

The Empire Life Insurance Company

**Management's Discussion and Analysis
For the nine months ended September 30, 2019**



Dated as of October 30, 2019

This document provides Management's Discussion and Analysis (MD&A) of the unaudited operating results and financial condition of The Empire Life Insurance Company (Empire Life or the Company) for the third quarter and year to date of 2019. This MD&A should be read in conjunction with Empire Life's unaudited Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2019, as well as the MD&A and the audited Consolidated Financial Statements which form part of the Empire Life 2018 Annual Report dated February 27, 2019. Unless otherwise noted, both the unaudited Condensed Interim Consolidated Financial Statements and this MD&A are expressed in Canadian dollars. Some variances may not reconcile and analysis of components may not sum to the analysis for the grouped components due to rounding.

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

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

Management's assessment of industry dynamics, risks and risk management, critical accounting estimates, strategy and outlook remains consistent with the disclosure in the 2018 Annual Report dated February 27, 2019.

Financial Analysis Overview

(in millions of dollars except per share amounts)	Third quarter		Year to Date	
	2019	2018	2019	2018
Common shareholders' net income	\$ 35	\$ 35	\$ 98	\$ 131
Earnings per share - basic and diluted	\$ 35.29	\$ 35.73	\$ 99.33	\$ 133.17
Return on common shareholders' equity (quarterly annualized) ¹	8.7%	9.4%	8.4%	11.9%

Empire Life reported third quarter common shareholders' net income of \$35 million for 2019, compared to \$35 million for the third quarter of 2018. Year to date common shareholder's net income was \$98 million compared to \$131 million in 2018. The decrease in year to date earnings was primarily a result of unfavourable changes in bond yields, which contributed to an increase in insurance contract liabilities that more than offset the impact of fair value gains on fixed income investments in the Individual Insurance line. Lower earnings in the Employee Benefits product line was primarily driven by less favourable expense and claims experience relative to the third quarter of 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

For the three months ended September 30 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Expected profit on in-force business	\$ 27	\$ 29	\$ 6	\$ 6	\$ 13	\$ 5			\$ 46	\$ 41
Impact of new business	(3)	(1)	(6)	(1)	(4)	2			(13)	(1)
Experience gains & losses	9	(1)	2	5	(12)	8			(1)	12
Management actions and changes in assumptions	—	—	—	—	(1)	(9)			(1)	(9)
Earnings on operations before income taxes	33	27	2	10	(5)	6	—	—	30	43
Earnings on surplus	—	—	—	—	—	—	18	7	18	7
Income before income tax	33	27	2	10	(5)	6	18	7	49	50
Income taxes	8	7	1	3	(2)	1	4	1	11	11
Shareholders' net income	\$ 25	\$ 21	\$ 1	\$ 7	\$ (2)	\$ 5	\$ 14	\$ 5	\$ 38	\$ 39
Dividends on preferred shares									(3)	(3)
Common shareholders' net income									\$ 35	\$ 35

For the nine months ended September 30 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Expected profit on in-force business	\$ 85	\$ 89	\$ 19	\$ 17	\$ 39	\$ 37			\$ 143	\$ 143
Impact of new business	(9)	(5)	(15)	(5)	3	5			(21)	(5)
Experience gains & losses	11	1	5	17	(27)	5			(11)	22
Management actions and changes in assumptions	—	—	—	—	(11)	2			(11)	2
Earnings on operations before income taxes	87	84	9	29	3	50	—	—	100	162
Earnings on surplus	—	—	—	—	—	—	38	22	38	22
Income before income tax	87	84	9	29	3	50	38	22	138	184
Income taxes	21	21	2	8	(2)	10	8	4	30	43
Shareholders' net income	\$ 66	\$ 63	\$ 7	\$ 21	\$ 5	\$ 40	\$ 30	\$ 18	\$ 108	\$ 141
Dividends on preferred shares									(10)	(10)
Common shareholders' net income									\$ 98	\$ 131

The expected profit on in-force business for the third quarter increased by 12% and was stable on a year to date basis, driven primarily by reduced risk margin releases in the Individual Insurance product line.

The impact of new business was primarily driven by an increase in new business strain across all three product lines relative to 2018. The impact of new business on the Individual Insurance line is positive when the present value of future profits from the new business exceeds the sum of the margins in the initial policy liabilities for that business plus the expenses incurred at the point of sale.

Experience gains for the third quarter of 2019 and year to date declined from 2018 primarily due to unfavourable changes in bond yields which contributed to an increase in insurance contract liabilities that more than offset fair value gains on fixed income investments in the Individual Insurance line. In addition, there was less favourable claims experience in the Employee Benefits line.

Management actions and changes in assumptions were lower in the third quarter of 2019 relative to the same period in 2018 primarily due to an update of assumptions in the Individual Insurance line in 2018 which did not recur in 2019. On a year to date basis management actions and changes in assumptions were lower primarily due to

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

changes in the fixed income portfolio as part of management's ongoing activities to improve the matching of assets and liabilities in the Individual Insurance line. Enhanced matching generates improved profitability when bond yields are higher, and reduced profitability when bond yields are relatively low.

Earnings on surplus increased for the third quarter of 2019 and year to date relative to 2018 primarily due to higher income from invested assets and lower interest expenses.

Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended September 30 and year to date for 2019 and 2018. A discussion of results is provided in the Product Line section of the MD&A.

For the three months ended September 30 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue										
Net premiums	\$ 30	\$ 42	\$ 91	\$ 85	\$ 97	\$ 94	\$ —	\$ —	\$ 218	\$ 221
Investment income	10	9	1	1	55	49	17	16	84	75
Fair value change in FVTPL investments	1	(10)	—	(1)	82	(157)	1	(1)	83	(170)
Realized gain (loss) on FVTPL investments	—	1	—	—	21	5	(2)	(3)	19	3
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	6	1	6	—
Fee income	62	65	3	3	—	—	—	—	65	67
Total revenue	103	106	95	87	254	(9)	22	13	475	197
Expenses										
Net benefits and claims	44	44	61	54	38	38	—	—	144	136
Net change in insurance and investment contract liabilities	(6)	(1)	7	1	176	(95)	—	—	178	(95)
Policy dividends	—	—	—	—	8	6	—	—	8	6
Operating, commission and interest expenses	32	36	24	21	37	34	4	6	96	97
Income and other taxes	8	7	1	4	(1)	3	4	1	13	15
Total expenses	78	86	94	80	258	(15)	8	7	439	158
Net income (loss) after tax	\$ 25	\$ 21	\$ 1	\$ 7	\$ (4)	\$ 6	\$ 14	\$ 6	\$ 36	\$ 39
Participating policyholders' portion									(2)	—
Dividends on preferred shares									3	3
Common shareholders' net income									\$ 35	\$ 35

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the nine months ended September 30 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue										
Net premiums	\$ 124	\$ 102	\$ 267	\$ 254	\$ 290	\$ 280	\$ —	\$ —	\$ 681	\$ 637
Investment income	30	29	3	3	158	146	50	48	241	226
Fair value change in FVTPL investments	24	(17)	5	(2)	667	(209)	(5)	(5)	691	(232)
Realized gain (loss) on FVTPL investments	—	1	—	—	51	21	(5)	(3)	47	19
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	11	—	12	—
Fee income	186	191	9	8	—	—	—	—	195	199
Total revenue	365	306	285	263	1,166	238	51	41	1,866	849
Expenses										
Net benefits and claims	156	140	186	171	119	119	—	—	461	429
Net change in insurance and investment contract liabilities	14	(25)	16	(2)	920	(47)	—	—	950	(73)
Policy dividends	—	—	—	—	24	21	—	—	24	21
Operating, commission and interest expenses	107	107	68	60	100	94	12	18	287	280
Income and other taxes	21	21	8	14	4	16	8	4	41	55
Total expenses	299	243	278	242	1,166	204	20	23	1,763	712
Net income (loss) after tax	\$ 66	\$ 63	\$ 7	\$ 21	\$ —	\$ 35	\$ 31	\$ 19	\$ 103	\$ 137
Participating policyholders' portion									(5)	(4)
Dividends on preferred shares									10	10
Common shareholders' net income									\$ 98	\$ 131

Total Revenue

Net premiums for the third quarter of 2019 decreased by 1% primarily due to lower fixed annuity sales. On a year to date basis net premiums increased by 7% reflecting strong growth in in-force policies across all lines of business.

Investment income was 12% higher in the third quarter and 7% higher on a year to date basis, primarily as a result of asset mix changes made during 2018 which added higher yielding securities.

Assets valued at Fair Value Through Profit and Loss (FVTPL) continued to experience an increase in the quarter and on a year to date basis reflecting the significant decline in long-term interest rates throughout 2019 versus an increase in long-term interest rates for the same period in 2018. This change in revenue is more than offset by corresponding changes in the Net change in insurance and investment contract liabilities in the Expenses section of the results.

Fee income for the third quarter and year to date was slightly lower relative to the prior year, primarily due to a decline in segregated fund management and guarantee fees from lower average assets under management. This is discussed in the Product Line Results - Wealth Management section later in this report.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total Expenses

A substantial portion of Total expenses are driven by the impact that 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. Excluding the effect of net change in investment and insurance contract liabilities, total expenses increased by 3% for the third quarter of 2019 relative to the third quarter of 2018 and increased by 4% on a year to date basis compared to 2018.

Net benefits and claims for the third quarter of 2019 were higher than 2018 primarily due to unfavourable claims experience in the Employee benefits product line. For the year to date period, net benefits and claims were higher than 2018 primarily due to higher fixed annuity surrenders in the Wealth Management product line and unfavourable claims experience in the Employee Benefits product line. Net benefits and claims variability is dependent on the claims incurred. Generally, claims rise year over year due to growth of the insurance blocks. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released may be larger or smaller than the claims incurred depending on whether claims experience has been more or less than what was estimated for the insurance contract liabilities. Claims experience gains and losses are a combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities.

Product Line Results - Wealth Management

Key Operating Results

(in millions of dollars)	Third quarter		Year to Date	
	2019	2018	2019	2018
Fixed Annuities				
Assets under management ¹	\$ 959	\$ 943	\$ 959	\$ 943
Gross sales ¹	30	42	124	102
Net sales ¹	1	13	13	9
Segregated Funds				
Assets under management ¹	8,344	8,574	8,344	8,574
Gross sales ¹	203	195	613	665
Net sales ¹	(54)	(49)	(246)	(100)
Fee income	61	64	183	188
Mutual Funds				
Assets under management ¹	141	168	141	168
Gross sales ¹	2	5	6	14
Net sales ¹	(8)	(4)	(21)	(19)
Fee income	1	1	2	2
Net Premiums	\$ 30	\$ 42	\$ 124	\$ 102
Benefits and Expenses	70	79	277	222
Net income after tax	\$ 25	\$ 21	\$ 66	\$ 63

Fixed annuities assets under management increased by 2% during the last 12 months. Gross sales in the third quarter were 29% lower, and 22% higher on a year to date basis compared to 2018, reflecting a shift away from fixed income products in the quarter as a result of lower interest rates relative to stronger sales earlier in the year.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Segregated fund assets under management are lower relative to the same period in 2018, partially reflecting the equity market volatility over the last 12 months as segregated fund assets declined near the end of 2018 and have partially rebounded in 2019. For the third quarter of 2019, gross sales were 4% higher than the same period in 2018 and 8% lower on a year to date basis. On November 12, 2018, Empire Life launched a new No Load purchase option within the GIF and Class Plus 3.0 product lines, and added four global fund options to Class Plus 3.0. The No Load option gives clients full access to their investments without any surrender charges. On May 28, 2018, Empire Life introduced seven new global funds, a fee for service option and a preferred pricing program to provide clients with more global and lower cost investment options within the GIF product line of segregated funds.

Segregated fund fee income was slightly lower in the quarter on a year to date basis, reflecting the decrease in average assets under management in 2019 relative to the same period in 2018.

Mutual fund assets under management decreased during the last 12 months due to lower mutual fund sales. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

Net income for this product line increased by \$4 million and \$3 million on a quarterly and year to date basis, driven primarily by improved investment returns on assets backing contract liabilities.

Product Line Results - Employee Benefits

Key Operating Results

(in millions of dollars)	Third quarter		Year to Date	
	2019	2018	2019	2018
Selected financial information				
Annualized premium sales ¹	\$ 31	\$ 10	\$ 83	\$ 47
Net premiums	91	85	267	254
Net income (loss) after tax	\$ 1	\$ 7	\$ 7	\$ 21

Annualized premium sales are 210% higher in the third quarter and 77% higher on a year to date basis compared to the prior year, primarily due to a large block transfer from a new strategic distribution partner. In addition, the Company continues to increase sales of its core products in the small to medium sized business market. Empire Life continues to enter into strategic partnerships to expand market share.

Net premiums for the third quarter and year to date of 2019 increased by 7% and 5%, respectively, relative to the same periods in 2018. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Net income for the quarter and year to date decreased primarily due to less favourable claims experience across all benefit types compared to more favourable experience for health and long-term disability benefits for the corresponding period in 2018. Higher new business strain associated with acquiring the new strategic distribution partners noted above also contributed to lower net income in the period.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Product Line Results - Individual Insurance

Key Operating Results

(in millions of dollars)	Third quarter		Year to Date	
	2019	2018	2019	2018
Shareholders'				
Shareholders' annualized premium sales ¹	\$ 5	\$ 6	\$ 16	\$ 18
Shareholders' net premiums	67	69	205	209
Benefits and Expenses	216	(32)	1,003	114
Net income (loss) after tax	(2)	5	5	40
Policyholders'				
Policyholders' annualized premium sales ¹	4	4	12	10
Policyholders' net premiums	30	25	85	72
Benefits and Expenses	43	15	160	73
Net income (loss) after tax	(2)	—	(6)	(5)
Net income (loss) after tax	\$ (4)	\$ 6	\$ —	\$ 35

Shareholders' annualized premium sales declined slightly for the quarter and on a year to date basis compared to 2018, while policyholders' annualized premium sales were level for the third quarter and increased slightly on a year to date basis. Shareholders' total net premiums were also slightly lower in the quarter and on a year to date basis. Policyholders' net premiums increased in the third quarter of 2019 and year to date compared to the same periods in 2018, reflecting recent strength in policyholders' new premium sales. In November 2018, Empire Life introduced Guaranteed Life Protect, which offers customers guaranteed lifetime coverage with no health or lifestyle questions asked.

Shareholders' net income for this product line was a net loss of \$2 million for the third quarter of 2019, and \$5 million of net income on a year to date basis. Bond market yields continued their decline on a quarter and year to date basis. While the decline in yields increases the fair value gains on fixed income assets supporting insurance contract liabilities, these gains are more than offset by increases in the corresponding insurance contract liabilities, primarily contributing to the decline in net income relative to the same quarter and year to date period last year.

Results - Capital and Surplus

Key Operating Results

(in millions of dollars)	Third quarter		Year to Date	
	2019	2018	2019	2018
Income from investments	\$ 24	\$ 16	\$ 61	\$ 45
Gains (losses) on hedging instruments	(1)	(3)	(12)	(5)
Interest and other expenses	(4)	(6)	(12)	(18)
Earnings before income taxes	18	7	38	22
Income taxes	4	1	8	4
Net income (loss) after tax shareholders' portion	14	5	30	18
Net income (loss) after tax policyholders' portion	—	—	1	1
Net income (loss) after tax	\$ 14	\$ 6	\$ 31	\$ 19

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Income from investments in the third quarter and year to date of 2019 was higher than the prior year primarily due to higher yields on invested assets. Losses on the hedging program (discussed in the Risk Management section) in the third quarter were generally in line with the same period in 2018. Higher losses experienced in the first quarter of 2019 accounted for the year to date variance compared with 2018. The decrease in interest expense was due to Empire Life's redemption of \$300 million of subordinated debentures in May 2018.

Shareholder Dividends

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

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

The Board of Directors declared a dividend of \$17.4408 per common share on October 30, 2019 to all common shareholders of record November 15, 2019 payable December 10, 2019.

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	\$ 17.440800	December 10, 2019	November 15, 2019
Non-Cumulative Rate Reset Preferred Shares, Series 1 (TSX: EML.PR.A)	\$ 0.359375	January 17, 2020	December 18, 2019
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.306250	January 17, 2020	December 18, 2019

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

Total Cash Flow

(in millions of dollars)	Year to Date	
	2019	2018
Cash flow provided from (used for)		
Operating activities	\$ 292	\$ 253
Investing activities	(205)	(36)
Financing activities	(72)	(347)
Net change in cash and cash equivalents	\$ 15	\$ (130)

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.

¹ See Non-IFRS Measures

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For the year to date, cash and cash equivalents increased by \$15 million. Cash flows provided by operating activities increased by \$39 million primarily due to higher cash inflows related to changes in working capital levels. The increase in cash used for investing activities and lower cash used for financing activities in 2019 was primarily driven by lower sales of securities relative to 2018 when a portion of the investment portfolio was sold to fund the redemption of \$300 million of subordinated debentures in May 2018.

For an analysis of liquidity for Empire Life, see note 10(e) and note 28(b) to the 2018 consolidated financial statements.

Financial Instruments

Empire Life buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of Empire Life. Empire Life's investment strategy also includes the use of publicly-listed "large cap" common stocks 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 Empire Life. Empire Life is subject to market risk on these financial instruments.

Empire Life is also subject to credit risk on these financial instruments which could result in a financial loss should the other party fail to discharge an obligation. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, short-term investments and mortgages. Empire Life manages market risk exposure mainly through investment limits and oversight of its in-house investment managers and external investment firms by the Chief Investment Officer, Asset Management Committee and Investment Committee of the Board. The Investment Committee actively monitors the portfolio size 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 issuers of such debt instruments. Management reviews credit quality relative to investment purchases and also monitors the credit quality of invested assets over time. Management reports regularly to the Investment Committee of Empire Life's Board on the credit risk to which the portfolio is exposed.

Empire Life manages credit risk with respect to derivatives by applying limits and credit rating restrictions established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed. Additional information regarding financial instruments is included in notes 2(d), 3, 10(c), and 28 to the audited consolidated financial statements for the year ended December 31, 2018.

Sources of Capital

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

(In millions of dollars)	As at	
	September 30, 2019	December 31, 2018
Subordinated debentures	\$ 400	\$ 400
Equity		
Preferred shares	\$ 250	\$ 250
Common shares	\$ 1	\$ 1
Total Equity	\$ 251	\$ 251

¹ See Non-IFRS Measures

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

Subordinated Debentures				As at	
(in millions of dollars)	Date Issued	Earliest Redemption Date	Interest Rate	September 30, 2019	December 31, 2018
Subordinated debentures (1)	December 1, 2016	December 16, 2021	3.383% \$	200 \$	200
Subordinated debentures (2)	September 1, 2017	March 15, 2023	3.664% \$	200 \$	200

(1) Series 2016-1 Subordinated 3.383% Unsecured Debentures due 2026. From December 16, 2021, interest is payable at 1.95% over the 3-month Canadian Deposit Offering Rate (CDOR)

(2) 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.

Preferred Shares				As at	
(In millions of dollars)	Date Issued	Earliest Redemption Date	Yield	September 30, 2019	December 31, 2018
Preferred shares	January 1, 2016	April 17, 2021	5.75% \$	150 \$	150
Preferred shares	November 1, 2017	January 17, 2023	4.90% \$	100 \$	100

Empire Life's debentures and preferred shares are rated by DBRS Limited (DBRS) and A.M. Best Company, Inc. (A.M. Best).

Empire Life's DBRS issuer rating is "A" (sixth highest of 20 categories), its subordinated debt rating is "A (low)" (seventh highest of 20 categories), its financial strength rating is "A" (sixth highest of 22 categories) and its Preferred Share rating is Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life's position as a consistently performing life insurer with a proven track record of generating stable earnings while maintaining a conservative risk profile.

A.M. Best ratings of Empire Life are "A Excellent" financial strength rating (third highest of 16 categories), "a" long-term issuer credit rating (sixth highest of 21 categories), "bbb+" Subordinated Debt rating (eighth highest of 21 categories), and "bbb" Preferred Share rating (ninth highest of 21 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's balance sheet strength, which A.M. Best categorizes as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Regulatory Capital

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

As of September 30, 2019, the Total Ratio and Core Ratio remained relatively unchanged from December 31, 2018.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

LICAT	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
(in millions of dollars)	2019	2019	2019	2018	2018
Available capital					
Tier 1	\$ 1,562	\$ 1,549	\$ 1,507	\$ 1,476	\$ 1,526
Tier 2	681	674	692	653	608
Total	\$ 2,243	\$ 2,223	\$ 2,200	\$ 2,129	\$ 2,134
Surplus allowance and eligible deposits	944	937	921	887	1,001
Base solvency buffer	2,133	2,115	2,083	2,029	1,908
LICAT total ratio	149%	149%	150%	149%	164%
LICAT core ratio	104%	104%	103%	103%	117%

Other Comprehensive Income

(in millions of dollars after tax)	Third quarter		Year to Date	
	2019	2018	2019	2018
OCI, attributable to shareholders	\$ 4	\$ (14)	\$ 64	\$ (21)
OCI, attributable to policyholders	1	—	4	(1)
Total other comprehensive income	\$ 5	\$ (14)	\$ 68	\$ (22)

Other comprehensive income (OCI) increased in the third quarter and year to date in 2019 primarily due to unrealized fair value gains on available for sale (AFS) investments, offset by a loss on the remeasurement of the liability component of post-employment defined benefit plans. The gain and loss on each of these components of other comprehensive income was primarily due to a combination of decreases in interest rates and favourable equity markets for the third quarter and year to date.

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

Risk Management

Caution Related to Sensitivities

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

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. The Company has a semi-static hedging program. The hedging program may employ derivative positions including put options and futures. The extent of derivatives used is monitored and managed on an ongoing basis, giving consideration to equity risk and the level of available capital.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes but does not have policy liabilities on the statement of financial position related to segregated fund guarantees. Therefore, a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. During the third quarter and year to date, Empire Life experienced a hedge cost of \$1 million and \$8 million after tax on its hedging program primarily due to rising Canadian equity markets. This compares to a hedge cost of \$2 million and \$4 million for the comparable periods in 2018.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of September 30, 2019, Empire Life had \$8.4 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.1 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Sep 30	Dec 31
	2019	2018
Percentage of Segregated Fund Liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	4%	3%
75% maturity guarantee and a 100% death benefit guarantee	46%	47%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	7%	7%
Guaranteed minimum withdrawal benefit (GMWB)	43%	43%

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 of 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 estimate. If period-end stock markets are high relative to market levels at the time that segregated fund policies are issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies are issued, the sensitivity is increased.

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

Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at September 30, 2019 and December 31, 2018, the sensitivity of Empire Life shareholders' net income and LICAT ratio resulting from stock market increases and decreases is provided in the following table.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sensitivity to Equity Risk: Impact on Net Income (in millions of dollars after tax)	Increase		Decrease		
	20%	10%	10%	20%	30%
as at September 30, 2019					
Segregated Fund Guarantees	\$ 1	\$ 1	\$ (10)	\$ (96)	\$ (235)
Other Equity Risk	32	15	(12)	(19)	(64)
Equity Hedge	(2)	(2)	5	16	37
Total	\$ 31	\$ 14	\$ (17)	\$ (100)	\$ (262)
as at December 31, 2018					
Segregated Fund Guarantees	\$ 3	\$ 3	\$ (11)	\$ (129)	\$ (269)
Other Equity Risk	38	18	(15)	(46)	(118)
Equity Hedge	(6)	(4)	9	26	50
Total	\$ 35	\$ 16	\$ (16)	\$ (150)	\$ (337)

Sensitivity to Equity Risk: Impact on LICAT	Increase		Decrease		
	20 %	10 %	10 %	20 %	30 %
as at September 30, 2019					
Segregated Fund Guarantees	2 %	— %	(7)%	(14)%	(20)%
Other Equity Risk	(1)%	— %	— %	— %	(1)%
Equity Hedge	(1)%	(1)%	1 %	3 %	4 %
Total	— %	(1)%	(6)%	(11)%	(17)%
as at December 31, 2018					
Segregated Fund Guarantees	3 %	— %	(10)%	(16)%	(22)%
Other Equity Risk	— %	(1)%	— %	— %	(2)%
Equity Hedge	(2)%	(1)%	1 %	2 %	3 %
Total	1 %	(1)%	(9)%	(14)%	(21)%

Empire Life's equity market sensitivity for segregated fund guarantees in a 20% and 30% stock market decline decreased primarily as a result of improved equity markets during the first three quarters of 2019. The segregated fund guarantee liability became positive at December 31, 2018 after an equity market decline in the fourth quarter. This increased net income sensitivity as any changes to the liability when it is above the zero floor will flow through net income.

In 2019, the Company updated the methodology for calculating equity risk sensitivities. The new method refines the assumptions used in calculating the baseline LICAT equity requirements as at the reporting date. In the table above, figures presented for the impact of equity risk on LICAT as at December 31, 2018 are restated to conform with the updated methodology.

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

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

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Segregated Funds	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		
(in millions of dollars)								
September 30, 2019	\$ 2,645	\$ 813	\$ 103	\$ 3	\$ 1,444	\$ 18	\$ 1	\$ 457
December 31, 2018	\$ 2,689	\$ 1,057	\$ 301	\$ 24	\$ 3,789	\$ 165	\$ 4	\$ 433

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at September 30, 2019, the aggregate amount at risk for all three categories of risk was \$834 million. At December 31, 2018, the aggregate amount at risk for these three categories of risk was \$1,246 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

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

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in assumed initial reinvestment rate (IRR) for non-participating insurance business and segregated fund guarantees for September 30, 2019 and December 31, 2018, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR). The AFS bonds provide a natural economic offset to the interest rate risk attributable to Empire Life's product liabilities.

Sensitivity To Market Interest Rates LICAT	Impact of 50 bps Decrease
September 30, 2019 LICAT total ratio	(3)%
December 31, 2018 LICAT total ratio	(5)%

Quarterly Results

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

	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
(in millions of dollars, except per share amounts)	2019	2019	2019	2018	2018	2018	2018	2017
Revenue	\$ 475	\$ 603	\$ 788	\$ 289	\$ 197	\$ 388	\$ 264	\$ 627
Common shareholder's net income	\$ 35	\$ 20	\$ 43	\$ 6	\$ 35	\$ 57	\$ 39	\$ 48
Earnings per share - basic and diluted	\$ 35.29	\$ 20.45	\$ 43.59	\$ 6.36	\$ 35.73	\$ 58.14	\$ 39.30	\$ 49.03

¹ See Non-IFRS Measures

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 risks including equity risks, hedging risks, interest rate risks, foreign exchange rate risks; liquidity risks; credit risks including counterparty risks; insurance risks including mortality risks, policyholder behaviour risks, expense risks, morbidity risks, product design and pricing risks, underwriting and claims risks, reinsurance risks; operational risks, including legal and regulatory compliance risks, model risks, human resources risks, third-party risks, technology, information security and business continuity risks; and business risks, including risks with respect to competition, risks with respect to financial strength, capital adequacy risks, risks with respect to distribution channels, risks with respect to changes to applicable income tax legislation, risks with respect to litigation, risks with respect to reputation, risks with respect to risk management policies, risks with respect to intellectual property, risks with respect to significant ownership of common shares. Please see the section titled "Risk Factors" in Empire Life's Annual Information Form available at www.sedar.com for more details on these risks.

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

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

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

Non-IFRS Measures

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

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Return on common shareholders' equity is a profitability measure that presents 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 twelve months for all new individual insurance and employee benefit policies sold during the period. Mutual fund gross and net sales and segregated fund gross and net sales are also used as measures of sales volume.

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	September 30, 2019	December 31, 2018
(in millions of dollars)		
Assets Under Management		
General fund assets	\$ 9,567	\$ 8,447
Segregated fund assets	8,362	7,823
Total assets per financial statements	17,929	16,270
Mutual fund assets	141	145
Assets under management	\$ 18,070	\$ 16,415

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

As at	September 30, 2019	December 31, 2018
(in millions of dollars)		
DB plan assets		
Segregated fund assets	\$ 199	\$ 182
Mutual fund assets	13	12

¹ See Non-IFRS Measures