

The Empire Life Insurance Company

**Management's Discussion and Analysis
For the six months ended June 30, 2021**



Dated as of July 29, 2021

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 second quarter and year to date for 2021. This MD&A should be read in conjunction with Empire Life's unaudited Condensed Interim Consolidated Financial Statements for the six months ended June 30, 2021, as well as the MD&A and the audited Consolidated Financial Statements which form part of the Empire Life 2020 Annual Report dated February 24, 2021. 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.

Although the Company continues to carefully monitor the effects of the novel coronavirus (COVID-19) pandemic on the economy and financial markets, management's assessment of industry dynamics, risks and risk management, critical accounting estimates, strategy and outlook remains consistent with the disclosure in the 2020 Annual Report dated February 24, 2021.

Financial Analysis

Overview

(in millions of dollars except per share amounts)	Second quarter		Year to date	
	2021	2020	2021	2020
Common shareholders' net income	\$ 32	\$ 48	\$ 189	\$ 16
Earnings per share - basic and diluted	\$ 32.09	\$ 48.42	\$ 191.92	\$ 16.37

Other Financial Highlights	Jun. 30	Mar. 31	Dec. 31	Jun. 30
	2021	2021	2020	2020
Return on common shareholders' equity (trailing four quarters) ¹	18.5 %	20.3 %	8.5 %	8.0 %
LICAT total ratio	143 %	148 %	136 %	133 %

Empire Life reported second quarter common shareholders' net income of \$32 million for 2021, compared to net income of \$48 million for the second quarter of 2020. The decrease in second quarter earnings was primarily due to less favourable claims results in the Employee Benefits line and losses on assets classified as Available for Sale in the Capital & Surplus segment compared to gains for the same period in 2020. Year-to-date common

¹ See Non-IFRS Measures

shareholders net income was \$189 million compared to \$16 million in 2020, primarily due to the release of segregated fund guarantee reserves in the first quarter of 2021.

The impact of COVID-19 on Canadian and international business operations, supply chains, travel, consumer confidence and business forecasts, and domestic and international securities markets, is expected to continue through 2021 and potentially beyond. The Company continues to monitor developments in equity and fixed income markets generally, and in connection with the Company's investment portfolios in particular. While the impact of COVID-19 related factors on the Company's financial results is described in the sections that follow, during a time of increased uncertainty and volatility we expect these events will continue to have an impact on the Company's performance in the near term.

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

For the three months ended June 30 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Expected profit on in-force business	\$ 29	\$ 33	\$ 6	\$ 6	\$ 14	\$ 12			\$ 49	\$ 51
Impact of new business	(3)	(2)	(4)	(2)	—	—			(6)	(4)
Experience gains (losses)	6	(23)	(2)	12	(8)	7			(4)	(5)
Management actions and changes in assumptions	—	—	—	—	5	2			5	2
Earnings (losses) on operations before income taxes	31	8	1	16	11	21	—	—	43	44
Earnings on surplus	—	—	—	—	—	—	(3)	21	(3)	21
Income (loss) before income tax	31	8	1	16	11	21	(3)	21	40	66
Income taxes	8	1	—	4	1	4	(2)	5	7	14
Shareholders' net income (loss)	\$ 23	\$ 6	\$ 1	\$ 12	\$ 10	\$ 17	\$ (2)	\$ 16	\$ 33	\$ 51
Dividends on preferred shares									(1)	(3)
Common shareholders' net income									\$ 32	\$ 48

For the six months ended June 30 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Expected profit on in-force business	\$ 58	\$ 66	\$ 13	\$ 13	\$ 27	\$ 28			\$ 98	\$ 107
Impact of new business	(8)	(5)	(6)	(5)	7	(1)			(7)	(11)
Experience gains & losses	156	(155)	(7)	11	(3)	11			146	(133)
Management actions and changes in assumptions	—	—	—	—	15	25			15	25
Earnings (losses) on operations before income taxes	206	(94)	—	19	46	62	—	—	252	(13)
Earnings on surplus	—	—	—	—	—	—	3	39	3	39
Income (loss) before income tax	206	(94)	—	19	46	62	3	39	255	26
Income taxes	53	(26)	—	5	9	15	(1)	9	62	3
Shareholders' net income (loss)	\$ 152	\$ (68)	\$ —	\$ 14	\$ 38	\$ 47	\$ 4	\$ 30	\$ 194	\$ 23
Dividends on preferred shares									(5)	(7)
Common shareholders' net income									\$ 189	\$ 16

The expected profit on in-force business decreased by 4% for the second quarter and by 9% for the year to date, primarily driven by the Wealth Management line.

The impact of new business increased in the second quarter of 2021 primarily due to increased strain from sales growth in the Employee Benefits line. For the year to date, the impact of new business improved relative to the same period in 2020, primarily due to profit at issue in the Individual Insurance line, partially offset by increased strain at issue in the Wealth Management line. The impact of new business on the Individual Insurance line is

¹ See Non-IFRS Measures

positive, creating profit at issue, 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.

Lower experience losses in the second quarter of 2021 were primarily driven by experience gains in the Wealth Management line partially offset by experience losses in the Individual Insurance and Employee Benefits line. For the year to date, experience gains were primarily driven by a reduction in policy liabilities for segregated fund benefit guarantees, compared to an experience loss from a strengthening of these guarantee liabilities in the first half of 2020.

Management actions and changes in assumptions were driven by management's ongoing activities to improve the matching of assets of liabilities contributing to positive net income gains in the Individual Insurance line.

Earnings on surplus declined for the second quarter and year to date, primarily due to realized losses on assets valued as Available for Sale in this segment compared to realized gains for the comparable periods in 2020.

Results by Major Product Line

The following table provides a summary of Empire Life results by major product line for the three months ended June 30 and year to date for 2021 and 2020. A discussion of results is provided in the Product Line section of the MD&A.

For the three months ended June 30 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue										
Net premiums	\$ 17	\$ 19	\$ 99	\$ 84	\$ 107	\$ 100	\$ —	\$ —	\$ 223	\$ 202
Investment income	9	10	1	1	59	55	15	17	85	82
Fair value change in FVTPL investments	8	54	1	8	206	607	(1)	(1)	214	667
Realized gain (loss) on FVTPL investments	—	1	—	2	39	83	(7)	(3)	33	82
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	(4)	14	(4)	14
Fee income	64	55	3	3	—	—	—	—	67	58
Total revenue	98	138	105	97	411	844	4	26	618	1,105
Expenses										
Net benefits and claims	40	38	68	44	45	48	—	—	154	131
Net change in insurance and investment contract liabilities	(5)	61	7	11	297	730	—	—	299	802
Policy dividends	—	—	—	—	9	9	—	—	9	9
Operating, commission and interest expenses	32	31	27	24	42	30	6	4	107	89
Income and other taxes	8	1	3	7	5	7	(2)	5	14	21
Total expenses	75	132	104	85	398	824	5	9	582	1,051
Net income (loss) after tax	\$ 23	\$ 6	\$ 1	\$ 12	\$ 13	\$ 20	\$ (1)	\$ 16	\$ 36	\$ 54
Participating policyholders' portion									3	4
Dividends on preferred shares									1	3
Common shareholders' net income									\$ 32	\$ 48

¹ See Non-IFRS Measures

For the six months ended June 30 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Revenue									
Net premiums	\$ 41	\$ 46	\$ 195	\$ 175	\$ 213	\$ 197	\$ —	\$ —	\$ 448	\$ 417
Investment income	19	20	1	2	113	108	31	34	164	163
Fair value change in FVTPL investments	(9)	(1)	(5)	5	(460)	272	(3)	(8)	(477)	268
Realized gain (loss) on FVTPL investments	—	1	—	3	99	113	(13)	—	86	116
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	(1)	—	(1)	(2)	21	(2)	18
Fee income	126	117	7	6	—	—	—	—	133	123
Total revenue	177	181	199	190	(35)	689	13	47	353	1,107
Expenses										
Net benefits and claims	91	89	135	108	92	89	—	—	319	285
Net change in insurance and investment contract liabilities	(190)	118	8	11	(287)	460	—	—	(468)	589
Policy dividends	—	—	—	—	17	16	—	—	17	16
Operating, commission and interest expenses	70	68	50	47	84	60	9	8	213	184
Income and other taxes	53	(26)	6	10	15	19	—	9	74	12
Total expenses	24	248	199	176	(78)	644	9	17	154	1,085
Net income (loss) after tax	\$ 152	\$ (68)	\$ —	\$ 14	\$ 42	\$ 45	\$ 4	\$ 30	\$ 199	\$ 21
Participating policyholders' portion									5	(2)
Dividends on preferred shares									5	7
Common shareholders' net income									\$ 189	\$ 16

Total Revenue

Net premiums were 11% higher in the second quarter and 8% higher for the year to date, primarily due to strong growth in the Employee Benefits and Individual Insurance lines compared to the same period in 2020, partially offset by lower net premiums in the fixed annuity portion of the Wealth Management line.

Unrealized fair value gains from assets classified as Fair Value Through Profit and Loss (FVTPL) in the second quarter of 2021 were lower than the comparative quarter in 2020 reflecting lower gains on fixed income investments backing policy liabilities. For the year to date, losses on assets classified as FVTPL were primarily due to a decrease in the fair value of fixed income investments backing policy liabilities driven by an increase in interest rates. For the same period in 2020 the gains on FVTPL assets were largely driven by a decline in interest rates. Assets classified as FVTPL also include assets backing index-linked products. Changes in the value of these assets are largely offset by changes in the related liabilities which are reflected in Net change in insurance and investment contract liabilities. The fair value change in assets backing other non-index linked policy liabilities in the Individual Insurance line is also partially offset by corresponding changes in the Net change in insurance and investment contract liabilities in the Expenses section of the results.

¹ See Non-IFRS Measures

Fee income for the second quarter and year to date increased by 16% and 8%, respectively primarily due to higher segregated fund average assets under management.

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. For the year to date, the net change in insurance and investment contract liabilities includes a \$147 million decrease in policy liabilities supporting segregated fund benefit guarantees recorded in the first quarter of 2021, compared to a \$147 million increase in these liabilities in the first and second quarters of 2020.

Net benefits and claims for the year to date were higher than the comparative periods in 2020, primarily from higher claims in the Employee Benefits 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 in the insurance contract liabilities. Claims experience gains and losses are a combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities.

Product Line Results - Wealth Management

Key Operating Results

(in millions of dollars)	Second quarter		Year to date	
	2021	2020	2021	2020
Fixed Annuities				
Assets under management ¹	\$ 905	\$ 964	\$ 905	\$ 964
Gross sales ¹	17	19	41	46
Net sales ¹	(8)	(5)	(21)	(13)
Segregated Funds				
Assets under management ¹	8,966	7,717	8,966	7,717
Gross sales ¹	212	131	481	374
Net sales ¹	(30)	(25)	(132)	(105)
Fee income	63	54	125	116
Net Premiums	\$ 17	\$ 19	\$ 41	\$ 46
Net income (loss) after tax	\$ 23	\$ 6	\$ 152	\$ (68)

Fixed annuities assets under management were 6% lower relative to the same period in 2020. Gross sales for the second quarter were lower by 8% and 11% on a year to date basis compared to the same periods in 2020.

Segregated fund assets under management are higher relative to the same period in 2020, reflecting the rebound in equity markets from the lows experienced in the first half of 2020. For the second quarter of 2021, gross sales were 61% higher than the same period in 2020. For the year to date, gross sales are 29% higher than the same period in 2020.

Segregated fund fee income was 16% and 8% higher for the second quarter and year to date, compared to the same periods in 2020 as higher average assets impacted fee revenues. Fee income from segregated funds is calculated daily for most products.

¹ See Non-IFRS Measures

This line had net income of \$23 million for the quarter compared to a net income of \$6 million for the second quarter in 2020, primarily as a result of increases in policy liabilities for segregated fund guarantees recorded in the comparative period. For the year to date, the Wealth Management line had a net income of \$152 million compared to a net loss of \$68 million as the policy liability increases that were booked in the first half of 2020 were released in the first quarter of 2021. These guarantees are only payable if fund values are below the guaranteed values when the insurable event occurs.

Product Line Results - Employee Benefits

Key Operating Results

(in millions of dollars)	Second quarter		Year to date	
	2021	2020	2021	2020
Selected financial information				
Core	\$ 24	\$ 8	\$ 43	\$ 22
Other	7	7	13	24
Annualized premium sales ¹	31	15	57	45
Net premiums	99	84	195	175
Net income (loss) after tax	\$ 1	\$ 12	\$ —	\$ 14

Total annualized premium sales increased in the second quarter and year to date compared to the same periods in 2020, primarily due to strong growth in the line's core and strategic sales channels. For the comparative periods in 2020, sales in the first half of the year slowed significantly as the effects of the COVID-19 pandemic were still being absorbed by the small business sector. The Company continues to focus sales of its core products in the small to medium-sized business market and to enter into strategic partnerships to expand market share.

Net premiums for the second quarter increased by 19% relative to the same period in 2020 and by 12% for the year to date, primarily from growth in the Company's core group benefits offerings. 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 second quarter and year to date declined primarily due unfavourable claims experience for long-term disability benefits and an increase in dental and extended health benefit claims compared to the same periods in 2020.

¹ See Non-IFRS Measures

Product Line Results - Individual Insurance

Key Operating Results

(in millions of dollars)	Second quarter		Year to date	
	2021	2020	2021	2020
Shareholders'				
Shareholders' annualized premium sales ¹	\$ 9	\$ 5	\$ 20	\$ 10
Shareholders' net premiums	72	69	145	136
Net income after tax	10	17	38	47
Policyholders'				
Policyholders' annualized premium sales ¹	4	3	9	6
Policyholders' net premiums	35	31	68	61
Net income (loss) after tax	3	3	5	(1)
Net income after tax	\$ 13	\$ 20	\$ 42	\$ 45

Shareholders' annualized premium sales increased by 79% in the second quarter and 96% for the year to date, compared to the same periods in 2020, primarily from increases in sales of the Company's term products. Policyholders' annualized premium sales increased 47% in the second quarter and 42% for the year to date. Shareholders' net premiums were 5% higher in the quarter and 6% for the year to date compared to the prior periods. Policyholders' net premiums increased by 12% in the second quarter and year to date, reflecting recent strength in new premium sales.

Shareholders' net income for this product line declined to \$10 million for the second quarter of 2021 and \$38 million for the year to date, compared to \$17 million and \$47 million for the same periods in 2020.

Results - Capital and Surplus

Key Operating Results

(in millions of dollars)	Second quarter		Year to date	
	2021	2020	2021	2020
Income from investments	\$ 10	\$ 52	\$ 27	\$ 40
Gains (losses) on hedging instruments	(7)	(26)	(15)	7
Interest and other expenses	(6)	(4)	(9)	(8)
Earnings before income taxes	(3)	21	3	39
Income taxes	(2)	5	(1)	9
Net income (loss) after tax shareholders' portion	(2)	16	4	30
Net income (loss) after tax policyholders' portion	—	—	1	—
Net income (loss) after tax	\$ (1)	\$ 16	\$ 4	\$ 30

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 for the second quarter of 2021 and year to date decreased primarily due to lower realized losses on assets classified as Available for sale and lower unrealized gains on assets valued as FVTPL in this segment. Losses on the hedging program (discussed in the Risk Management section) for the second quarter of 2021 and year to date, compared to a loss in the second quarter and a gain for the year to date in 2020, were

¹ See Non-IFRS Measures

primarily related to rising Canadian equity markets beginning in the second quarter of 2020 and continuing through the second quarter of 2021.

Shareholder Dividends

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

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

On July 29, 2021, the Board of Directors declared a dividend of \$14.212101 per common share of Empire Life. The following table provides details of the amounts and dates for Empire Life's per share dividends.

	Amount of Dividend per share	Payable Date	Record Date
Common shares	\$ 14.212101	September 8, 2021	August 16, 2021
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.30625	October 17, 2021	September 17, 2021

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	
	2021	2020
Cash flow provided from (used for)		
Operating activities	\$ 148	\$ 132
Investing activities	(137)	66
Financing activities	9	(126)
Net change in cash and cash equivalents	\$ 20	\$ 73

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

For the year to date, cash and cash equivalents increased by \$20 million. Cash flows provided by operating activities increased by \$15 million primarily due to lower tax instalments for the period. Cash used for investing activities increased by \$203 million compared to the same period in 2020 primarily driven by investing proceeds from the issuance of new capital instruments in the quarter. Cash provided by financing activities was higher than the corresponding period in 2020, primarily due to the issuance of Limited Recourse Capital Notes during the first quarter, partially offset by the redemption of the Company's Series 1 preferred shares and the payment of common share dividends declared in 2021.

For an analysis of liquidity for Empire Life, see note 10(e) and note 27(b) to the 2020 consolidated financial statements.

¹ See Non-IFRS Measures

Financial Instruments

Empire Life buys investment quality bonds to support, to a very large extent, the liabilities for the insurance and annuity policies issued by the Company. Empire Life's strategy also includes the use of publicly listed common stocks or exchange-traded funds (ETFs) to support the liabilities arising from insurance policies issued. 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. Investment strategies are subject to prescribed limits outlined in various corporate policies. 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. Credit risk is managed by applying 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 the Board on the credit risk to which the portfolio is exposed.

Empire Life manages credit risk with respect to derivatives by applying limits and credit rating restrictions established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed. Additional information regarding financial instruments is included in notes 2(d), 3, 10(c), and 27 to the audited consolidated financial statements for the year ended December 31, 2020.

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	
	June 30, 2021	December 31, 2020
Subordinated debentures	\$ 400	\$ 400
Equity		
Preferred shares and other equity instruments	\$ 297	\$ 250
Common shares	1	1
Total equity	\$ 298	\$ 251

¹ See Non-IFRS Measures

Details of the Company's outstanding capital instruments are as follows:

Subordinated Debentures				As at	
(in millions of dollars)	Date Issued	Earliest Redemption Date	Interest Rate	June 30, 2021	December 31, 2020
Subordinated debentures, Series 2016-1 ⁽¹⁾	December 2016	December 16, 2021	3.383 % \$	200 \$	200
Subordinated debentures, Series 2017-1 ⁽²⁾	September 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 and Other equity instruments				As at	
(In millions of dollars)	Date Issued	Earliest Redemption Date	Yield	June 30, 2021	December 31, 2020
Preferred shares, Series 1	January 2016	April 17, 2021	5.75 % \$	— \$	150
Preferred shares, Series 3	November 2017	January 17, 2023	4.90 % \$	100 \$	100
Limited Recourse Capital Notes, Series 1	February 2021	April 17, 2026	3.625 % \$	200 \$	—

On February 17, 2021, the Company completed an offering of \$200 million aggregate principal 3.625% Limited Recourse Capital Notes Series 1 (Notes). In connection with the issuance of the Notes, the Company issued Non-Cumulative 5-Year Fixed Rate Reset Preferred Shares, Series 5 (Preferred Shares Series 5) to be held by a trustee for a newly formed trust. In case of non-payment of interest on or principal of the Notes when due, the recourse of each Note holder will be limited to that holder's proportionate share of the Limited Recourse Trust's assets, which will consist of the Preferred Shares Series 5, except in limited circumstances. The purpose of the sale of the Notes is to enlarge the Company's Tier 1 capital base with a view to optimizing Empire Life's capital structure within the parameters prescribed by the Office of the Superintendent of Financial Institutions for regulatory capital requirements.

On April 17, 2021, the Company redeemed all of the outstanding Preferred Shares, Series 1 at the price of \$25.00 per share for an aggregate total of \$149.5 million plus declared dividends.

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	June 3, 2021
Issuer Rating	A	Stable	June 3, 2021
Subordinated Debt	A(low)	Stable	June 3, 2021
Preferred Shares	Pfd-2	Stable	June 3, 2021
Limited Recourse Capital Notes	BBB(high)	Stable	June 3, 2021

¹ See Non-IFRS Measures

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. The Company continues to have a strong capital position under the LICAT framework. Empire Life is required to maintain a minimum Core Ratio of 55% and a Total Ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total capital.

As of June 30, 2021, the Total Ratio and Core Ratio declined from the March 31, 2021 value, as a result of the redemption of the Company's Series 1 Preferred Shares.

LICAT (in millions of dollars)		Jun. 30 2021	Mar. 31 2021	Dec. 31 2020	Sep. 30 2020	Jun. 30 2020
Available capital						
Tier 1	(A) \$	1,805	\$ 1,908	\$ 1,623	\$ 1,544	\$ 1,527
Tier 2	(B)	658	664	677	703	710
Total	(C) \$	2,463	\$ 2,572	\$ 2,300	\$ 2,247	\$ 2,237
Surplus allowance and eligible deposits	(D)	1,170	1,121	1,156	1,111	1,094
Base solvency buffer	(E)	2,536	2,503	2,541	2,542	2,510
LICAT total ratio	((C+D)/E * 100)	143 %	148 %	136 %	132 %	133 %
LICAT core ratio	((A+70%D)/E * 100)	103 %	108 %	96 %	91 %	91 %

Other Comprehensive Income

(in millions of dollars after tax)	Second quarter		Year to date	
	2021	2020	2021	2020
OCI, attributable to shareholders	\$ 24	\$ 54	\$ (30)	\$ 36
OCI, attributable to policyholders	1	3	1	1
Total other comprehensive income	\$ 24	\$ 57	\$ (29)	\$ 38

Other comprehensive income (OCI) decreased in the second quarter of 2021 primarily due to lower unrealized fair value increases on AFS investments and a gain on the remeasurement of the post-employment defined benefit plans. For the year to date, OCI decreased primarily due to unrealized losses on AFS assets compared to a year to date gain on AFS assets for the same period in 2020.

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

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

¹ See Non-IFRS Measures

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.

Significant Developments

In early 2020, the world was impacted by the spread of the COVID-19 pandemic. The duration and impact of the COVID-19 outbreak remains uncertain. If the COVID-19 pandemic is prolonged, or further diseases, including variants, emerge that give rise to similar effects, there may be further negative effects on the Canadian economy as well as increased volatility in equity and fixed income markets which in turn may affect Empire Life's business and some of our clients. Unexpected developments in financial markets, regulatory environments, or consumer behaviour and confidence may also have adverse impacts on the Company's financial results and condition, and business. It is difficult to reliably measure, or predict, the potential impact of this uncertainty on our future financial results.

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. The Company has a semi-static hedging program. The objective of the hedging program is to partially protect the Company from future regulatory (LICAT) ratio declines that might result from adverse stock market prices. 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 related to segregated fund guarantees whereas policy liabilities are currently negative and therefore floored at zero (as described further in the sections that follow). Therefore, a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. For the second quarter and year to date, Empire Life experienced a loss of \$5 million and \$11 million after tax primarily due to rising Canadian equity markets. This compares to a second quarter hedge loss of \$19 million and a year to date gain of \$5 million after tax in 2020.

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 June 30, 2021, Empire Life had \$9.0 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.7 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	June 30 2021	December 31 2020
Percentage of Segregated Fund Liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	6 %	6 %
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)	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

¹ See Non-IFRS Measures

highly dependent on the level of the stock market at the time the estimate is calculated. 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 June 30, 2021 and December 31, 2020, the sensitivity of Empire Life shareholders' net income and LICAT ratio resulting from stock market increases and decreases is provided in the following table.

Sensitivity to equity risk: Impact on net income (in millions of dollars after tax)	Increase		Decrease		
	20 %	10 %	10 %	20 %	30 %
As at June 30, 2021					
Segregated fund guarantees	\$ —	\$ —	\$ (8)	\$ (49)	\$ (170)
Other equity risk	40	19	(17)	(33)	(44)
Equity hedge	(10)	(5)	6	16	31
Total	\$ 30	\$ 14	\$ (20)	\$ (66)	\$ (184)

As at December 31, 2020

Segregated fund guarantees	\$ 108	\$ 104	\$ (13)	\$ (86)	\$ (220)
Other equity risk	37	18	(16)	(29)	(78)
Equity hedge	(8)	(4)	5	12	20
Total	\$ 137	\$ 117	\$ (23)	\$ (103)	\$ (278)

Sensitivity to equity risk: Impact on LICAT	Increase		Decrease		
	20 %	10 %	10 %	20 %	30 %
As at June 30, 2021					
Segregated fund guarantees	12 %	7 %	(1)%	(5)%	(13)%
Other equity risk	1 %	1 %	1 %	1 %	1 %
Equity hedge	(2)%	(1)%	1 %	2 %	3 %
Total	11 %	6 %	1 %	(2)%	(10)%

As at December 31, 2020

Segregated fund guarantees	6 %	5 %	(1)%	(8)%	(16)%
Other equity risk	— %	— %	— %	— %	(1)%
Equity hedge	(1)%	— %	— %	1 %	1 %
Total	6 %	5 %	— %	(7)%	(16)%

Empire Life's equity market sensitivity in a 20% and 30% stock market decline decreased primarily as a result of the improvement in equity markets and the increase in bond yields during the first quarter of 2020. The segregated fund guarantee liability was reduced during the quarter as the value of withdrawal and guarantee benefits decrease when there is an increase in equity markets. This decreases net income sensitivity as any changes to the liability when it is above the zero floor will flow through net income.

¹ See Non-IFRS Measures

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

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

Segregated Funds (in millions of dollars)	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Policy Liabilities	LICAT Capital
	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Fund Value	Amount At Risk		
June 30, 2021	\$ 2,589	\$ 731	\$ 26	\$ 2	\$ 136	\$ 3	\$ —	\$ 657
December 31, 2020	\$ 2,687	\$ 931	\$ 52	\$ 2	\$ 654	\$ 12	\$ 147	\$ 682

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 June 30, 2021, the aggregate amount at risk for all three categories of risk was \$736 million. As at December 31, 2020, the aggregate amount at risk for these three categories of risk was \$946 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 the assumed initial reinvestment rate (IRR) for non-participating insurance business and segregated fund guarantees for June 30, 2021 and December 31, 2020, 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
June 30, 2021 LICAT total ratio	2 %
December 31, 2020 LICAT total ratio	3 %

¹ See Non-IFRS Measures

Quarterly Results

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

	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
(in millions of dollars, except per share amounts)	2021	2021	2020	2020	2020	2020	2019	2019
Revenue	\$ 618	\$ (265)	\$ 475	\$ 401	\$ 1,105	\$ 2	\$ 249	\$ 475
Common shareholder's net income	\$ 32	\$ 157	\$ 72	\$ 51	\$ 48	\$ (32)	\$ 76	\$ 35
Earnings per share - basic and diluted	\$ 32.09	\$ 159.82	\$ 73.53	\$ 51.91	\$ 48.42	\$ (32.05)	\$ 77.25	\$ 35.29

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; insurance risk including mortality risk, policyholder behaviour risk, expense risk, morbidity risk, product design and pricing risk, underwriting and claims risk, reinsurance risk; operational risk, including legal and regulatory compliance risk, model risk, human resources risk, third-party risk, technology and information security risk and business continuity risk; and business and strategic risk, including risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to litigation, risk with respect to reputation, risk with respect to risk management policies, risk with respect to intellectual property, risk with respect to significant ownership of common shares. 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.

¹ See Non-IFRS Measures

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.

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 12 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	June 30, 2021	December 31, 2020
(in millions of dollars)		
Assets Under Management		
General fund assets	\$ 9,954	\$ 10,259
Segregated fund assets	8,966	8,457
Total assets per financial statements	\$ 18,920	\$ 18,716
Mutual fund assets	117	121
Assets under management	\$ 19,037	\$ 18,836

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

As at	June 30, 2021	December 31, 2020
(in millions of dollars)		
DB plan assets		
Segregated fund assets	\$ 216	\$ 208
Mutual fund assets	\$ 16	\$ 16

¹ See Non-IFRS Measures