	1,731,033	26 %	1,681,358	21 %
BB (and lower ratings)	46,064	1 %	44,156	1 %
Total	\$ 6,744,757	100 %	\$ 8,149,460	100%

Credit ratings are normally obtained from Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). In the event of a split rating, the lower rating is used. Issues not rated by a recognized rating agency are rated internally by the Investment Department. The internal rating assessment is documented referencing suitable comparable investments rated by recognized rating agencies and/or methodologies used by recognized rating agencies.

Provincial bonds represent the largest concentration in the bond portfolio, as follows:

As at December 31	2022	2021
Provincial bond holdings	\$ 2,730,730	\$ 3,739,035
Percentage of total bond holdings	40.5%	45.9%

The following table profiles the bond portfolio by contractual maturity, using the earliest contractual maturity date:

As at December 31	2022		2021	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 393,179	6%	\$ 150,713	2%
1 - 5 years	816,633	12%	991,282	12%
5 - 10 years	504,238	7%	757,588	9%
Over 10 years	5,030,707	75%	6,249,877	77%
Total	\$ 6,744,757	100 %	\$ 8,149,460	100%

The following table discloses the Company's holdings of fixed income securities in the 10 issuers (excluding the federal government) to which the Company had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds.

As at December 31	2022	2021
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 3,384,587	\$ 4,416,034
Percentage of total cash and investments	40.3%	43.8%
Exposure to the largest single issuer of corporate bonds	\$ 167,572	\$ 269,638
Percentage of total cash and investments	2.0%	2.7%

*Fixed income securities include bonds, debentures, preferred shares and short-term investments.

(2) Preferred shares

The Company's preferred share investments are all issued by Canadian companies, with 1% (2021 1%) rated as P1, 99% rated as P2 (2021 96%) and 0% (2021 3%) rated as P3.

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(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$119,556 or 100% (2021 \$153,564 or 100%) of the total mortgage portfolio.

(d) Product risk

The Company provides a broad range of life insurance, health insurance and wealth management products, employee benefit plans, and financial services that are concentrated by product line as follows:

(millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital & Surplus		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
For the year ended December 31										
Net premium income	\$ 139.6	\$ 74.6	\$ 452.3	\$ 407.3	\$ 450.7	\$ 433.6	\$ —	\$ —	\$ 1,042.6	\$ 915.5
Fee and other income	251.3	258.5	15.4	13.6	0.1	0.5	16.3	0.1	283.1	272.7
Total	\$ 390.9	\$ 333.1	\$ 467.7	\$ 420.9	\$ 450.8	\$ 434.1	\$ 16.3	\$ 0.1	\$ 1,325.7	\$ 1,188.2

Product risk is the risk that actual experience related to claims, benefit payments, expenses, cost of embedded product options and cost of guarantees associated with product risks, does not emerge as expected. The Company is exposed to various categories of product risk as a result of the business it writes, including: mortality, policyholder behaviour (termination or lapse), expenses, morbidity, longevity, product design and pricing, underwriting and claims and reinsurance.

Economic and environmental events, such as natural disasters, human-made disasters as well as pandemics, could occur in regions where Empire Life has significant insurance coverage, impacting financial results. The Company regularly evaluates its exposure to foreseeable risks through stress testing techniques including FCT analysis.

The principal risk the Company faces under insurance contracts is the risk that experience on claims, policy lapses and operating expenses will not emerge as expected. To the extent that emerging experience is more favourable than assumed in the valuation, income will emerge. If emerging experience is less favourable, losses will result. Therefore, the objective of the Company is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

The computation of insurance liabilities and related reinsurance recoverable requires “best estimate” assumptions covering the remaining life of the policies. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market trends and other published information. These assumptions are made for mortality, morbidity, longevity, lapse, expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviations from best estimates is calculated separately for each variable and included in policy liabilities. These margins are intended to allow for possible deterioration in experience and to provide greater confidence that policy liabilities are adequate to pay future benefits. The effect of these margins is to increase policy liabilities over the best estimate assumptions.

The margins for adverse deviation used by the Company are within the target range established by the CIA. A correspondingly larger margin is included in the insurance contract liabilities if an assumption is susceptible to change or if there is more uncertainty about the best estimate assumption. Each margin is reviewed annually for continued appropriateness.

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Policy liability assumptions are reviewed and updated at least annually by the Company's Appointed Actuary. The impact of changes in those assumptions is reflected in earnings in the year of the change. Details related to the changes in assumptions are also discussed with the Audit Committee of the Board. The methods for arriving at the most material of these assumptions are outlined below. Also included are measures of the Company's estimated net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities, based on a starting point and business mix as of December 31, 2022. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

(1) Mortality

The Company carries out an annual mortality study. The valuation mortality assumptions are based on a combination of Company experience and recent CIA industry experience. An increase in the rate of mortality will lead to a larger number of claims (and claims could occur sooner than anticipated), which for life insurance, will increase expenditures and reduce profits for the shareholders.

For non-participating insurance business, a 2.0% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately \$16,000 (2021 \$18,600).

For annuity business, lower mortality (or longevity) is financially adverse so a 2.0% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately \$2,800 (2021 \$3,200).

(2) Policyholder behaviour (termination or lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of the Company's own internal termination studies and recent CIA industry experience. Separate policy termination assumptions are used for permanent cash-value business, for renewable term insurance, term insurance to age 100 and for universal life insurance. In setting policy termination rates for renewable term insurance, it is assumed that extra lapses will occur at each renewal point and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

Acquisition costs may not be recovered fully if lapses in the early policy years exceed the expected lapse assumptions. An increase in policy termination rates early in the life of the policy would tend to reduce profits for shareholders. An increase in policy termination rates later in the life of the policy would tend to increase profits for shareholders if the product is lapse supported (such as term insurance to age 100), but decrease shareholder profits for other types of policies.

For non-participating insurance and annuity business, a 10.0% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing Net income by approximately \$140,000 (2021 \$173,500). For products where fewer terminations would be financially adverse to the Company, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to the Company, the change is applied as an increase to the lapse assumption.

(3) Expenses

Policy liabilities provide for the future expense of administering policies in force, renewal commissions, general expenses and taxes. Expenses associated with policy acquisition and issue are specifically excluded. The future expense assumption is derived from internal cost studies and includes an assumption for inflation.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

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For non-participating insurance business and annuity business combined, a 5% increase in the maintenance expense assumption would result in an increase to policy liabilities thereby reducing net income by approximately \$6,800 (2021 \$6,800).

(4) Morbidity

The Company carries out annual internal studies of its own morbidity experience where morbidity refers to both the rates of accident or sickness and the rates of recovery from the accident or sickness. The valuation assumptions are based on a combination of internal experience and recent CIA industry experience.

For individual and group critical illness business, the incidence rates (or rates of accident or sickness) are the key assumption related to morbidity. An increase in incidence rates would result in an increase in the number of claims which increases expenditures and reduces shareholders' profits. For group long-term disability business the termination rates (or rates of recovery) are the key assumption related to morbidity. A decrease in termination rates would result in disability claims persisting longer which increases expenditures.

For non-participating insurance business where morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing Net income by approximately \$8,300 (2021 \$9,100).

(5) Product design and pricing risk

The Company is subject to the risk of financial loss resulting from transacting insurance business where the costs and liabilities assumed in respect of a product exceed the expectations reflected in the pricing of the product. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through dividends and experience rating refunds or through the fact that the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk and thus must carry out a full valuation of the commitments in this regard. Empire Life may transfer some of this risk through a reinsurance arrangement.

The Company manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described as follows. The Company has established policy liabilities in accordance with standards set forth by the CIA. Experience studies (both Company-specific and industry level) are factored into ongoing valuation, renewal and new business processes so that policy liabilities, as well as product design and pricing, take into account emerging experience. The Company has established an active capital management process that includes a Capital Management Policy and capital management levels that exceed regulatory minimums. As prescribed by regulatory authorities, the Appointed Actuary conducts FCT and reports annually to the Audit Committee on the Company's financial condition, outlining the impact on capital levels should future experience be adverse. The Company has a Product Design and Pricing Risk Management Policy governing all of its major product lines. This policy, which is established by the Product Management Review Committee ("PMRC") and approved by the Risk and Capital Committee of the Board, defines the Company's product design and pricing risk management philosophy. The policy sets out principles for prudent product design and pricing, approval authorities, product concentration limits, and required product development monitoring processes and controls.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

(6) Underwriting and claims risk

The Company is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Many of the Company's individual insurance and group disability products provide benefits over the policyholder's lifetime. Actual claims experience may differ from the mortality and morbidity assumptions used to calculate the related premiums. Catastrophic events such as earthquakes, acts of terrorism or an influenza pandemic in Canada could result in adverse claims experience.

In addition to the risk management controls described above under Product Design and Pricing Risk, the Company also manages underwriting and claims risk through its Underwriting and Liability Risk Management Policy which governs each of its major product lines. This policy is established by the PMRC and approved by the Risk and Capital Committee of the Board. It defines the Company's underwriting and claims management philosophy and sets out principles for prudent underwriting and claims management including, underwriting classification, claims requirements, approval authorities and limits, and ongoing risk monitoring. The Company uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. The PMRC reviews and establishes retention limits for its various product lines and the Risk and Capital Committee of the Board recommends changes to these retention limits for approval by the Board.

(7) Reinsurance risk

The Company is subject to the risk of financial loss due to inadequate reinsurance coverage or a default of a reinsurer. Amounts reinsured per life vary according to the type of protection and the product. The Company also maintains a catastrophe reinsurance program, which provides protection in the event that multiple insured lives perish in a common accident or catastrophic event. Although the Company relies on reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience, reinsurance does not release it from its primary commitments to its policyholders and it is exposed to the credit risk associated with the amounts ceded to reinsurers. The availability and cost of reinsurance are subject to prevailing reinsurance market conditions, both in terms of price and availability, which can also affect earnings.

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. The PMRC reports annually to the Risk and Capital Committee of the Board on reinsurance activities. Most of Empire Life's reinsurance is on an excess basis, meaning Empire Life retains 100% of the risk up to its retention level. Effective April 1, 2020, Empire Life updated its single life retention limit for new business to \$1,500 in face amount (previously \$500). For some insurance risk categories and/or products, retention levels below this maximum are applied. Reinsurance is used to limit losses, minimize exposure to significant risks and to provide capacity for growth. As a result of the retention limit increase, recapture provisions of all eligible reinsurance treaties were exercised commencing April 1, 2020. These activities result in an increase in product risk for Empire Life, which it deems acceptable.

The Company does not have any assumed reinsurance business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

(e) Significant Developments

The Russian war with Ukraine and the resulting sanctions have negatively impacted global economic growth forecasts. Further, the novel coronavirus (or COVID-19) continues to impact international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts. These factors have led to higher levels of inflation and have created increased uncertainty and volatility, which impact the Company's investment portfolios.

Management is monitoring the developments in equity markets generally, and their effects on the Company's investment portfolios in particular. The duration and impacts of these events cannot currently be determined. Unexpected developments in financial markets and regulatory environments, may also have adverse impacts on the Company's financial results.

The Company has considered these events and their effects when applying the measurement techniques for critical accounting estimates and judgments provided in Note 2(c). The potential effect on the Company's financial results due to fluctuations in equity markets and interest rates are provided in Note 28(a).

29. Business Acquisition

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

Total consideration for the 100% acquisition of TruStone Financial was paid with \$57,910 in cash. The purchase price is primarily comprised of goodwill and intangible assets, including customer relationships, distributor relationships, and non-competition agreement.

The fair values of the identifiable assets acquired and liabilities assumed were:

As at	March 10, 2022
Intangible assets	\$ 32,500
Other net assets	945
Total identifiable net assets at fair value	33,445
Goodwill arising on acquisition (Note 8)	24,465
Total consideration	\$ 57,910

The fair values of the identifiable assets and liabilities are subject to refinement and may be adjusted to incorporate new information about the facts and circumstances that existed on acquisition during the measurement period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars except for per share amounts, shares authorized and outstanding and where otherwise stated)

30. Subsequent Events

(a) 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.

(b) 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.

GLOSSARY OF TERMS (unaudited)

Accumulated Other Comprehensive Income (AOCI)

A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, unrealized foreign currency translation gains and losses and remeasurement of post-employment benefit liabilities. These items have been recognized in comprehensive income, but excluded from net income.

Active Market

An active market is a market in which the items traded are homogeneous, willing buyers and sellers can normally be found at any time and prices are available to the public.

Available For Sale (AFS) Finance Assets

Non-derivative financial assets that are designated as AFS or that are not classified as loans and receivables, held to maturity investments, or held for trading. Most financial assets supporting capital and surplus are classified as AFS.

Canadian Asset Liability Method (CALM)

The prescribed method for valuation of policy liabilities in Canada. CALM is a prospective basis of valuation which uses the full gross premium for the policy, the estimated expenses and obligations under the policy, current expected experience assumptions plus a margin for adverse deviations, and scenario testing to assess interest rate risk and market risks.

Canadian Institute of Actuaries (CIA)

As the national organization of the Canadian actuarial profession, the CIA means to serve the public through the provision by the profession of actuarial services and advice of the highest quality. The CIA ensures that the actuarial services provided by its members meet accepted professional standards; and assists actuaries in Canada in the discharge of their professional responsibilities.

Canadian Life and Health Insurance Association (CLHIA)

The Canadian Life and Health Insurance Association (CLHIA) is an organization representing life insurance and health insurance providers in Canada. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

Chartered Professional Accountants of Canada (CPA Canada)

Canada's not-for-profit association for Chartered Professional Accountants (CPA) provides information and guidance to its members, students and capital markets. Working in collaboration with its provincial member organizations, CPA Canada supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and develops and delivers education programs.

Earnings on Surplus

This source of earnings represents the pre-tax earnings on the shareholders' capital and surplus funds.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Expected Profit from In-Force Business

This source of earnings represents the profit Empire Life expects to generate on in-force business if experience is in line with the Empire Life's best estimate assumptions for mortality, morbidity, persistency, investment returns, expenses and taxes.

Experience Gains and Losses

This source of earnings represents gains or losses due to the difference between actual experience and the best estimate assumptions.

GLOSSARY OF TERMS (unaudited)

Fair Value Through Profit or Loss (FVTPL)

Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option. Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as FVTPL.

Impact on New Business

Writing new business typically adds economic value to a life insurance company. At the point of sale, new business may have a positive or negative impact on earnings. A negative impact (new business strain) will result when the provision for adverse deviation included in the actuarial liabilities at the point of sale exceeds the expected profit margin in the product pricing. The impact of new business also includes any excess acquisition expenses not covered by product pricing at the point of issue.

International Financial Reporting Standards (IFRS)

Refers to the international accounting standards that were adopted in Canada, effective January 1, 2011; these are now Canadian Generally Accepted Accounting Principles (CGAAP) for publicly accountable enterprises.

Life Insurance Capital Adequacy Test (LICAT)

The LICAT measures the capital adequacy of an insurer and is one of several indicators used by OSFI to assess an insurer's financial condition. The LICAT Ratio is the ratio of eligible capital to the base solvency buffer, each as calculated under OSFI's published guidelines.

Management Actions and Changes in Assumptions

This source of earnings component includes earnings generated by management actions during the year (e.g., acquisition or sale of a block of business, changes to product price, fees or asset mix, etc.) or the impact of changes in assumptions or methodology used for the calculation of actuarial liabilities for in-force business.

Other Comprehensive Income (OCI)

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as Other Comprehensive Income ("OCI") or Other Comprehensive Loss ("OCL"). When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. Remeasurements of post-employment benefit liabilities are also recorded as OCI or OCL. These remeasurements will not be reclassified to net income and will remain in AOCI.

Office of the Superintendent of Financial Institutions Canada (OSFI)

The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Participating Policies

The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account.

Return on Common Shareholders' Equity (ROE)

A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

PARTICIPATING ACCOUNT MANAGEMENT POLICY

Purpose

The Participating Account Management Policy sets out the management objectives for oversight of the participating account of The Empire Life Insurance Company (“Empire Life” or the “Company”).

Scope

This policy applies to all policies issued in the participating account of Empire Life that entitle its policyholders to participate in the profits of the participating account. Most policies are credited with dividends annually, while a few older plans receive the dividends every five years as per contractual provisions.

Policy

Description of the Participating Account and its Policies

Empire Life maintains an account in respect of participating policies (“participating account”), separate from those maintained in respect of other policies, in the form and manner determined by the Office of the Superintendent of Financial Institutions under section 456 of the Insurance Companies Act. The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account.

Empire Life does not maintain sub-accounts within the participating account for life, disability and annuity plans, other funds, or blocks of business acquired from other companies. Empire Life does not have any closed blocks of participating business established as part of the demutualization of a mutual company into a shareholder company.

Investment Policy

The general fund investments in the participating account are subject to limits established by the Insurance Companies Act and to investment guidelines established by the Investment Committee of Empire Life’s Board of Directors (the “Board”). The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable and measurable low levels.

Within the participating account, Empire Life has established two asset segments to nominally match the investments to the specific type of liabilities or surplus as follows: Protection Par, and Policyholders’ Surplus. Each asset segment is assigned specific assets in an amount approximately equal to its total liabilities or surplus.

The Investment Committee receives monthly reporting on general fund asset mix and performance and investment transactions for all funds by asset segment. In addition, on at least a quarterly basis, management and the Company’s investment managers report to the Investment Committee, and through the Investment Committee to the Board of Directors, on portfolio content, asset mix, the Company’s matched position, the performance of general and segregated funds, and compliance with the investment guidelines. The investment guidelines are reviewed at least annually by the Board.

Investment Income Allocation

Investment income is recorded directly to each asset segment. A portion of investment income is allocated to or from the Shareholders’ Capital and Surplus segment from or to the participating account’s asset segments in proportion to the deficiency or excess of funds over assets of each segment.

Expense Allocation

General expenses are allocated to the participating account using cost centre methods. Expenses associated directly with the participating account are so charged. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost centers are charged to the participating account in proportion to expenses directly charged.

Investment expenses are allocated monthly to the participating account in proportion to the Company’s total funds at the beginning of each month.

PARTICIPATING ACCOUNT MANAGEMENT POLICY

Premium taxes are allocated in proportion to taxable premiums. Other taxes, licenses, and fees are allocated to lines of business using cost centre methods.

Income Tax Allocation

Income taxes are allocated to the participating account in proportion to total taxable income for the Company. Deferred tax assets and liabilities are treated consistently between participating and non-participating accounts.

Surplus Management

The level of surplus in the participating account will be managed by Company management taking into consideration the continuing solvency of the participating account, the participating account's ability to fulfill all of its contractual obligations and the extent to which existing participating business is financing new participating business.

Transfers to Shareholder Accounts

It is Empire Life's intention to transfer the full permitted percentage of distributable participating profits to the shareholder accounts as allowed by section 461 of the Insurance Companies Act.

Appointed Actuary

Annually, the Board will consider the Appointed Actuary's opinion on the continuing fairness of this policy to participating policyholders.

Process to Approve (and Frequency)

This policy is reviewed annually by the Vice President & Product Actuary. All non-material amendments must be approved by the Product Management Review Committee. Material amendments must be approved by the Product Management Review Committee and the Board. The principal factors that would be expected to change the policy include changes in legislation, regulation of participating account, accepted actuarial practice, capital requirements, taxation and accounting rules or fundamental changes to the circumstances of the Company.

This policy will also be reviewed if the Company decides to stop accepting new business in the participating account.

PARTICIPATING POLICYHOLDER DIVIDENDS POLICY

Purpose

The Participating Policyholder Dividends Policy (the “dividend policy”) sets out the process for determining, recommending and declaring dividends for policies issued in the participating account of The Empire Life Insurance Company (“Empire Life” or the “Company”).

Scope

This dividend policy applies to each policy issued in the participating account of Empire Life that entitles its policyholder to participate in the profits of the participating account. Most policies are credited with dividends annually, while a few older plans receive the dividends every five years as per contractual provisions.

Policy

Dividends are Declared at the Discretion of the Board

The aggregate amount of dividend and allocation of the dividend to the different classes of participating policies is declared annually at the discretion of the Board of Directors (the “Board”) of Empire Life under section 464(1) of the Insurance Companies Act. Before declaring the aggregate amount of dividend, the Board will consider Company management’s recommendations for policyholder dividends and the Appointed Actuary’s opinion on the conformity of these recommendations to this policy, their fairness to participating policyholders, and that the recommendations were prepared in compliance with the Standards of Practice of the Canadian Institute of Actuaries. Company management’s recommendations and the Appointed Actuary’s opinions shall be prepared in compliance with applicable legislative and regulatory requirements, and generally accepted actuarial practice with such changes as determined by the Office of the Superintendent of Financial Institutions. Generally, the actual distribution of dividends will be aligned with these recommendations, but if the actual distribution of dividends differs materially from these recommendations, this should be disclosed and explained. Furthermore, if the Appointed Actuary were to make a recommendation for policyholder dividends, and the actual distribution of dividends differs materially from that recommendation, then this would be disclosed and explained.

Principal Factors that Affect the Aggregate Amount of Dividends

The aggregate amount of dividends will reflect operating income on all participating life, annuity and disability coverages, dividends on deposit, participating paid-up additions and participating term additions, as well as income attributable to surplus in the participating account. The aggregate amount of dividends will also be influenced by considerations such as, solvency of the participating account, its ability to fulfill all contractual obligations, the extent to which surplus in participating account is financing new business, changes in legislation, regulation of the participating account, taxation, accounting rules or fundamental changes in the circumstances of the Company.

Principal Sources of Income

The principal sources of income considered for determining the aggregate amount of dividends are investment income, asset defaults, mortality, lapses, expenses and taxes. The actual experience of the participating account will be reviewed annually by Company management. The sources of income may be adjusted to smooth fluctuations in experience and provide for transitions during periods of major change over a period not to exceed five years.

The Company uses a temporary contribution to policyholder surplus philosophy, so that contributions to policyholder surplus from participating account income are expected to be returned to policyholders over the lifetime of the policy.

Since actual experience cannot be known in advance, the aggregate amount of dividends and allocation of the dividends cannot be guaranteed. As a result, dividends will increase or decrease depending on actual experience.

PARTICIPATING POLICYHOLDER DIVIDENDS POLICY

Dividend Allocation

Policyholders participate in this distribution through the setting of dividend scales, which allocate the aggregate amount of dividends among different dividend classes. The Company establishes dividend classes for participating policyholders based on the original pricing assumptions used when setting the guaranteed values provided by the policies.

The Company uses a combination of factor-based and pricing methods when setting the dividend scale to allocate the aggregate amount of dividends among different dividend classes. The basic concept of this method is to allocate the aggregate amounts of dividends among dividend classes in the same proportion as the policies are considered to have contributed to the aggregate amount of dividends over the long term. The fundamental objective in the allocation of dividends is the maintenance of reasonable equity between dividend classes and between generations of policyholders, taking into account practical considerations and limits.

Company management will review the underlying experience, assumptions and procedures for participating dividend scales annually. Material changes in actual experience will be passed through to participating policyholders within two years of the experience change to the extent that they are not anticipated in the current dividend scale, any additional reserves or other similar experience leveling mechanisms. Company management will prepare a written report which describes the underlying experience, assumptions and procedures for the proposed dividend scale recommendations.

The dividend scales may also be adjusted to reflect specific policyholder behaviour, such as experience for lapses or for policy loans taken at guaranteed rates.

For certain blocks of policies, the policyholder dividend scale may be determined using methods which are designed to approximate the contribution to income of those blocks.

Termination dividends are not payable under any participating policies issued by Empire Life.

Appointed Actuary

Annually and each time a policy amendment is recommended, the Board will consider the Appointed Actuary's opinion on the continuing fairness of this policy to participating policyholders.

Process to Approve (and Frequency)

This policy is reviewed annually by the Vice President & Product Actuary. All amendments must be approved by the Product Management Review Committee and the Board. The principal factors that would be expected to change the policy include changes in legislation, regulation of participating account, accepted actuarial practice, capital requirements, taxation and accounting rules or fundamental changes to the circumstances of the Company.

This policy will also be reviewed if the Company decides to stop accepting new business in the participating account.

PARTICIPATING ACCOUNT FINANCIAL DISCLOSURE

	2022	2021
Participating Surplus		
Surplus and Accumulated OCI, start of year	\$ 58,212	\$ 44,148
Net Income and OCI (before dividends)	40,308	54,271
Amounts transferred to shareholders per S.461 of the ICA	—	—
Amounts transferred to shareholders per S.462(a) of the ICA, if included in net income	(2,682)	(3,387)
Net Income and OCI	37,626	50,884
Policyholder dividends (excl ERRs)	(39,773)	(36,820)
Surplus and Accumulated OCI, end of year	\$ 56,065	\$ 58,212
Total Participating Assets	\$ 861,438	\$ 958,325
Section 462 transfer as a % of Distributable Profits	6.79 %	6.97 %

CORPORATE GOVERNANCE OVER RISK MANAGEMENT

The Empire Life Insurance Company (the “Company”) is a stock company that has both shareholders and participating policyholders. The Company also has two wholly owned subsidiaries: a mutual fund subsidiary, Empire Life Investments Inc. (“ELII”) and an independent Managing General Agent, TruStone Financial Inc. (“TruStone Financial”).

Pursuant to the *Insurance Companies Act* (Canada) (the “Act”) each holder of one or more participating policies is entitled to one vote in the election of policyholders’ directors, and each shareholder is entitled to one vote per share held in the election of shareholders’ directors. At least one-third of directors are elected as policyholder directors and the balance are elected as shareholder directors. The Company is governed by the Act, which contains provisions concerning corporate governance. The Company’s governance system is supported by internal audit, internal risk management, corporate compliance, external audit by an independent chartered professional accountants firm, and examination by the Office of the Superintendent of Financial Institutions Canada (“OSFI”).

Management is responsible for identifying risks and determining their impact upon the Company. Management is also responsible for establishing appropriate policies, procedures, and controls to mitigate risks. The Company has senior management level risk committees, which report to the Board of Directors and/or its Committees and an internal risk management department, led by the Chief Risk Officer, which supports enterprise risk management activities across the Company. An internal audit function is responsible for assessing the adequacy and adherence to the systems of internal control. The results of internal audit’s reviews are reported to management and to the Audit Committee of the Board of Directors regularly throughout the year.

Management is supervised in the completion of these responsibilities by the Board of Directors and its Committees. Senior management of the Company reports regularly to the Board on its risk management policies and procedures.

The Board of Directors has plenary power. The Board’s responsibility is to oversee the conduct of the business and affairs of the Company including oversight and monitoring of the Company’s risk management. The Board discharges these responsibilities directly and through delegation to Board Committees and management. The Board met seven times in 2022 and is scheduled to meet at least six times in 2023.

The risk management functions overseen by the Board include those relating to market risk (including interest rate risk, equity risk, real estate risk and foreign exchange rate risk), liquidity risk, credit risk, product risk (including mortality risk, policyholder behavior (termination or lapse) risk, expense risk, morbidity risk as well as 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) and business and strategic risk. Please see the section titled “Risk Factors” in the Company’s Annual Information Form available at www.sedar.com for more details on these risks. Primary responsibility for oversight of some of these risks is delegated to six standing Committees of the Board, whose roles and responsibilities are specifically defined. Those not delegated to a standing Committee remain with the Board. The following is a brief summary of some of the key responsibilities of the six Committees.

The Audit Committee has statutory responsibility under the Act to oversee, on behalf of the Board, the Company’s financial reporting, accounting and financial reporting systems and internal controls. The Committee also oversees work related to stress testing.

The Investment Committee assists the Board in monitoring the Company’s investment and lending policies, standards and procedures and in monitoring the Company’s investment activities and portfolios. Some of the activities of the Investment Committee are prescribed by the Company’s Investment Guidelines, which reflect the requirements of the Act. The Committee also monitors the Company’s asset/liability management activities.

The Human Resources Committee is responsible for reviewing and monitoring the Company’s human resources practices, including employee and executive compensation, succession planning, diversity and inclusion programs, workforce and pension and benefit plans.

The Conduct Review Committee is responsible for oversight of procedures established to identify material related party transactions pursuant to the Act. The Committee also monitors certain corporate policies, including procedures with respect to the Company’s Code of Business Conduct, conflicts of interest, the Company’s personal trading policy, confidentiality of information, consumer complaints, privacy, regulatory compliance and outsourcing.

The Risk and Capital Committee is responsible for oversight of the Company’s risk and capital management activities.

CORPORATE GOVERNANCE OVER RISK MANAGEMENT

The Committee assists the Board in its oversight role with respect to the management of the Company's enterprise risk management framework, operational risk management framework and risk appetite framework; the identification, review and assessment of the Company's primary risks; the review and assessment of the Company's risk management strategies; and the deployment and use of capital. The Committee also oversees activities related to product development and business continuity.

The IT Oversight Committee assists the Board with oversight of technology and information security related risks, as well as management efforts to mitigate those risks. As part of its responsibilities, the IT Oversight Committee assesses the effectiveness of the Company's IT strategy in supporting the Company's business objectives and strategic direction, including reviewing strategic information technology-related project, initiatives and technology architecture.

CORPORATE INFORMATION

Corporate Head Office

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1 877 548-1881
info@empire.ca
www.empire.ca

The Empire Life Insurance Company is a member of Assuris. Assuris is the not-for-profit organization that protects Canadian policyholders if their life insurance company fails.

Details about Assuris' protection are available at www.assuris.ca or by calling the Assuris Information Centre at 1 866 878-1225.

RETAIL SALES OFFICES

WESTERN CANADA

Vancouver Retail Sales Office

707-1177 West Hastings Street
Vancouver, British Columbia, V6E 2K3
604 232-5557
1 888 627-3591

Calgary Retail Sales Office

310-1167 Kensington
Calgary, Alberta T2N 1X7
403 269-1000
1 800 656-2878

ONTARIO

Burlington Retail Sales Office

108-1100 Burloak Drive
Burlington, Ontario L7L 6B2
905 335-6558
1 888 548-4729

Toronto Retail Sales Office

200 -36 York Mills Road
Toronto, Ontario M2P 2E9
416 494-0900
1 888 548-4729

QUEBEC

Montréal Retail Sales Office

1600-600 de Maisonneuve Boulevard W.
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514 842-9151
1 800 371-9151

Québec Retail Sales Office

100-1220 Lebourgneuf Boulevard
Québec, Quebec G2K 2G4
418 628-1220
1 888 816-1220

GROUP SALES OFFICES

WESTERN CANADA

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Calgary Group Sales Office

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ONTARIO

Burlington Group Sales Office

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Burlington, Ontario L7L 6B2
905 335-6558
1 800 663-9984

Toronto Group Sales Office

200-36 York Mills Road
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416 494-6834
1 800 361-7980

QUEBEC

Montréal Group Sales Office

1600-600 boul. de Maisonneuve
Montréal, Quebec H3A 3J2
514 842-0003
1 800 561-3738

BOARD OF DIRECTORS

SHAREHOLDERS' DIRECTORS

John F. Brierley^{1, 2, 6}
Corporate Director

Scott F. Ewert^{1, 4, 6}
Vice President and Chief Financial Officer
E-L Financial Corporation Limited

Edward M. Iacobucci^{1, 2, 3, 5}
Professor of Law
University of Toronto

Duncan N.R. Jackman⁶
Chair of the Board
The Empire Life Insurance Company

Clive P. Rowe^{4, 6}
Corporate Director

Patricia M. Volker^{1, 2, 3, 6}
Corporate Director

POLICYHOLDERS' DIRECTORS

Stephanie A. Bowman^{3, 4, 5, 6}
Corporate Director

Mark J. Fuller^{2, 3, 5, 6}
President and Chief Executive Officer
Ontario Pension Board

Mark Sylvia
President and Chief Executive Officer
The Empire Life Insurance Company

Jacques Tremblay^{3, 5, 6}
Partner
Oliver Wyman Actuarial Consulting

¹ Member of Audit Committee

² Member of Conduct Review Committee

³ Member of Human Resources Committee

⁴ Member of Investment Committee

⁵ IT Oversight Committee

⁶ Member of Risk and Capital Committee

HONORARY CHAIR

The Honourable Henry N.R. Jackman
Honorary Chair
The Empire Life Insurance Company

CORPORATE MANAGEMENT

Mark Sylvia

President and Chief Executive Officer

Richard Carty

General Counsel and Senior Vice-President, Human Resources

Edward Gibson

Senior Vice-President, Capital Management and Chief Actuary

Paul Holba

Senior Vice-President and Chief Investment Officer

Michael Perry

Senior Vice-President, Group Solutions

Steve Pong

Senior Vice-President, Retail

Mark Rogers

Senior Vice-President, Corporate Development

Rebecca Rycroft

Senior Vice-President and Chief Financial Officer

Kathy Thompson

Senior Vice-President and Chief Risk Officer

Chris Volk

Senior Vice-President and Chief Technology Officer

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EMPIRE LIFE ANNUAL REPORT 2022

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

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

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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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