

The Empire Life Insurance Company

Annual Report 2021



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2021 FINANCIAL HIGHLIGHTS

144%

LICAT total ratio
as at December 31, 2021

Strength of our capital base

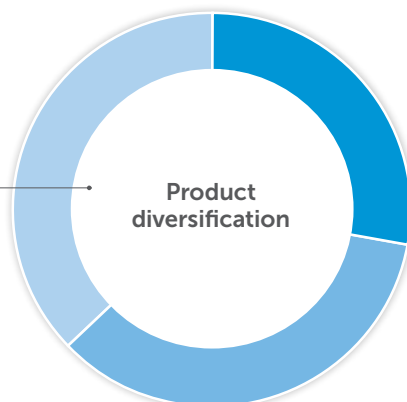
Our Life Insurance Capital Adequacy Test (LICAT) ratio is well above the minimum requirements set by the industry regulator. A high LICAT ratio demonstrates our long-term ability to pay claims and our prudent capital management.

What is an LICAT ratio?

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

Financial ratings

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



Product diversification

by premium and fee income for the 12 months ended December 31, 2021

Empire Life is well-diversified across three product lines:

Wealth Management

28%



Group Solutions

35%



Individual Insurance

37%



Financial Strength Rating: A

Issuer Rating: A

Subordinated Debt Rating: A (low)

DBRS (as at June 3, 2021)

Common Shareholders'
Net Income
2021 (in millions)

\$239

Common Shareholders'
Net Income
2020 (in millions): \$140

Net Premium and Fee Income
2021 (in millions)

\$1,188

Net Premium and Fee Income
2020 (in millions): \$1,112

Total Assets Under Management
2021 (in millions)

\$19,644

Total Assets Under Management
2020 (in millions): \$18,836

Note: The selected financial information presented above is derived from the audited financial statements of The Empire Life Insurance Company and Management's Discussion and Analysis included in the Empire Life 2021 Annual Report.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

There is a tendency in business to separate the personal from the professional. But if there is anything the pandemic has taught us, it is the ingenuity of people and the power of human connection.

I have reflected on this several times this past year, thinking of seniors living alone, people working apart and all of us at times in our homes, trying to stay connected while apart.

Businesses succeed because of bright people who collectively rise to challenges, solve problems, innovate, and support each other. When the pandemic started, it was my feeling that if we worked hard enough, we would be lucky to maintain our business operations and revenues. We have witnessed how the impacts of the pandemic have hit certain sectors harder than others and families and individuals in vastly different, often long-lasting, ways. In light of what could have been, we are acutely aware of how fortunate we are, and I am very proud of the outstanding results management and employees have delivered despite the exceptional circumstances of the past year.

My fellow Board members and I have been honoured to speak at some of the monthly virtual webinars for Empire Life employees throughout the pandemic. We are continually impressed by what we see and hear during these meetings and appreciate the opportunity to connect with them and share how proud we are of the team's passion and perseverance through these difficult times. We cannot thank them enough for their strength of character and dedication.

The COVID-19 pandemic has also highlighted the importance of the products and services Empire Life provides. Life insurance, group benefits, savings and investment products provide essential income, financial security, and access to vital health benefits and services. The connection between what we do and the impact on the well-being of Canadians is stronger than ever.

We were pleased to welcome a new member to the Empire Life Board of Directors, Stephanie Bowman, FCPA, FCA in 2021. Stephanie is a strategic thinker and strong transformational leader, with more than 25 years' experience as a financial services executive, management consultant and corporate director. She has joined a highly-skilled and knowledgeable Board, whose support I personally appreciate every day.

On behalf of the Board of Directors, I'd like to also thank Empire Life customers and their financial advisors for their continued loyalty and faith in our company. My grandfather, Henry R. Jackman, became a director of Empire Life in 1956. My father, Henry N.R. (Hal) Jackman followed not long after. As we approach the company's 100th anniversary in 2023, it is only natural to reflect on all the people connected to the success and longevity of this great company and on its many accomplishments—its ability to transform, innovate, and rise to the challenges of the day.

With tremendous gratitude, I look forward to continued success for Empire Life.



Duncan N. R. Jackman

Chairman of the Board

February 24, 2022

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I was recently asked what my choice for 2021's word of the year would be. I chose the word persistence.

Sometimes words can have two meanings. The word persistence captures both the circumstances we've faced as a country in the past two years and our response. The persistence of the pandemic continues to take its toll, but it has been the persistence and resilience of the Canadian people and businesses to adapt, innovate and work through the challenges presented by COVID-19. These experiences have made us stronger. We have been able to endure the pandemic and sustain hope for the future.

I'm particularly proud of the persistence of one group of people: our employees. Our teams have demonstrated incredible resilience and commitment to our customers, distribution partners, shareholders, and to each other throughout the pandemic. It's their support and dedication that allowed us to deliver such positive results in 2021. I'd like to thank all our employees for their sacrifices and efforts this past year to contribute to our company's continued growth and success. I would also like to extend my personal appreciation to our Board of Directors for their support and guidance during this challenging time.

Having strong leadership to set the vision for the future and support our teams is critical. In December, we were pleased to announce several executive level appointments including Edward Gibson as Senior Vice-President, Capital Management and Chief Actuary, Rebecca Rycroft as Senior Vice-President and Chief Financial Officer and Chris Volk as Senior Vice-President and Chief Technology Officer.

During the pandemic our leadership team has focused on the health and safety of our employees and providing service to our customers and distribution partners. While focusing on our customers has always been at the core of what we do, it became a critical element of our product promise during the pandemic. We've always been known for our exceptional service with a personal touch, but we've also known for some time that how customers want to engage with their financial services company has changed in this new era, the age of convenience.

Strength of our capital base

Maintaining a strong capital position has been a key aspect of our strategy. In February of 2021, we were the first insurer in Canada to receive approval to issue Limited Recourse Capital Notes (LRCNs), a new type of Tier 1 capital debt instrument used to enhance a company's core capital base. We followed that with another successful subordinated debentures issue in Q3 of 2021 and our LICAT ratio as of December 31, 2021 was 144%, well above OSFI requirements and our own minimum internal targets. This strong capital position allows us to be able to invest to grow our business and keep our future promises to our customers.

A digital leader

We now live in the age of convenience. Empire Life continues to make investments in our digital applications and processes to be a digital leader. These investments have proven to be a critical competitive advantage during the pandemic, allowing our independent distribution partners to continue to serve their clients and access our products and services for them using digital means. The majority of our insurance applications are now being submitted using our leading Fast & Full[®] Life Application process which uses screen sharing technology to allow advisors to meet with clients virtually, and we are seeing a similar upward trend in the number of segregated fund applications being submitted using this technology.

Self-service and creating the optimal online experience for our customers and advisors is an important part of our digital strategy. In 2021, we introduced new features to our plan administrator and advisor portals and consumer-facing tools, including new price and performance pages, and RRIF and LIF calculators to help Canadians monitor their investments and plan for their retirements.

Products and distribution

We entered into several significant strategic collaborations in 2021, allowing us to expand our distribution to offer our products to more Canadians.

In our Group Solutions line, we entered into agreements with several providers and expanded our offerings to include a personalized healthcare navigation service for plan members who are on disability leave and three new services to the Employee Assistance Program in our group benefits plans: Health Coaching, OnCallogic and Mindfulness.

We created a new segregated fund product sold exclusively to World Financial Group customers in Canada in partnership with Canoe Financial. We partnered with CI GAM to launch a new suite of segregated funds to offer Canadian investors more options to achieve their financial goals and plan their legacies.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

We also launched three new funds, two global Empire Life Multi-Strategy GIFs and a new ESG fund which invests in global stocks that exhibit superior environmental, social, and governance characteristics. As investors seek investment options that provide both social value and investment growth, we are pleased to be able to meet this growing demand for responsible investing. These strategic collaborations, product enhancements and the appreciation by Canadian consumers of the value our products provide helped drive strong sales in 2021.

Tackling the issues of the day

Environmental, social and governance is just one area where we are tackling issues important to Canadians. The opioid crisis in Canada has been called the silent pandemic. In June, we added the Express Scripts Canada Opioid Management Solution to our pay-direct drug benefit plans to reduce exposure to opioids and educate group benefits plan members about the risks associated with chronic use of these powerful drugs.

We continue to discuss how we can create a more diverse and inclusive workplace. I'm very proud of the work our Diversity and Inclusion committee and working teams have done in the past year to raise awareness of these important societal issues and make Empire Life a place where people can bring their true selves to work and feel a sense of belonging.

We also know the pandemic has redefined our relationship with work, and we are entering one of the most competitive job markets in recent history. We were pleased to enhance our staff employee benefits plan and compensation and profit sharing plans in 2021, and we are transitioning to a hybrid work model to provide flexibility, job satisfaction and a better work/life balance for our employees. By keeping our employees engaged and retaining some of the best minds in the industry, we continue to make Empire Life a great place to work, learn and grow.

Looking forward

Next year, our company will celebrate 100 years of serving Canadians. That's a significant milestone and I look forward to celebrating with our employees, retirees, advisors, customers and community and business partners who have all contributed to the success of Empire Life over the past century.

Until then, we will persist, as we always have, to emerge into the post-pandemic world stronger, more focused on the needs of our customers, and more aware of the things that matter most in our lives: our personal relationships, our health, and our financial security.



Mark Sylvia

President and Chief Executive Officer

February 24, 2022

SOURCE OF EARNINGS DISCLOSURE

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

Expected Profit from In-Force Business

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

Impact of New Business

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

Experience Gains and Losses

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

Management Actions and Changes in Assumptions

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

Other

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

Earnings on Surplus

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

Source of Earnings by Line of Business

For the twelve months ended December 31 (in millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Expected profit on in-force business	\$ 118	\$ 134	\$ 26	\$ 26	\$ 55	\$ 57			\$ 199	\$ 215
Impact of new business	(16)	(14)	(11)	(11)	7	9			(20)	(16)
Experience gains & losses	168	(95)	(17)	4	7	5			159	(81)
Management actions and changes in assumptions	16	(67)	(1)	—	(53)	86			(38)	13
Earnings (losses) on operations before income taxes	287	(43)	(4)	19	16	156	—	—	299	130
Earnings on surplus	—	—	—	—	—	—	14	70	14	70
Income (loss) before income tax	\$ 287	\$ (43)	\$ (4)	\$ 19	\$ 16	\$ 156	\$ 14	\$ 70	\$ 313	\$ 200
Income taxes	72	(13)	(2)	5	(5)	40	1	16	67	47
Shareholders' net income (loss)	\$ 215	\$ (29)	\$ (3)	\$ 14	\$ 21	\$ 115	\$ 13	\$ 54	\$ 246	\$ 153

SOURCE OF EARNINGS DISCLOSURE

Wealth Management

Segregated Funds net income was very strong in 2021 due to significantly positive movements in equity markets and interest rate yields, which resulted in release of the segregated fund guarantee liability. The annuity product line also generated strong net income in 2021, primarily due to a significant gain from the year end economic assumption updates. The macro hedging program income had greater losses in 2021 than 2020 due to the market movements, partially offsetting the gains noted earlier.

Group Solutions

Group Solutions experienced a loss in 2021, primarily due to unfavourable claims termination experience within the long term disability (LTD) product line. Low claims termination rates were partly attributable to COVID-19 lockdowns which impacted access to rehabilitation and treatment services, impacting the entire industry. Management has evaluated the pricing for the LTD component of its product offering and implemented an increase in the third quarter for renewals and new business quotes.

Individual Insurance

Individual Insurance Non-Participating net income was substantially lower in 2021 than in 2020. In 2021 policy liabilities increased significantly primarily due to the update of lapse assumptions on renewable term business. In 2020, policy liabilities decreased significantly primarily due to the update of estimated future discounted tax cash flows.

Capital & Surplus

Earnings from Capital and Surplus in 2021 were lower than 2020. In 2020, Capital and Surplus was high due to opportunistic asset trades as credit spreads widened, which resulted in realized gains on the sale of fixed income assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of February 24, 2022

This document provides Management's Discussion and Analysis (MD&A) of the operating results and financial condition of The Empire Life Insurance Company (Empire Life or the Company) for the years ended December 31, 2021 and 2020. This MD&A should be read in conjunction with the Company's December 31, 2021 consolidated financial statements, which form part of The Empire Life Insurance Company 2021 Annual Report dated February 24, 2022. Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components due to rounding.

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

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

Financial Analysis Overview

(in millions of dollars except per share amounts)	Fourth quarter		Year	
	2021	2020	2021	2020
Common shareholders' net income	\$ 17	\$ 72	\$ 239	\$ 140
Earnings per share - basic and diluted	\$ 16.96	\$ 73.53	\$ 242.66	\$ 141.80

Empire Life reported fourth quarter common shareholders' net income of \$17 million for 2021, compared to \$72 million for 2020. Full year common shareholders' net income was \$239 million compared to \$140 million in 2020. The decrease in fourth quarter earnings from 2020 was due, in part, to the effect of assumption updates applied in the Individual Insurance line which had an unfavourable impact on fourth quarter earnings in 2021 compared to a gain in 2020. For the year, earnings were higher than 2020 primarily due to the release of segregated fund guarantee reserves in the first quarter and lower asset trading gains.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Sources of Earnings (in millions of dollars)	Fourth quarter		Year	
	2021	2020	2021	2020
Expected profit on in-force business	\$ 51	\$ 55	\$ 199	\$ 215
Impact of new business	(4)	(1)	(20)	(16)
Experience gains (losses)	15	61	159	(81)
Management actions and changes in assumptions	(55)	(22)	(38)	13
Earnings on operations before income taxes	6	92	299	130
Earnings on surplus	7	8	14	70
Income before income tax	13	101	313	200
Income taxes	(5)	25	67	47
Shareholders' net income	18	76	246	153
Dividends on preferred shares	(1)	(3)	(7)	(13)
Common shareholders' net income	\$ 17	\$ 72	\$ 239	\$ 140

The expected profit on in-force business for the fourth quarter and for the year decreased by 8%, primarily due to lower expected levels of assets under management and lower levels of business inforce at the start of the year for all three business lines.

The impact of new business for the fourth quarter and the year was more unfavourable than the same periods in 2020 primarily driven by higher acquisition expenses in the Wealth Management line related to higher sales and a lower favourable impact from new business profits at issue in the Individual Insurance line. The impact of new business in the Individual Insurance line is positive when the present value of future profits from new business exceeds the sum of the margins in the initial policy liabilities plus the expenses incurred at the point of sale.

Experience gains for the fourth quarter were lower than the comparable period primarily due to a gain in the fourth quarter of 2020 from the reversal of a portion of the segregated fund guarantee reserves held in the Wealth Management line, partially offset by equity and fixed income gains in the Individual Insurance line. For the year, experience gains were higher than 2020 primarily due to the significant positive movement in equity markets and interest rate yields, which resulted in the release of segregated fund guarantee reserves in the Wealth Management line, partially offset by unfavourable claims experience on long-term disability and dental claims in the Group Solutions line.

Management actions and changes in assumptions in the fourth quarter of 2021 were more adverse than 2020, primarily due to effect of unfavourable assumption updates in the Individual Insurance line, partially offset by favourable assumption updates in the annuity component of the Wealth Management line. For the year, the effect of management actions and changes in assumptions was adverse compared to 2020 primarily due to overall assumption updates which were less favourable than 2020 and lower asset trading gains in the Individual Insurance line in 2021.

Earnings on surplus were lower for the year primarily due to lower realized gains on Available for Sale (AFS) assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Financial Information

Income Statement Financial Information (in millions of dollars)	For the years ended December 31		
	2021	2020	2019
Revenue			
Net premium income	\$ 916	\$ 860	\$ 910
Fee income	273	251	262
Investment income	330	329	326
Realized gain on FVTPL investments	106	155	105
Realized gain on AFS investments including impairment write downs	(1)	29	22
Fair value change in FVTPL investments	(363)	357	490
Total revenue	1,259	1,982	2,115
Expenses			
Benefits and expenses	\$ 913	\$ 1,758	\$ 1,843
Income and other taxes	86	67	81
Total expenses	1,000	1,825	1,924
Net income (loss) after tax	259	157	191
Participating policyholders' portion	13	4	3
Shareholders' net income	\$ 246	\$ 153	\$ 187
Dividends on preferred shares	7	13	13
Common shareholders' net income	\$ 239	\$ 140	\$ 174
Return on common shareholders' equity	13.8%	8.5%	11.1%

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

Balance Sheet Financial Information (in millions of dollars)	As at December 31		
	2021	2020	2019
Assets			
Total cash and investments	\$ 10,082	\$ 10,045	\$ 9,293
Other assets	192	214	169
Segregated fund assets	9,257	8,457	8,499
Total assets	\$ 19,531	\$ 18,716	\$ 17,961
Liabilities			
Insurance contract liabilities	\$ 7,091	\$ 7,145	\$ 6,074
Reinsurance liabilities	253	385	698
Subordinated debt	399	399	399
Other liabilities	359	382	351
Segregated fund policy liabilities	9,257	8,457	8,499
Total liabilities	17,359	16,769	16,021
Total equity	2,172	1,947	1,940
Total liabilities and equity	\$ 19,531	\$ 18,716	\$ 17,961

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended December 31 and year for 2021 and 2020. A discussion of results is provided in the Product Line section of the MD&A.

For the three months ended December 31 (in millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue										
Net premiums	\$ 20	\$ 21	\$ 109	\$ 94	\$ 112	\$ 108	\$ —	\$ —	\$ 240	\$ 223
Investment income	7	9	1	1	60	59	18	16	86	85
Fair value change in FVTPL investments	2	11	—	1	244	70	(2)	—	245	81
Realized gain (loss) on FVTPL investments	1	3	—	—	14	16	(3)	(5)	12	14
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	4	1	2	1	6
Fee income	66	63	4	3	—	—	—	—	70	66
Total revenue	96	107	114	99	431	257	14	12	655	475
Expenses										
Net benefits and claims	42	45	80	65	39	40	—	—	161	150
Net change in insurance and investment contract liabilities	(29)	(7)	11	3	367	97	—	—	350	93
Policy dividends	—	—	—	—	11	11	—	—	11	11
Operating, commission and interest expenses	39	36	27	27	40	41	7	4	114	108
Income and other taxes	9	8	—	3	(14)	19	1	2	(3)	33
Total expenses	61	82	118	98	444	208	8	6	631	394
Net income (loss) after tax	\$ 35	\$ 25	\$ (4)	\$ 1	\$ (13)	\$ 49	\$ 6	\$ 6	\$ 24	\$ 81
Participating policyholders' portion									6	5
Dividends on preferred shares									1	3
Common shareholders' net income									\$ 17	\$ 72

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31 (in millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue										
Net premiums	\$ 75	\$ 95	\$ 407	\$ 357	\$ 434	\$ 409	\$ —	\$ —	\$ 916	\$ 860
Investment income	36	38	4	4	226	222	64	65	330	329
Fair value change in FVTPL investments	(10)	31	(4)	5	(344)	322	(5)	—	(363)	357
Realized gain (loss) on FVTPL investments	1	4	—	4	123	154	(18)	(7)	106	155
Realized gain (loss) on AFS investments including impairment write downs	—	(1)	—	(1)	—	3	(3)	28	(1)	29
Fee income	259	238	14	13	—	(1)	—	—	273	251
Total revenue	360	405	421	382	439	1,109	39	86	1,259	1,982
Expenses										
Net benefits and claims	171	174	286	235	173	169	—	—	630	578
Net change in insurance and investment contract liabilities	(241)	138	26	21	30	600	—	—	(185)	759
Policy dividends	—	—	—	—	37	35	—	—	37	35
Operating, commission and interest expenses	143	135	103	97	162	136	23	16	432	385
Income and other taxes	72	(13)	9	14	4	50	1	17	86	67
Total expenses	145	434	423	368	407	990	24	33	1,000	1,825
Net income (loss) after tax	\$ 215	\$ (29)	\$ (3)	\$ 14	\$ 32	\$ 119	\$ 15	\$ 53	\$ 259	\$ 157
Participating policyholders' portion									13	4
Dividends on preferred shares									7	13
Common shareholders' net income									\$ 239	\$ 140

Total Revenue

Net premiums for the fourth quarter and the year were higher relative to the same periods in 2020 primarily due to strong sales growth in the Group Solutions and Individual Insurance lines.

Investment income for the fourth quarter and the year was generally consistent with the amounts recorded in the same periods in 2020.

Assets classified as FVTPL experienced higher gain in the fourth quarter relative to the same quarter in 2020 primarily due to gains on fixed income instruments backing insurance contract liabilities in the Individual Insurance line. For the year, the loss from assets backing the Individual Insurance line valued as FVTPL was primarily due to a fair value decline in fixed income investments driven by higher bond yields.

Fee income for the fourth quarter and year was higher than the same periods in 2020 attributable to higher average assets under management and higher gross sales of segregated funds and improved fund returns relative to 2020.

Total Expenses

A substantial portion of the Net benefits and expenses changes are driven by the impact that market equity and interest rate movements have on the net change in insurance contract liabilities. Net benefits and claims were higher for the fourth quarter and the year by 7% and 9%, respectively, driven primarily by higher claims activity and unfavourable claims termination experience in the Group Solutions Line. Net benefits and claims variability are dependent on 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

whether claims experience has been more or less than what was estimated in the insurance contract liabilities. Claims experience is a combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities.

Operating expenses, commissions and interest expenses increased for the fourth quarter and for the year compared to 2020 primarily due to higher commissions incurred as a result of higher sales across all lines.

Product Line Results - Wealth Management

(in millions of dollars)	Fourth quarter		Year	
	2021	2020	2021	2020
Fixed Annuities				
Assets under management ¹	\$ 853	\$ 950	\$ 853	\$ 950
Gross sales	75	21	130	95
Net sales	(40)	(9)	(71)	(19)
Segregated Funds				
Assets under management ¹	9,237	8,439	9,237	8,439
Gross sales	268	234	959	759
Net sales	(145)	(58)	(259)	(236)
Fee income	65	62	256	235
Net income after tax	\$ 35	\$ 25	\$ 215	\$ (29)

Fixed annuity assets under management decreased by 10% from their levels at the end of 2020. Gross sales were higher in the fourth quarter and the year, although this was offset by higher surrenders (negative net sales) in both the fourth quarter and for the year as customers shifted away from fixed income products.

Segregated fund assets under management at the end of the period increased by 10% from their levels at the beginning of the year primarily due to positive equity market conditions. Gross sales in the fourth quarter of 2021 were 15% higher than the same period in 2020. For the year, gross sales were 26% higher than 2020 levels, reflecting an improvement over the challenging sales environment and equity markets experienced in 2020. In January, 2021, Empire Life launched two new Multi-Strategy GIF segregated funds and a Global Sustainable Equity GIF to offer customers a mix of investment management styles and greater diversification. Also in January 2021, the Company announced a new partnership with Canoe Financial to offer a segregated fund product exclusively through World Financial Group advisors. In April 2021, the Company partnered with CI Global Asset Management to offer CI Empire Life Concentric GIFs, a suite of 22 segregated fund options which invest in underlying funds managed by CI Global Asset Management.

Segregated fund fee income for the fourth quarter and year increased by 5% and 9% respectively on higher average assets under management relative to the corresponding periods in 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Product Line Results - Group Solutions

(in millions of dollars)	2021		2020	
Selected financial information				
Core	11	15	74	47
Other	6	9	25	38
Annualized premium sales	\$ 17	\$ 24	\$ 99	\$ 85
Net premiums	\$ 109	\$ 94	\$ 407	\$ 357
Net income (loss) after tax	\$ (4)	\$ 1	\$ (3)	\$ 14

For the fourth quarter, total annualized premium sales for Group Solutions decreased relative to 2020, primarily related to increased competition in some markets. For the year, annualized premium sales were 17% higher than 2020, primarily due to improved sales in the core group benefit products, partially offset by lower sales from strategic distribution partner arrangements relative to the previous year. Over the last several years, Empire Life has entered into a number of strategic arrangements to expand market share in this space.

Net premiums for the fourth quarter and year increased by 17% and 14% respectively, compared to the same periods in 2020, primarily due to improved sales performance and due to premium rebates offered to customers in the first half of 2020. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Group Solutions experienced a net loss in the quarter and for the year primarily due to increased claims activity and unfavourable experience in long term disability benefits as well as dental and extended health care benefits.

Product Line Results - Individual Insurance

(in millions of dollars)	Fourth quarter		Year	
	2021	2020	2021	2020
Shareholders'				
Shareholders' annualized premium sales	\$ 7	\$ 9	\$ 34	\$ 25
Shareholders' net premiums	73	73	291	280
Net income (loss) after tax	(18)	43	21	115
Policyholders'				
Policyholders' annualized premium sales	4	4	16	13
Policyholders' net premiums	39	35	143	128
Net income (loss) after tax	5	5	11	4
Net income after tax	\$ (13)	\$ 49	\$ 32	\$ 119

Shareholders' annualized premium sales decreased for the fourth quarter relative to the corresponding quarter in 2020 which experienced a strong sales period. For the year sales were 34% higher relative to 2020, primarily driven by strong sales momentum from the Company's term life products which began in late 2020. Policyholders' annualized premium sales were 23% higher for the full year on improved sales from the Company's core participating life products. Shareholders' net premiums in the fourth quarter were consistent with the same period in 2020, while Policyholders' net premiums grew by 12%. For the year, shareholders' net premiums and policyholders' net premium increased by 4% and 12%, respectively, primarily from strong sales of core life products over the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Shareholders' net income was lower for the fourth quarter, primarily due to the impact of favourable updates net investment assumptions, which were more than offset the impact of changes in the deferred tax liability methodology and the impact of a mortality update in 2020. For the year, Shareholders' net income decreased, primarily due to adverse mortality experience, lower asset trading gains, combined with the losses from the update of policy liability assumptions described in the following table and subsequent paragraphs.

(in millions of dollars)	Year	
	2021	2020
Components of pre-tax income increase from update of policy liability assumptions		
Lapse/premium assumptions	\$ (113)	\$ (98)
Net investment assumptions	82	(49)
Mortality experience	(25)	(45)
Mortality table update	—	76
Reinsurance recapture	11	19
Deferred tax liability	—	117
Other	(2)	12
Total gain (loss) from update of policy liability assumptions (excludes policyholders' portion)	\$ (47)	\$ 32

The lapse/premium assumption change for both 2020 and 2021 is related to updates of assumed lapse rates on renewable term and universal life policies, reflecting current Company and industry experience.

The net investment assumption change for 2021 includes a net increase in the reinvestment rates used in the valuation of policy liabilities, reflecting current interest rates. In addition, updates were made to the future reinvestment asset mix, which adds to expected credit spreads, resulting in a decrease in policy liabilities. The primary driver of the net investment assumption change for 2020 was a decrease to the reinvestment rates.

The mortality assumption change for 2021 is due to an update in the calculation of mortality improvement used in the valuation of policy liabilities. In 2020, the mortality assumption change was related to renewable term business.

In both 2020 and 2021, provisions related to the 2019 reinsurance recapture models were released. In 2019 the Company enacted significant changes to its reinsurance programs which resulted in an increase in its individual life retention.

The 2020 deferred tax liability release was based on a methodology change for reflecting preferred tax treatment of dividends on Canadian equities that are supporting the policy liabilities.

Results - Capital and Surplus

(in millions of dollars)	Fourth quarter		Year	
	2021	2020	2021	2020
Net income (loss) after tax shareholders' portion	\$ 6	\$ 7	\$ 13	\$ 54
Net income (loss) after tax policyholders' portion	\$ 1	\$ (1)	\$ 2	\$ —
Net income (loss) after tax	\$ 6	\$ 6	\$ 15	\$ 53

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

Net income from the shareholders' portion of Capital & Surplus was lower than the fourth quarter of 2020, primarily due to higher interest expense, partially offset by lower realized losses on FVTPL assets in this segment. For the year, shareholders' net income was lower than 2020 primarily due to lower realized gains on AFS assets. Policyholders net income was higher than the comparable periods in 2020 primarily due to higher realized gains on AFS assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Shareholder Dividends

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

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

On February 23, 2022, the Board of Directors declared a dividend of \$18.45 per common share of Empire Life. The following table provides details of the amounts and dates for Empire Life's per share common and preferred share dividends.

	Amount of Dividend per share	Payable Date	Record Date
Common shares	\$ 18.45	March 31, 2022	March 10, 2022
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.306250	April 17, 2022	March 18, 2022

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	
	2021	2020
Cash flow provided from (used for)		
Operating activities	\$ 317	\$ 273
Investing activities	(282)	(20)
Financing activities	(31)	(205)
Net change in cash and cash equivalents	\$ 4	\$ 49

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.

The net change in cash and cash equivalents was an increase of \$4 million, made up of the following items:

- Higher cash provided from operating activities in 2021 relative to 2020 was primarily due to lower cash outflows related to changes in working capital levels.
- An increase in cash used for investing activities in 2021 relative to 2020 related to the proceeds from financing activities undertaken in 2021.
- A decrease in cash used for financing activities in 2021 is partially due to lower common share dividends as 2020 included a special common share dividend of \$90 million.

For an analysis of liquidity for Empire Life, see note 10(e) and note 27(b) to the 2021 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 the Company. Empire Life's investment strategy also includes the use of publicly-listed common stocks or exchange-traded funds (ETFs) to support the liabilities under its insurance policies. Cash flows arising from these financial instruments are intended to match the liquidity requirements of Empire Life's policies, within the limits prescribed by the Company. Empire Life is subject to credit and market risk on these financial instruments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Empire Life manages credit risk with respect to derivatives by applying limits and credit rating restrictions established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed. Additional information regarding financial instruments is included in notes 2(d), 3, 10(c), and 27 to the audited consolidated financial statements for the year ended December 31, 2021.

Sources of Capital

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

(in millions of dollars)	As at	
	December 31, 2021	December 31, 2020
Subordinated debentures	\$ 399	\$ 400
Equity		
Preferred shares and other equity instruments	\$ 297	\$ 250
Common shares	\$ 1	\$ 1
Total Equity	\$ 298	\$ 251

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

(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	As at	
				December 31, 2021	December 31, 2020
Subordinated debentures, Series 2016-1 ⁽¹⁾	December 2016	December 16, 2021	3.383%	\$ —	\$ 200
Subordinated debentures, Series 2017-1 ⁽²⁾	September 2017	March 15, 2023	3.664%	\$ 200	\$ 200
Subordinated debentures, Series 2021-1 ⁽³⁾	September 2021	September 24, 2026	2.024%	\$ 200	\$ —

⁽¹⁾ The Series 2016-1 Subordinated 3.383% Unsecured Debentures were redeemed on December 16, 2021.

⁽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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Preferred Shares and Other equity Instruments				As at	
(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	December 31, 2021	December 31, 2020
Preferred shares, Series 1	January 2016	April 17, 2021	5.750%	\$ —	\$ 150
Preferred shares, Series 3	November 2017	January 17, 2023	4.900%	\$ 100	\$ 100
Limited Recourse Capital Notes, Series 1	February 2021	April 17, 2026	3.625%	\$ 200	\$ —

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

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 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.

On September 24, 2021, the Company completed an offering of \$200 million unsecured subordinated debentures with a maturity date of September 24, 2031. The interest rate on the debentures is 2.024% paid semi-annually until September 24, 2026. After that, the interest rate will be the 3-month Canadian Deposit Offering Rate plus 0.67% from September 24, 2026 to September 24, 2031.

On December 16, 2021, the Company redeemed all of the outstanding \$200 million 3.383% Series 2016-1 unsecured subordinated debentures on December 16, 2021 at a redemption price equal to the principal amount together with accrued and unpaid interest to that date.

Regulatory Capital

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

LICAT		Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
(in millions of dollars)		2021	2021	2021	2021	2020
Available capital						
Tier 1	(A)	\$ 1,898	\$ 1,820	\$ 1,805	\$ 1,908	\$ 1,623
Tier 2	(B)	591	853	658	664	677
Total	(C)	\$ 2,489	\$ 2,673	\$ 2,463	\$ 2,572	\$ 2,300
Surplus allowance and eligible deposits	(D)	1,115	1,162	1,170	1,121	1,156
Base solvency buffer	(E)	2,508	2,561	2,536	2,503	2,541
LICAT total ratio	((C+D)/E * 100)	144%	150%	143%	148%	136%
LICAT core ratio	((A+70%D)/E * 100)	107%	103%	103%	108%	96%

Other Comprehensive Income

(in millions of dollars)	Fourth quarter		Year	
	2021	2020	2021	2020
OCI, attributable to shareholders	\$ 14	\$ 4	\$ (23)	\$ 40
OCI, attributable to policyholders	—	\$ (3)	1	—
Total other comprehensive income	\$ 14	\$ 1	\$ (22)	\$ 40

Other comprehensive income (OCI) increased in the fourth quarter, primarily due to higher unrealized fair value gains on AFS investments and a higher gain on re-measurement of post-employment benefit liabilities. For the year, OCI was lower relative to 2020, primarily due to overall unrealized fair value losses on AFS assets and a gain on re-measurement of post-employment benefit liabilities.

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

Industry Dynamics and Management's Strategy

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

Based on general fund and segregated fund assets, Empire Life is among the 10 largest life insurance companies in Canada. Empire Life has approximately 6% market share of segregated funds, 5% market share for employee benefits and 3% market share for new life insurance premiums. To be priced competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized company, must find a way to continue to be cost competitive with the larger companies that have some natural economy of scale advantages. Empire Life has focused exclusively on the Canadian marketplace and, within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with its distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to broadly focused competitors, management believes these solid relationships will enable profitable growth. Across all business lines, Empire Life is focused on growth and diversification of distribution as well digital enablement and adoption, all while maintaining personalized service.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

Risk Management

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

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

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

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

- Due to the long-term nature of the majority of its commitments, the Company accepts capital market risk provided it is managed within specific risk tolerances and limits. The Company takes a low-risk, value-oriented approach to managing its investments - it accepts credit and alternative asset risk provided it is rewarded through appropriately enhanced returns;

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The Company manages liquidity across the business to provide a high level of confidence that all obligations (to customers, creditors and shareholders) will be met when they fall due;
- The Company accepts product risks provided they are properly priced and managed to deliver value to its customers and shareholders;
- The Company is forward-looking in its business planning and takes a prudent approach to capital management. It strives to have a high level of confidence that capital is sufficient to support planned future activities;
- Management is active in industry committees and, through a network of oversight functions, monitors the landscape so that the Company is appropriately positioned to manage regulatory, tax, accounting and actuarial changes;
- The Company accepts that operational risks are a part of doing business and knows that risk management is a key part of decision-making. It protects its business and customers by engaging in cost-effective risk mitigation and
- The Company expects ethical conduct by all of its employees, and it acts with integrity at all times.

The Board of Directors oversees and monitors Empire Life's risk management framework, processes and practices, and reviews and approves the Company's Enterprise Risk Management Framework and overall risk appetite. Senior management shares responsibility and accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency of contact across the management team. The Company has an Asset Management Committee with responsibility for overseeing the management of corporate policies established by both the Investment Committee and Risk and Capital Committee of the Board, with specific focus on market, credit and liquidity risk including asset/liability management as well as capital management. The Product Management Review Committee is responsible for overseeing management of corporate policy established by the Risk and Capital Committee of the Board, with specific focus on product risk. Activities not delegated to one of these two committees remain under the oversight of senior management. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2021 Annual Report. Risk management policy development is centralized under the leadership of the Chief Risk Officer and applies to all business units. The Chief Risk Officer is a member of the Asset Management Committee and Product Management Review Committee and has Board reporting responsibility with respect to risk and capital management, the latter of which is shared with the Chief Actuary. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers and the risk management department. There is senior management representation and oversight on various interdisciplinary risk control committees. The Company formally establishes and documents its values and risk tolerances through several company-wide policies including a code of business conduct, corporate disclosure principles, enterprise risk management, capital management and whistleblower policies. The Company's strategic risk management policies (including those related to product design and pricing, investment and capital management) are also approved by its Board, or a Board committee.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Significant Developments

In March 2020, the World Health Organization declared a pandemic related to the COVID-19 virus. The spread of the pandemic, given its severity and scale has affected and may continue to affect the Company's financial results as well as its customers and continues to pose risks to the Canadian economy.

The Company continues to adjust its operations, where necessary, as government restrictions and measures evolve. The Company has taken proactive measures through its business continuity processes. Normal operations have continued effectively and processes are in place to monitor and maintain ongoing system availability, stability and security.

Due to various restrictions, the majority of employees continue to work from home and associated strategies continue to operate effectively. Return to office plans are currently on hold but have been designed to be gradual and measured to ensure the health and safety of our employees. Awareness and concern about mental health has been amplified throughout the pandemic. The Company continues to sponsor mental health webinars and other resources to support employees and has also launched programs available to its group benefits customers.

While rising vaccination rates have supported easing of government restrictions in some areas, progress to re-opening has been impacted by the evolution of variants and subsequent re-imposition of restrictions. The duration and impact of the COVID-19 pandemic remains uncertain and dependent on the progression of the virus, vaccination availability, adoption and efficacy and actions taken by governments, businesses and individuals. In addition, the business landscape in which the Company operates is shifting and longer-term impacts of containment measures on the economy, customer behaviour and future financial results is difficult to predict.

The Company has considered these events and their effects when applying the measurement techniques for critical accounting estimates and judgments provided in Note 2(c). The potential effect on the Company's financial results due to fluctuations in equity markets and interest rates are provided in Note 27(a).

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life has a semi-static hedging program. The objective of the hedging program is to partially protect the Company from regulatory (LICAT) ratio declines that might result from adverse stock market price changes. The hedging program may employ derivatives positions including put options and futures. The extent of derivatives used is monitored and managed on an ongoing basis, giving consideration to equity 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. During the fourth quarter and for the year, Empire Life experienced a loss of \$3 million and \$15 million after tax respectively on its hedging program, primarily as Canadian equity markets experienced positive returns in the fourth quarter and for the year. This compares to a hedging program loss of \$5 million and \$3 million respectively for the comparable periods in 2020, primarily due to a gain on the program in early 2020 due to volatile Canadian equity prices.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2021, Empire Life had \$9.3 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.9 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Dec 31 2021	Dec 31 2020
Percentage of Segregated Fund Liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	7%	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)	42%	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 the deposits in the customer's policy (whether the fund value is below or above the guaranteed amount) to arrive at an overall net guarantee payment, whereas deposit-based guarantees consider only the deposits where the fund value is below the guaranteed amount and ignore all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, policy-based guarantees generally pay less than deposit-based guarantees. For segregated fund guarantee insurance contract liabilities, the level of sensitivity is highly dependent on the level of the stock market at the time of performing the sensitivity test. If period-end stock markets are high relative to market levels at the time that segregated fund policies are issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies are issued, the sensitivity is increased.

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

Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at December 31, 2021 and December 31, 2020, the sensitivity of Empire Life shareholders' net income and LICAT Total ratio resulting from stock market increases and decreases is provided in the following table.

Sensitivity to equity risk: Impact on net income (in millions of dollars after tax)	Increase		Decrease		
	20 %	10 %	10 %	20 %	30 %
As at December 31, 2021					
Segregated fund guarantees	\$ —	\$ —	\$ (10)	\$ (60)	\$ (189)
Other equity risk	40	19	(18)	(32)	(44)
Equity hedge	(2)	(2)	4	12	27
Total	\$ 38	\$ 18	\$ (24)	\$ (81)	\$ (206)
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	\$ 136	\$ 117	\$ (23)	\$ (103)	\$ (278)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

In 2021, Empire Life significantly decreased the segregated fund guarantee liability because of market strengthening. This liability is currently negative and floored at zero for reporting purposes. These factors caused a decrease in the potential positive net income impacts of a 10% and 20% increase in stock markets at the end of 2021 relative to the end of 2020, as the liability remains negative and therefore still floored at zero in those scenarios.

A positive change in equity markets is recognized in the segregated fund component of the base solvency buffer and therefore would increase the LICAT ratio in these scenarios. The effect would be partially offset by an increase in the Company's hedging program that was implemented in 2021.

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

Segregated Funds (in millions of dollars)	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Policy Liabilities	LICAT Capital
	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Fund Value	Amount At Risk		
December 31, 2021	\$ 2,617	\$ 766	\$ 27	\$ 2	\$ 200	\$ 3	—	658
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 December 31, 2021, the aggregate amount at risk for all three categories of risk was \$770 million. 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.

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In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in assumed initial reinvestment rate (IRR) for non-participating insurance business and segregated fund guarantees for December 31, 2021 and December 31, 2020, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR).

Sensitivity to Market Interest Rates LICAT	Impact of 50 bps Decrease
December 31, 2021 LICAT total ratio	1%
December 31, 2020 LICAT total ratio	3%

Operational Risk

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

(1) *Legal and Regulatory Compliance Risk*

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

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

(2) *Model Risk*

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

(3) *Human Resources Risk*

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If Empire Life is unable to retain and attract qualified employees and executives, and is unable to maintain and effectively deploy resources with the in-depth knowledge and necessary skills needed to support business activities, the results of its operations and financial condition, including its competitive position, could be

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adversely affected. To mitigate this risk, Empire Life has human resources policies, processes and practices in place. Management reports regularly to the Human Resources Committee of the Board on succession planning, employee development, and diversity and inclusion program initiatives, as well as compensation practices and programs, all of which are designed to attract, motivate and retain a highly skilled workforce whose differences, stories, experiences and ideas contribute to high-performing, high-potential employees. Empire Life recognizes that to build a successful and sustainable business, diversity and inclusion must serve as a catalyst. In 2021, Empire Life reinforces its commitment to diversity, equity and inclusion by progressively fostering a culture of diversity and inclusion while reviewing existing policies to ensure equity and clarity.

(4) Third-Party Risk

Empire Life obtains many different types of services from a number of third-party service providers and has outsourced certain business functions or processes to third parties. Should these third parties fail to deliver systems and/or services in compliance with contractual or other service arrangements, Empire Life's business may be adversely impacted. To mitigate this risk, Empire Life has established contracting guidelines as well as a Company-wide outsourcing risk management policy that provides guidance when considering, entering into or managing existing outsourcing arrangements commensurate with the risks associated with the service provider and the nature of the arrangement. Annually, management reports to the Conduct Review Committee of the Board on outsourcing activities including details on those arrangements deemed to be most material to Empire Life.

(5) Technology and Information Security Risk

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

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

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

(6) Business Continuity Risk

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

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Business and Strategic Risk

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

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

Empire Life's business strategies and plans are dependent on the successful execution of organizational and strategic initiatives designed to support the growth of its business. The ability to effectively manage these changes and prioritize initiatives directly affects Empire Life's ability to execute these strategies. Identifying and implementing the right set of initiatives is critical to achieving Empire Life's business plan targets. Failure to implement these initiatives could also lead to cost structure challenges. The Company's business strategies are also influenced by attitudes towards societal issues. Factors such as diversity and inclusion and climate change are considered as part of the strategic planning process and are reflected in Empire Life's risk management program and associated policies. Collectively referred to as "ESG" (environmental, social, governance), these risks are not a stand-alone risk category, but rather underlie all risk categories (credit, market, liquidity, product, operational and business and strategic). As such, processes for managing them are embedded in the processes for managing each risk category.

Successful execution of Empire Life's business strategies and plans depends on a number of factors including its ability to (i) generate sufficient earnings to maintain an adequate level of capital; (ii) generate sustained investment performance; (iii) meet regulatory requirements; (iv) manage risk exposures effectively; (v) attract and retain customers and distributors; (vi) have the right set of products; and (vii) reduce operating expenses while maintaining the ability to hire, retain and motivate key personnel. As a long-term oriented underwriter and investor, Empire Life may be adversely affected if it does not adequately prepare for the direct or indirect negative impacts of environmental events and developments, including those related to impacts of climate changes and the transition to a lower-carbon economy. These events and developments may include increased frequency and severity of natural or human-made environmental disasters, longer-term shifts in climate patterns, emerging regulatory and public policy developments and the impacts on Empire Life's operations, invested assets, suppliers and customers.

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

Risk Relating to the COVID-19 Pandemic

Pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide could have an adverse impact on Empire Life's business, including changes to the way it operates, and on financial results and condition. The COVID-19 pandemic and the measures imposed by governments around the world to limit its spread have disrupted the global economy, financial markets, supply chains, business activity and productivity in unprecedented ways. Given its severity and scale, the COVID -19 pandemic continues to affect Empire Life's business, some of its clients and also continues to pose risks to the Canadian economy. Empire Life continues to adjust its operations as government restrictions and measures evolve. As the impacts of the COVID-19 pandemic continue to materialize, Empire Life continues to monitor the effects of the disruption on our business strategies and initiatives and the effects to financial results.

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Empire Life has taken proactive measures through its business continuity plans and normal operations have continued effectively. Processes supporting ongoing systems availability, stability and security are being monitored closely and are operating effectively. The Company continues to monitor the threat landscape.

Due to various restrictions, the majority of employees continue to work from home and associated strategies continue to operate effectively. Return to office plans are currently on hold but have been designed to be gradual and measured to ensure the health and safety of Empire Life's employees and customers.

In virtually all aspects of Company operations, Empire Life's view of risks is not static. The impact and evolution of the COVID-19 pandemic is resulting in the potential for simultaneous impacts across many risk categories, though the time horizon and magnitude remains uncertain. This includes, but is not limited to:

- Market risks, such as equity and interest rates, including impact on fee income;
- Product risk, including higher than expected mortality and morbidity claims, adverse policyholder behavior including but not limited to higher than expected policy lapses, withdrawals and surrenders;
- Credit risk, including defaults, impairments and downgrades;
- Liquidity risk including collateral, and payment deferral on invested assets or policyholder insurance premium impacts;
- Operational risk including technology and information security risk, business continuity risk, third party risk, human resources risk, and legal and regulatory compliance risk; and
- Business and strategic risk including risks related to implementation of business plans and strategies, adapting to changes in business environment, economic, political and regulatory environment, and distribution risk.

While rising vaccination rates have supported easing of government restrictions in some areas, progress to re-opening has been impacted by the evolution of variants and subsequent re-imposition of restrictions. The duration and impact of the COVID-19 pandemic remains uncertain and dependent on the progression of the virus, vaccination availability, adoption and efficacy and actions taken by governments, businesses and individuals. In addition, the business landscape in which the Company operates is shifting and longer-term impacts of containment measures on the economy, customer behaviour and future financial results is difficult to predict. Empire Life continues to monitor developments in equity and fixed income markets generally, and in connection with Empire Life's investment portfolios in particular. Given the extent of the circumstances, it is difficult to reliably measure or predict the potential impact of this uncertainty on our future financial results.

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in Empire Life's Annual Information Form available at www.sedar.com. Additional disclosures of Empire Life's sensitivity to risks are included in note 27 to the 2021 consolidated financial statements.

Disclosure Controls and Procedures

Empire Life's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Empire Life under Canadian securities laws is recorded, processed, summarized and reported within the specified time periods, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. Under the supervision of management, an evaluation was carried out on the effectiveness of Empire Life's disclosure controls and procedures as of December 31, 2021. Based on that evaluation, management concluded that Empire Life's disclosure controls and procedures were effective as at December 31, 2021.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Under the supervision of management, an evaluation of Empire Life's internal control over financial reporting was carried out as at December 31, 2021. Based on that evaluation, management concluded that Empire Life's internal control over financial reporting was effective as at December 31, 2021. No changes were made in Empire Life's internal control over financial reporting during the

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year ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, Empire Life's internal control over financial reporting.

Critical Accounting Estimates

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

Policy Liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivities to risks related to policy liabilities are included in note 27 to the consolidated financial statements.

Financial Instrument Classification

Management judgment is used to classify financial instruments as fair value through profit or loss, available for sale or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in net income or other comprehensive income. Additional information regarding financial instrument classification is included in notes 2(d), 3(a), 3(b), and 10(c).

Pension and Other Employee Future Benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made affect the pension and other employee future benefits expense included in net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI. Additional information regarding pension and other employee future benefits is included in notes 2(k), and 12.

Provision for Impaired Investments

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

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

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Outlook

The path and implications of COVID-19 on Canadian and international business operations, supply chains, travel, consumer confidence and business forecasts, and domestic and international securities markets, remains uncertain. While rising vaccination rates have supported easing of government restrictions in some areas and jurisdictions, progress to re-opening has been impacted by the evolution of variants. The progression of the virus, potential treatments and therapies, the availability and efficacy of vaccines and actions taken by governments, businesses and individuals could vary by region and country and will impact economic recoveries. Empire Life continues to adjust operations as government restrictions and measures evolve. Our business continuity processes have been successful in ensuring that key business functions and normal operations continue through these unprecedented times. Processes supporting ongoing systems availability, stability and security are operating effectively and we continue to monitor the threat landscape. Most of employees continue to work from home. Return to office activities have been carefully planned but remain appropriately flexible in response to government restrictions. Management remains focused on preserving the well-being of all employees and our ability to serve our customers.

As the economy recovered from the lockdowns in 2020 and early 2021, the annual unemployment in Canada returned to near normal levels from a peak of 13.7% in May of 2020. The lingering effects of the pandemic will continue to weigh on 2022 and potentially beyond. The recovery of the Canadian and global economy will depend on the effectiveness of vaccine rollouts and on-going management of inflation pressures.

The Canadian Federal Bond yield curve shifted up with the 5-year rate increasing from 0.39% to 1.25% in 2021 and the 30-year rate increasing from 1.21% to 1.68% in 2021. While corporate and provincial bond spreads were relatively stable on shorter durations, spreads widened in 2021 on longer duration bonds. Interest rates have generally been lower than historic averages for several years.

After an uneven quarterly performance in 2020, global equity markets performed well in 2021 with the MSCI up over 18.5% for the year. The S&P 500 stock index was up 26.9% and the S&P/TSX composite index was up 21.7% for the year. Stock market conditions impact the in-force profit margins and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line.

Looking forward to 2022, the global economy is expected to have moderate growth. The Canadian economy is expected to rebound in 2022 and 2023 with forecast GDP of 4% and 3.5% respectively. The ability of economies to recover and grow in line with projections is highly dependent on the ability of governments to managed the lingering effects of the COVID-19 pandemic on their economies. Other threats to economic growth include the impact of the inflationary pressures across the country and energy policy on the regional economies of the western provinces. Short-term interest rates may continue to stay at their historic low levels in the near-term. Overall, the Canadian economy is well-positioned to support continued growth of all Empire Life's product lines.

The individual insurance market continues to grow modestly even with the challenge of the persistent low long-term interest rate environment that followed the financial crisis and has remained low in the current COVID-19 pandemic. Empire Life has decreased its emphasis on long-term life insurance products in favor of shorter-term products, such as 10-year renewable term life insurance. Long-term interest rates, product mix and product pricing are expected to continue to be challenges for Empire Life's Individual Insurance product line. The segregated fund product line recovered from the challenging sales and equity market environment in 2020, however increased competition and fee pressures may impact this line going forward. Empire Life will continue to develop low-cost efficient products delivered digitally to satisfy consumer needs. Within the employee benefits product line, although highly concentrated, Empire Life will continue to penetrate its niche market to grow the business. Across all business lines, Empire Life is focused on growth and diversification of distribution as well digital enablement and adoption, all while maintaining personalized service.

As noted under the Regulatory Capital section, OSFI implemented its LICAT Guidelines on January 1, 2018. This Guideline established a new risk-based regulatory capital framework for life insurance companies and replaced the previous Minimum Continuing Capital and Surplus Requirements Guideline. LICAT is intended to improve the quality of capital available and provide a better alignment of risk measures with the long-term economics of the insurance business. This Guideline was developed in consultation with the life insurance industry and OSFI. OSFI is also

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reviewing the overall approach for determining capital requirements for segregated fund guarantee risks. Changes to the capital required for products with guaranteed income may ultimately impact the industry's ability to offer these products at reasonable prices to the consumer. OSFI has indicated that the effective date for the Guideline for segregated fund guarantees will be implemented at the same time as IFRS 17. OSFI is continuing to review the application of Non-Viable Contingent Capital (NVCC) for life insurance companies. If NVCC applied, new preferred shares and subordinated debentures issued after the transition date would have to be compliant with the new regime to qualify as capital.

The International Accounting Standards Board (IASB) issued the final standard for IFRS 17 Insurance Contracts in June 2020. IFRS 17 includes fundamental changes from the CALM method (equivalent to IFRS 4 Insurance Contracts) that Empire Life currently applies for the valuation of insurance contracts and revenue recognition. The IASB has also granted a temporary exemption from the application of IFRS 9 Financial Instruments to allow insurance companies the ability to implement both IFRS 17 and IFRS 9 concurrently. IFRS 9 applies to the measurement of financial assets, the expected credit loss model and hedge accounting. For insurance contracts and financial instruments accounting, the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. Preparing for the adoption of IFRS 17 and IFRS 9 is a significant initiative for Empire Life and for the industry. Empire Life is currently assessing the impact that IFRS 17 and IFRS 9 will have on the Company's consolidated financial statements and has developed a plan to implement the changes required to be ready to report under the new standards when they take effect on January 1, 2023.

The Canadian Securities Administrators (CSA) has increased disclosure requirements for mutual fund companies, including point of sale requirements and customer relationship model initiatives. Mutual fund and segregated fund fees continue to be an area of interest for securities and insurance regulators have implemented plans to restrict the use of deferred sales charges. Empire Life continues to monitor these developments and assess the impact to its business operations.

The industry is also improving the oversight of Managing General Agents (MGAs) and their advisors. Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. In 2013, the Canadian Life and Health Insurance Association (CLHIA) developed a new Insurer-MGA Relationship guideline (effective January 1, 2015). The Guideline describes desired outcomes and related practices in five general areas, including, perform due diligence prior to entering into a contract with an MGA, clearly set out roles and responsibilities in the contract, commit to a culture of treating customers fairly, monitor the performance of the MGA and retain ultimate responsibility. The industry is also considering establishing a licensing regime for all distribution firms. The licensing of distribution firms would clarify the accountability for the distribution partners to adhere to the insurer's code of conduct and provide on-going monitoring of the advisors' activities.

The cost of managing regulation is a concern. The insurance industry is facing more aggressive consumer and financial solvency regulation than in the past and must also absorb the cost of implementing IFRS 17. The regulation load is increasing operating costs without offsetting revenue gains. Empire Life must continue to grow its business to absorb these rising costs.

Quarterly Results

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

	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
(in millions of dollars, except per share amounts)	2021	2021	2021	2021	2020	2020	2020	2020
Revenue	\$ 655	\$ 251	\$ 618	\$ (265)	\$ 475	\$ 401	\$ 1,105	\$ 2
Common shareholder's net income	\$ 17	\$ 33	\$ 32	\$ 157	\$ 72	\$ 51	\$ 48	\$ (32)
Earnings per share - basic and diluted	\$ 16.96	\$ 33.78	\$ 32.09	\$ 159.82	\$ 73.53	\$ 51.91	\$ 48.42	\$ (32.05)

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Forward-Looking Statements and Information

Certain statements in this MD&A about Empire Life's current and future plans, expectations and intentions, results, market share growth and profitability, strategic objectives or any other future events or developments constitute forward-looking statements and information within the meaning of applicable securities laws. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements and information. Although management believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because there can be no assurance that they will prove to be correct. By their nature, such forward-looking statements and information are subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, market risk including equity risk, hedging risk, interest rate risk, foreign exchange rate risk; liquidity risk; credit risk including counterparty risk; product risk including mortality risk, policyholder behaviour risk, expense risk, morbidity risk, product design and pricing risk, underwriting and claims risk, reinsurance risk; operational risk, including legal and regulatory compliance risk, model risk, human resources risk, third-party risk, technology and information security risk, and business continuity risk; and business and strategic risk, including risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to litigation, risk with respect to reputation, risk with respect to risk management policies, risk with respect to intellectual property, risk with respect to significant ownership of common shares and risk relating to the COVID-19 pandemic. 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 to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of

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management compensation. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating the Company's underlying financial results.

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

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

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

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

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

Reconciliation of Assets Under Management

As at	December 31, 2021	December 31, 2020
(in millions of dollars)		
Assets Under Management		
General fund assets	\$ 10,273	\$ 10,259
Segregated fund assets	9,257	8,457
Total assets per financial statements	19,530	18,716
Mutual fund assets	114	121
Assets under management	\$ 19,644	\$ 18,836

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

As at	December 31, 2021	December 31, 2020
(in millions of dollars)		
DB plan assets		
Segregated fund assets	\$ 223	\$ 208
Mutual fund assets	17	16

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Company maintains a system of internal control over financial reporting which is designed to provide reasonable assurance that assets are safeguarded, expenditures are made in accordance with authorizations of management and directors, transactions are properly recorded, and the financial records are reliable for preparing the consolidated financial statements in accordance with (IFRS). Under the supervision of management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out as at December 31, 2021. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2021.

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

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

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



Mark Sylvia

President and Chief Executive Officer
Kingston, Ontario
February 24, 2022



Rebecca Rycroft

Senior Vice-President and Chief Financial Officer
Kingston, Ontario
February 24, 2022

APPOINTED ACTUARY'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

I have valued the policy liabilities and reinsurance liabilities of The Empire Life Insurance Company for its Consolidated statements of financial position at December 31, 2021 and their change in the Consolidated statements of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

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



Dan Doyle, FSA, FCIA, MAAA

Fellow, Canadian Institute of Actuaries

Kingston, Ontario

February 24, 2022

INDEPENDENT AUDITOR'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Empire Life Insurance Company and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of insurance contract liabilities</p> <p><i>Refer to note 2 – Significant Accounting Policies and note 10 – Insurance Contract Liabilities and Reinsurance Assets/Liabilities to the consolidated financial statements.</i></p> <p>The Company has gross insurance contract liabilities of \$7.1 billion and reinsurance liabilities of \$0.3 billion as at December 31, 2021 on its consolidated statement of financial position (collectively, insurance contract liabilities). Insurance contract liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and premium taxes on policies in force.</p> <p>Insurance contract liabilities are determined using the Canadian Asset Liability Method (CALM), as established by the Canadian Institute of Actuaries (CIA) (actuarial models). The CALM incorporates best-estimate assumptions for mortality, policy lapses, surrenders and future investment yields that require management judgment. The assumptions are based on experience studies, industry studies and requirements of the CIA.</p> <p>We considered this a key audit matter due to the judgment applied by management when developing their valuation of the insurance contract liabilities, which in turn led to a high degree of auditor judgment and effort in evaluating the best-estimate assumptions. Professionals with specialized skill and knowledge in the field of actuarial sciences assisted us in performing our procedures.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> • Tested how management determined the valuation of the insurance contract liabilities, which included the following: <ul style="list-style-type: none"> – Understood management’s method (CALM) for determining the valuation of insurance contract liabilities. – Tested the operating effectiveness of relevant controls over the completeness and accuracy of the underlying policy data used in management’s valuation of insurance contract liabilities. – With the assistance of professionals with specialized skill and knowledge in the field of actuarial science assessed the reasonableness of management’s best estimate assumptions for policy lapses, surrenders, mortality and future investment yields by: <ul style="list-style-type: none"> ◦ Evaluating these assumptions in accordance with actuarial principles and requirements of the CIA. ◦ Evaluating experience studies conducted by the Appointed Actuary for appropriateness and considering the relationship of the results with industry studies. – With the assistance of professionals with specialized skill and knowledge in the field of actuarial science, tested the appropriateness of the actuarial models used in developing the valuation of insurance contract liabilities, by: <ul style="list-style-type: none"> ◦ Assessing a sample of actuarial models to ensure the correct modelling of product features. ◦ Assessing a sample of actuarial models to ensure the correct application of best-estimate assumptions for policy lapses, surrenders, mortality and future investment yields. • Tested the disclosures made in the consolidated financial statements, particularly on the sensitivity of best-estimate assumptions on insurance contract liabilities.

INDEPENDENT AUDITOR'S REPORT

Other information

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

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

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

When we read the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance..

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

February 24, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31	2021	2020
Assets		
Cash and cash equivalents (Note 3)	\$ 193,217	\$ 189,356
Investments		
Short-term investments (Note 3)	8,647	13,008
Bonds (Note 3)	8,149,460	8,027,780
Preferred shares (Note 3)	441,339	616,902
Common shares (Note 3)	1,019,434	918,700
Derivative assets (Note 3)	6,302	5,377
Mortgages (Note 3)	153,564	157,214
Loans on policies (Note 3)	56,917	56,458
Policy contract loans (Note 3)	52,808	60,407
Total cash and cash equivalents and investments	10,081,688	10,045,202
Accrued investment income	42,379	38,932
Insurance receivables (Note 4)	48,700	46,533
Current income taxes	15,242	38,795
Other assets (Note 5)	19,452	21,289
Property and equipment (Note 6)	14,889	18,301
Intangible assets (Note 7)	28,511	27,983
Investment in associates	22,504	21,301
Segregated fund assets (Note 8)	9,257,298	8,457,417
Total assets	\$ 19,530,663	\$ 18,715,753
Liabilities		
Accounts payable and other liabilities (Note 11)	\$ 95,583	\$ 130,971
Insurance payables (Note 9)	115,793	114,938
Reinsurance liabilities (Note 10)	253,330	384,761
Insurance contract liabilities (Note 10)	7,091,053	7,145,461
Investment contract liabilities	27,872	29,041
Policyholders' funds on deposit	35,094	34,817
Provision for profits to policyholders	38,665	36,124
Deferred income taxes (Note 18)	45,539	35,711
Subordinated debt (Note 13)	398,858	399,442
Segregated fund policy liabilities	9,257,298	8,457,417
Total liabilities	17,359,085	16,768,683
Equity		
Preferred shares (Note 20)	100,000	249,500
Other equity instruments (Note 20)	196,664	—
Common shares (Note 20)	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,802,325	1,602,915
Accumulated other comprehensive income	52,217	74,283
Total equity	2,171,578	1,947,070
Total liabilities and equity	\$ 19,530,663	\$ 18,715,753



Duncan N. R. Jackman

Chairman of the Board



Mark Sylvia

President and Chief Executive Officer

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

For the year ended December 31	2021	2020
Revenue		
Gross premiums (Note 14)	\$ 1,182,899	\$ 1,081,630
Premiums ceded to reinsurers (Note 14)	(267,356)	(221,389)
Net premiums (Note 14)	915,543	860,241
Investment income (Note 3)	329,693	329,423
Fair value change in fair value through profit or loss assets	(363,415)	356,755
Realized gain (loss) on fair value through profit or loss assets sold	105,609	154,926
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	(1,477)	29,414
Fee income (Note 15)	272,774	251,343
Total revenue	1,258,727	1,982,102
Benefits and expenses		
Gross benefits and claims paid (Note 16)	789,050	715,766
Claims recovery from reinsurers (Note 16)	(158,932)	(137,475)
Gross change in insurance contract liabilities (Note 16)	(54,408)	1,071,593
Change in insurance contract liabilities ceded (Note 16)	(131,431)	(313,611)
Change in investment contracts provision	471	989
Policy dividends	36,820	35,166
Operating expenses (Note 17)	176,513	168,305
Commissions	265,337	226,441
Commission recovery from reinsurers	(31,559)	(23,880)
Interest expense	21,472	14,437
Total benefits and expenses	913,333	1,757,731
Premium tax	18,229	18,742
Investment and capital tax	3,822	4,066
Net income before income taxes	323,343	201,563
Income taxes (Note 18)	64,409	44,332
Net income	\$ 258,934	\$ 157,231
Less: net income (loss) attributable to participating policyholders	12,849	4,047
Shareholders' net income (loss)	246,085	153,184
Less: preferred share dividends declared (Note 21)	7,049	13,496
Common shareholders' net income	\$ 239,036	\$ 139,688
Earnings per share - basic and diluted (Note 19)	\$ 242.66	\$ 141.80
(2,000,000 shares authorized; 985,076 shares outstanding)		

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

For the year ended December 31	2021	2020
Net income	\$ 258,934	\$ 157,231
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified subsequently to net income:		
Unrealized fair value change on available for sale investments (Note 18)	(57,228)	78,894
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 18)	1,201	(21,620)
Net unrealized fair value increase (decrease)	(56,027)	57,274
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 18)	33,961	(16,809)
Total other comprehensive income (loss)	(22,066)	40,465
Comprehensive income (loss)	\$ 236,868	\$ 197,696
Comprehensive income (loss) attributable to:		
Participating policyholders	\$ 14,064	\$ 4,036
Shareholders	222,804	193,660
Total	\$ 236,868	\$ 197,696

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

For the year ended December 31	2021			2020		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Preferred shares (Note 20)	\$ 100,000	\$ —	\$ 100,000	\$ 249,500	\$ —	\$ 249,500
Other equity instruments (Note 20)	196,664	—	196,664	—	—	—
Common shares (Note 20)	985	—	985	985	—	985
Contributed surplus	19,387	—	19,387	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	1,560,384	42,531	1,602,915	1,597,668	38,484	1,636,152
Net income (loss)	246,085	12,849	258,934	153,184	4,047	157,231
Preferred share dividends declared	(7,049)	—	(7,049)	(13,496)	—	(13,496)
Common share dividends declared	(52,475)	—	(52,475)	(176,972)	—	(176,972)
Retained earnings - end of period	1,746,945	55,380	1,802,325	1,560,384	42,531	1,602,915
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	72,666	1,617	74,283	32,190	1,628	33,818
Other comprehensive income (loss)	(23,281)	1,215	(22,066)	40,476	(11)	40,465
Accumulated other comprehensive income (loss) - end of period	49,385	2,832	52,217	72,666	1,617	74,283
Total equity	\$ 2,113,366	\$ 58,212	\$ 2,171,578	\$ 1,902,922	\$ 44,148	\$ 1,947,070
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ 47,840	\$ 2,132	\$ 49,972	\$ 102,676	\$ 3,323	\$ 105,999
Remeasurements of post-employment benefit liabilities	1,397	848	2,245	(30,243)	(1,473)	(31,716)
Shareholder portion of policyholders' accumulated other comprehensive income	148	(148)	—	233	(233)	—
Total accumulated other comprehensive income (loss)	\$ 49,385	\$ 2,832	\$ 52,217	\$ 72,666	\$ 1,617	\$ 74,283

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the year ended December 31	2021	2020
Operating activities		
Net income	\$ 258,934	\$ 157,231
Non-cash items affecting net income:		
Change in contract liabilities	(53,937)	1,072,582
Change in reinsurance liabilities	(131,431)	(313,611)
Fair value change in fair value through profit or loss assets	363,415	(356,755)
Realized (gain) loss on assets including impairment write downs on available for sale assets	(104,132)	(184,340)
Amortization related to discount on debt instruments	(71,236)	(80,137)
Amortization related to property and equipment and intangible assets (Notes 6 & 7)	13,181	11,226
Share of loss(income)from associates	(1,323)	—
Deferred income taxes (Note 18)	(2,342)	32,951
Other items	45,814	(65,890)
Cash provided from (used for) operating activities	316,943	273,257
Investing activities		
Portfolio investments		
Purchases and advances	(2,726,524)	(2,039,973)
Sales and maturities	2,443,363	2,012,546
Loans on policies		
Advances	(8,541)	(9,345)
Repayments	15,701	14,620
(Increase) decrease in short-term investments	4,361	19,376
Purchases of property and equipment and intangible assets (Notes 6 & 7)	(10,845)	(13,136)
Investment in associates	(150)	(3,760)
Dividends from associates	270	—
Cash provided from (used for) investing activities	(282,365)	(19,672)
Financing activities		
Dividends paid to common shareholders (Note 21)	(52,475)	(176,972)
Dividends paid to preferred shareholders (Note 21)	(9,198)	(13,496)
Interest paid on subordinated debt	(15,508)	(14,094)
Issuance of subordinated debt (Note 13)	199,300	—
Subordinated debt redemption (Note 13)	(200,000)	—
Preferred share redemption (Note 20)	(149,500)	—
Limited recourse capital notes issue (Note 20)	196,664	—
Cash provided from (used for) financing activities	(30,717)	(204,562)
Net change in cash and cash equivalents	3,861	49,023
Cash and cash equivalents - beginning of year (Note 3)	189,356	140,333
Cash and cash equivalents - end of year (Note 3)	\$ 193,217	\$ 189,356
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 22,790	\$ 114,790
Interest income received	201,253	192,830
Dividend income received	56,482	56,018

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Description of Company and Summary of Operations

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

These Consolidated Financial Statements were approved by the Company's Board of Directors (the Board) on February 24, 2022.

2. Significant Accounting Policies

(a) Basis of preparation

The annual Consolidated Financial Statements of the Company for the year ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

(b) Basis of consolidation

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

(c) Critical accounting estimates and judgments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(i) Insurance-related liabilities

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

Additional information regarding insurance-related liabilities is included in Notes 2(e), 2(l), 10 and 27.

(ii) Financial instruments classification

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

Additional information regarding financial instrument classification is included in Notes 2(d), 3(a), 3(b) and 10(c).

(iii) Pension and other post-employment benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made affect the pension and other employee future benefits expense included in Net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI.

Additional information regarding pension and other post-employment benefits is included in Notes 2(k) and 12.

(iv) Impairment

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

Additional information regarding impairment is included in Notes 2(d), 3(b), 10(c) and 27(c).

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(d) Financial instruments

(i) Fair value

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

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

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

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

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

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

(ii) Cash and cash equivalents and investments

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

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

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

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

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

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

(iii) Derivative financial instruments

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

(iv) Impairment

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

(1) AFS debt instruments

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

(2) AFS equity instruments

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

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

(3) Loans and receivables

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

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

(v) Derecognition

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

(vi) Other

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

(vii) Securities lending

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

(e) Reinsurance

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

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

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

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(f) Property and equipment

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

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

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

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

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

(g) Intangible assets

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

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

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

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(h) Investment in associates

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

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

(i) Segregated funds

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. Although the underlying assets are registered in the Company's name and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. Segregated fund assets are not available to pay liabilities of the general fund. The assets of these funds are carried at their period-end fair values. The Company records a segregated fund policy liability equal to the fair value of the assets and any guarantees are recorded as an insurance contract liability. The Company's Consolidated Statements of Operations includes fee income earned for management of the segregated funds, as well as expenses related to the acquisition, investment management, administration and death benefit, maturity benefit and withdrawal guarantees of these funds. See Note 8 for details on segregated fund assets and changes in segregated fund assets.

The Company provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within Insurance contract liabilities. Sensitivity of the Company's liability for segregated fund guarantees to market fluctuations is disclosed in Note 27(a)(1).

(j) Subordinated debt

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

(k) Employee benefits

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

(i) Pension benefits

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit component is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit

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credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using current interest rates of high-quality corporate bonds.

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

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

(ii) Other post-employment benefits

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

(iii) Termination benefits

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

(I) Insurance and investment contracts

(i) Product classification

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

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

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

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(1) Insurance contracts

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

(a) Short-term insurance contracts

These contracts include both annuity products and group benefits.

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

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

(b) Long-term insurance contracts

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

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

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

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

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(2) Investment contracts

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

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

(ii) Premiums

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

(iii) Benefits and claims paid

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

(iv) Deferred acquisition costs

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

(m) Participating policies

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

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

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(i) Investment policy

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

(ii) Investment income allocation

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

(iii) Expense allocation

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

(iv) Income tax allocation

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

(n) Fee income

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

(o) Investment income

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

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

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

(p) Income taxes

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the

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

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

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

(q) Foreign currency translation

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

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

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

(r) Comprehensive income

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

(s) Provisions

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

(t) Leases

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

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

(u) Earnings per share (EPS)

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

(v) Accounting changes

(i) New accounting pronouncements issued but not yet effective

(1) IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and Measurement* with a new mixed measurement model having three measurement categories of amortized cost, fair value through other comprehensive income (FVTOCI) and FVTPL for financial assets.

Under IFRS 9, all financial assets currently within the scope of IAS 39 will be measured at either amortized cost, FVTOCI or FVTPL. Classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at FVTOCI or FVTPL. A debt instrument will be measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest. For financial liabilities designated as FVTPL, the change in the fair value attributable to changes in the liability's credit risk will be recognized in OCI.

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (which will be subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two options for insurance companies relating to IFRS 9:

- a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level);
- and the 'overlay approach'.

The Company has evaluated the criteria and will apply the temporary exemption for periods beginning before January 1, 2023, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. OSFI has also mandated that all Federally Regulated Life Insurance Companies defer the application of IFRS 9 until IFRS 17 is adopted.

Per the amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, companies applying the temporary exemption are required to disclose fair value information with respect to their investments in financial assets whose contractual cash flows reflect solely payments of principal and interest on the principal amount outstanding (SPPI), to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. The Company's fixed income invested assets presented in Note 3(a) include cash equivalents, short-term investments, bonds, mortgages, loans on policies and policy contract loans and primarily have cash flows that qualify as SPPI. Fixed income invested assets which do not have SPPI qualifying cash flows as at December 31, 2021 include bonds and mortgages with fair values of \$257 million (2020 \$13.2 million) and \$8 million (2020 \$10 million), respectively.

The Company is currently evaluating the impact of IFRS 9 on its Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(2) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, which will replace IFRS 4. In June 2020, the IASB issued amendments to IFRS 17 which include deferral of the effective date to annual periods beginning on or after January 1, 2023. The deferral option for IFRS 9 was also extended to January 1, 2023. In December 2021, the IASB issued an optional amendment for a new transition option relating to comparative information on financial assets presented on the initial application of IFRS 17. IFRS 17 establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfilment values using one of three measurement models, 1. the general measurement model, 2. the variable fee approach or 3. the premium allocation approach, depending on the type of insurance contract. On transition to the new standard, IFRS 17 is to be applied retrospectively unless it is impracticable to do so. If it is impracticable to apply IFRS 17 retrospectively, an entity shall apply IFRS 17 using either a modified retrospective approach or a fair value approach.

IFRS 17 will affect how we account for our insurance contracts and how we report our financial performance in our Consolidated Statement of Operations. The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance services are provided. The Company continues to assess all of the impacts of IFRS 17 on its Consolidated Financial Statements. We anticipate that IFRS 17 will have an impact on timing of earnings recognition and presentation and disclosure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. Financial Instruments

(a) Summary of Cash and cash equivalents and investments

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

As at December 31	2021			2020		
	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Asset category						
Cash and cash equivalents						
Cash	\$ 62,512	\$ —	\$ 62,512	\$ 35,201	\$ —	\$ 35,201
Cash equivalents	130,705	—	130,705	154,155	—	154,155
Total cash and cash equivalents	193,217	—	193,217	189,356	—	189,356
Short-term investments						
Canadian federal government	3,499	4,998	8,497	4,999	4,999	9,998
Canadian provincial governments	—	—	—	—	—	—
Canadian municipal governments	—	—	—	—	—	—
Corporate	150	—	150	3,010	—	3,010
Total short-term investments	3,649	4,998	8,647	8,009	4,999	13,008
Bonds						
Canadian federal government	16,558	326,450	343,008	8,013	252,719	260,732
Canadian provincial governments	3,186,187	552,848	3,739,035	3,554,583	543,756	4,098,339
Canadian municipal governments	107,940	89,463	197,403	117,558	95,069	212,627
Total Canadian government bonds	3,310,685	968,761	4,279,446	3,680,154	891,544	4,571,698
Canadian corporate bonds by industry sector:						
Energy	258,757	100,759	359,516	141,206	62,341	203,547
Materials	12,999	10,898	23,897	16,193	7,030	23,223
Industrials	87,008	47,090	134,098	90,584	49,751	140,335
Consumer discretionary	24,616	13,433	38,049	15,068	6,336	21,404
Consumer staples	190,959	43,407	234,366	198,407	72,255	270,662
Health care	87,831	8,578	96,409	81,884	9,319	91,203
Financial services	728,328	473,799	1,202,127	642,664	363,736	1,006,400
Information Technology	469	4,424	4,893	181	5,116	5,297
Communication services	363,448	58,522	421,970	284,443	42,202	326,645
Utilities	589,261	80,637	669,898	628,449	77,174	705,623
Real estate	50,984	12,782	63,766	42,655	18,718	61,373
Infrastructure	448,848	68,898	517,746	418,409	59,328	477,737
Total Canadian corporate bonds	2,843,508	923,227	3,766,735	2,560,143	773,306	3,333,449
Foreign bonds						
Government	103,279	—	103,279	111,399	—	111,399
Corporate	—	—	—	11,234	—	11,234
Total foreign bonds	103,279	—	103,279	122,633	—	122,633
Total bonds	6,257,472	1,891,988	8,149,460	6,362,930	1,664,850	8,027,780
Total preferred shares - Canadian	433,295	8,044	441,339	606,664	10,238	616,902

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As at December 31	2021			2020		
	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Asset category						
Common shares						
Canadian common shares	240,742	57,725	298,467	172,172	47,734	219,906
Exchange-traded funds	503,434	—	503,434	501,905	—	501,905
Canadian real estate limited partnership units	138,352	—	138,352	121,290	—	121,290
U.S.	50,020	—	50,020	42,046	—	42,046
Other	29,161	—	29,161	33,553	—	33,553
Total common shares	961,709	57,725	1,019,434	870,966	47,734	918,700
Total derivative assets	6,302	—	6,302	5,377	—	5,377
Loans and receivables						
Mortgages	—	—	153,564	—	—	157,214
Loans on policies	—	—	56,917	—	—	56,458
Policy contract loans	—	—	52,808	—	—	60,407
Total financial instruments	\$ 7,855,644	\$ 1,962,755	\$ 10,081,688	\$ 8,043,302	\$ 1,727,821	\$ 10,045,202

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

As at December 31	2021			2020		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 62,512	\$ 130,705	\$ 193,217	\$ 35,201	\$ 154,155	\$ 189,356
Short-term investments	—	3,649	3,649	—	8,009	8,009
Bonds	—	6,257,472	6,257,472	—	6,362,930	6,362,930
Preferred shares	433,295	—	433,295	606,664	—	606,664
Common shares	821,560	140,149	961,709	749,275	121,691	870,966
Derivative assets	6,301	1	6,302	5,361	16	5,377
Available for sale:						
Short-term investments	—	4,998	4,998	—	4,999	4,999
Bonds	—	1,891,988	1,891,988	—	1,664,850	1,664,850
Preferred shares	8,044	—	8,044	10,238	—	10,238
Common shares	57,725	—	57,725	47,734	—	47,734
Loans and Receivables						
Mortgages	—	158,658	158,658	—	170,886	170,886
Loans on policies	—	56,917	56,917	—	56,458	56,458
Policy contract loans	—	52,808	52,808	—	60,407	60,407
Total	\$ 1,389,437	\$ 8,697,345	\$ 10,086,782	\$ 1,454,473	\$ 8,604,401	\$ 10,058,874

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

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 and there were no Level 3 investments during the year ended December 31, 2021 or during the year ended December 31, 2020.

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For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments refer to Note 27 Risk Management.

(b) Impairments

(i) Loans and receivables

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

As at December 31	2021			2020		
	Recorded investment	Allowance for impairment	Carrying value	Recorded investment	Allowance for impairment	Carrying value
Impaired Loans						
Mortgages	\$ 3,939	\$ 1,550	\$ 2,389	\$ 6,337	\$ 3,147	\$ 3,190
Policy contract loans	813	424	389	813	444	369
Total	\$ 4,752	\$ 1,974	\$ 2,778	\$ 7,150	\$ 3,591	\$ 3,559

The Company holds collateral with a fair value of \$2,389 (2020 \$3,190) in respect of these mortgages and \$389 (2020 \$369) in respect of these policy contract loans as at December 31, 2021. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

For the year ended December 31	2021	2020
Continuity of allowance for loan impairment:		
Allowance - beginning of year	\$ 3,591	\$ 3,138
Provision for loan impairment	(44)	618
Write-off of loans	(1,573)	(165)
Allowance - end of year	\$ 1,974	\$ 3,591

The Company has recorded interest income of \$513 (2020 \$751) on these assets.

(ii) Available for sale

For the year-ended December 31, 2021, the Company reclassified a pre-tax gain of \$1,506 (pre-tax loss 2020 \$4,252) from OCI to Net income due to write downs of impaired AFS common and preferred shares. Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

For additional information on the fair values of the Company's AFS investments, refer to Note 3(a). For analysis of the Company's risks arising from financial instruments, refer to Note 27.

(c) Investment income

Investment income is comprised of the following:

For the year ended December 31	2021	2020
Interest income	\$ 271,391	\$ 271,271
Dividend income	55,761	57,279
Other	2,171	1,491
Provision for loan impairment	370	(618)
Investment income	\$ 329,693	\$ 329,423

Interest income includes \$60,827 (2020 \$62,916) relating to assets not classified as FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(d) Derivative financial instruments

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

As at December 31	2021			2020		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 69,166	\$ 2,669	\$ 1,170	\$ 104,315	\$ 3,325	43
Equity options	448,381	3,632	—	122,828	2,033	—
Over-the-counter						
Foreign currency forwards	33,158	1	663	34,114	16	7
Cross currency swaps	20,980	—	596	20,980	3	1,360
Total	\$ 571,685	\$ 6,302	\$ 2,429	\$ 282,237	\$ 5,377	1,410

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

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

For analysis of the Company's risks arising from financial instruments, refer to Note 27.

(e) Securities Lending

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

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

Income recognized from securities lending activities was as follows:

For the year ended December 31	2021	2020
General funds	\$ 1,748	\$ 1,593
Segregated funds	1,564	1,677
Total	\$ 3,312	\$ 3,270

As at December 31, 2021 and December 31, 2020, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

	2021			2020		
	General Funds	Segregated Funds	Total	General Funds	Segregated Funds	Total
Value of securities loaned	\$ 1,514,071	\$ 1,508,807	\$ 3,022,878	\$ 1,307,965	\$ 1,452,978	\$ 2,760,943
Value of collateral received	\$ 1,544,381	\$ 1,539,045	\$ 3,083,426	\$ 1,334,144	\$ 1,482,183	\$ 2,816,327

4. Insurance Receivables

As at December 31	2021	2020
Due from policyholders	\$ 4,786	2,946
Due and accrued from reinsurers	21,287	15,591
Fees receivable	13,806	14,415
Other	8,821	13,581
Insurance receivables	\$ 48,700	\$ 46,533

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

5. Other Assets

Other assets consist of the following:

As at December 31	2021	2020
Trade accounts receivable	\$ 6,696	7,245
Prepaid expenses	7,336	7,236
Right-of-use assets	5,420	6,808
Other assets	\$ 19,452	\$ 21,289

All amounts are expected to be recovered within one year of the Consolidated Statements of Financial Position date except for right-of-use assets of \$5,420 (2020 \$6,808). Trade accounts receivable are short-term in nature and their fair values approximate carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. Property and Equipment

		Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Cost						
As at January 1, 2020	\$	2,318	\$ 13,039	\$ 46,021	\$ 9,010	70,388
Additions		—	—	1,238	720	1,958
Disposals		—	—	—	—	—
As at December 31, 2020		2,318	13,039	47,259	9,730	72,346
Additions		—	—	1,351	28	1,379
Disposals		—	—	—	—	—
As at December 31, 2021	\$	2,318	\$ 13,039	\$ 48,610	\$ 9,758	73,725
Amortization						
As at January 1, 2020	\$	—	\$ (5,192)	\$ (35,897)	\$ (7,283)	(48,372)
Charge for the year		—	(392)	(4,880)	(401)	(5,673)
Disposals		—	—	—	—	—
As at December 31, 2020		—	(5,584)	(40,777)	(7,684)	(54,045)
Charge for the year		—	(372)	(3,976)	(443)	(4,791)
Disposals		—	—	—	—	—
As at December 31, 2021	\$	—	\$ (5,956)	\$ (44,753)	\$ (8,127)	(58,836)
Carrying amount						
December 31, 2021	\$	2,318	\$ 7,083	\$ 3,857	\$ 1,631	14,889
December 31, 2020	\$	2,318	\$ 7,455	\$ 6,482	\$ 2,046	18,301

There were no asset impairments in 2021 or 2020.

7. Intangible Assets

		Intangible assets	
Cost			
As at January 1, 2020		\$	75,747
Additions			11,179
Disposals			—
As at December 31, 2020			86,926
Additions			9,363
Disposals			(444)
As at December 31, 2021		\$	95,845
Amortization			
As at January 1, 2020		\$	(53,390)
Charge for the year			(5,553)
Disposals			—
As at December 31, 2020			(58,943)
Charge for the year			(8,605)
Disposals			214
As at December 31, 2021		\$	(67,334)
Carrying amount			
December 31, 2021		\$	28,511
December 31, 2020		\$	27,983

There were no asset impairments during 2021 or 2020.

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8. Segregated Funds

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

As at December 31	2021	2020
Cash	\$ 39,880	\$ 34,871
Short-term investments	467,829	410,641
Bonds	1,880,326	1,866,564
Common and preferred shares	6,935,850	6,207,527
Other assets	30,271	20,320
	9,354,156	8,539,923
Less segregated funds held within general fund investments	(96,858)	(82,506)
Total	\$ 9,257,298	\$ 8,457,417

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

As at December 31	2021			2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash	\$ 39,880	\$ —	\$ 39,880	\$ 34,871	\$ —	\$ 34,871
Short-term investments	—	467,829	467,829	—	410,641	410,641
Bonds	—	1,880,326	1,880,326	—	1,866,564	1,866,564
Common and preferred shares	6,935,850	—	6,935,850	6,207,527	—	6,207,527
Total	\$ 6,975,730	\$ 2,348,155	\$ 9,323,885	\$ 6,242,398	\$ 2,277,205	\$ 8,519,603

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2021 and December 31, 2020. There were no Level 3 investments as at December 31, 2021 and December 31, 2020.

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

For the year ended December 31	2021	2020
Segregated fund assets - beginning of year	\$ 8,457,417	\$ 8,498,583
Additions to segregated funds:		
Amount received from policyholders	997,002	774,960
Interest	58,995	60,001
Dividends	204,465	157,007
Other income	22,441	15,676
Net realized gains on sale of investments	382,696	11,173
Net unrealized increase in fair value of investments	538,711	190,114
	2,204,310	1,208,931
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,131,098	1,014,459
Management fees and other operating costs	258,979	230,898
	1,390,077	1,245,357
Net change in segregated funds held within general fund investments	(14,352)	(4,740)
Segregated fund assets - end of year	\$ 9,257,298	\$ 8,457,417

(d) **Empire Life's exposure to segregated fund guarantee risk**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. Insurance Payables

As at December 31		2021		2020
Claims due and accrued	\$	47,237	\$	49,207
Payable to agents		20,342		21,564
Premiums paid in advance		1,506		1,008
Due to reinsurance companies		18,289		9,456
Other		28,419		33,703
Insurance payables	\$	115,793	\$	114,938

Of the above total, \$786 (2020 \$759) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. Most of these financial instruments are short-term in nature and their fair value approximates carrying values.

10. Insurance Contract Liabilities and Reinsurance Assets/Liabilities

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

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

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

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

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

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

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

As at December 31	2021			2020		
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Participating Individual						
Life	\$ 878,191	\$ 6,975	\$ 885,166	\$ 824,384	\$ 8,631	\$ 833,015
Annuity	79	—	79	86	—	86
Non-participating Individual						
Life	4,836,301	413,301	5,249,602	4,752,536	511,682	5,264,218
Health	260,617	(8,332)	252,285	268,383	(8,832)	259,551
Annuity	792,840	(7,314)	785,526	1,033,955	(8,844)	1,025,111
Non-participating Group						
Life	41,063	(6,880)	34,183	34,157	(3,796)	30,361
Health	318,024	(144,420)	173,604	265,944	(114,080)	151,864
Annuity	41,178	—	41,178	44,428	—	44,428
Segregated fund deferred acquisition costs	(77,240)	—	(77,240)	(78,412)	—	(78,412)
Total	\$ 7,091,053	\$ 253,330	\$ 7,344,383	\$ 7,145,461	\$ 384,761	\$ 7,530,222

The Company expects to pay \$6,996,900 (2020 \$7,060,918) of Insurance contract liabilities and \$279,162 (2020 \$400,547) of Reinsurance liabilities more than one year after the Consolidated Statements of Financial Position date. The remaining balance is expected to be settled within one year.

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

	2021	2020
Segregated funds deferred acquisition costs - beginning of year	\$ 78,412	\$ 84,058
Deferred during year	28,170	23,013
Amortized during year	(29,342)	(28,659)
Segregated funds deferred acquisition costs - end of year	\$ 77,240	\$ 78,412

Of the above total, \$31,701 (2020 \$30,863) is expected to be amortized during the next year.

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

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

For the year ended December 31	2021			2020		
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance - beginning of year	\$ 7,145,461	\$ 384,761	\$ 7,530,222	\$ 6,073,868	\$ 698,372	\$ 6,772,240
Changes in methods and assumptions						
Non-participating policies						
Changes for expected mortality/morbidity	83,021	(57,640)	25,381	65,030	(1,116)	63,914
Update of mortality table	—	—	—	185,705	(261,583)	(75,878)
Lapse/premium assumption updates	150,691	(37,459)	113,232	114,801	(15,614)	99,187
Update of investment return assumptions	(79,112)	(3,352)	(82,464)	120,160	(23,949)	96,211
Model enhancements and other changes	2,480	2	2,482	(37,030)	25,363	(11,667)
Reinsurance recapture	(11,357)	—	(11,357)	(7,491)	(12,093)	(19,584)
Deferred future tax liability modeling updates	—	—	—	(108,116)	(8,527)	(116,643)
Participating policies						
Model enhancements and other changes	145	(53)	92	(497)	191	(306)
Normal changes						
New business	(31,000)	213	(30,787)	(30,897)	(1,484)	(32,381)
In-force business	(169,276)	(33,142)	(202,418)	769,928	(14,799)	755,129
Balance - end of year	\$ 7,091,053	\$ 253,330	\$ 7,344,383	\$ 7,145,461	\$ 384,761	\$ 7,530,222

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

Changes in 2021 related to expected mortality projections are primarily due to an update in the calculation of mortality improvement used in the valuation of liabilities. Changes made in 2020 were primarily related to revised assumptions for renewable term business.

In 2019 the universal life and non-participating individual insurance mortality tables were replaced by more recent industry tables. Actual/expected ratios were updated based on a combination of Empire Life and industry experience. Partial credit was taken for this change in 2019, with the remainder recognized in 2020.

In both 2020 and 2021 the lapse/premium assumption change is related to updates of assumed lapse rates on renewable term and universal life policies as experience continues to unfold.

The investment return assumption change in 2021 is primarily related to an increase to the initial reinvestment rate (IRR) used in the valuation of liabilities. Updates were made to the assumed reinvestment mix used in the calculation of valuation credit spreads and to the CALM risk-free reinvestment scenario. In addition, regular annual updates were made to the preferred share maturity value assumption.

In 2020 the investment return assumption change was primarily related to two updates. On the individual insurance lines, decreases in the initial reinvestment rate used in the valuation produced a liability increase. For segregated funds, liability increases were mainly due to fund mapping refinements as additional experience emerges.

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In 2019, the Company enacted significant changes to its reinsurance programs. Specifically, the reinsurers of the Company's individual life policies were notified that in 2020 the Company will increase its individual life retention from \$500,000 to \$1.5 million and the recapture provisions of all eligible reinsurance treaties would be enacted. The recapture resulted in a substantial net liability decrease on both the universal life and non-participating blocks of business as the present value of future reinsurance premiums was greater than the estimated future claims. Additional amounts were recognized in 2020 and 2021 as provisions from the actuarial liabilities were released.

Actuarial standards allow for the capitalization of preferred tax treatment of dividends on Canadian equities that are supporting the actuarial liabilities. Prior to 2020, projections included 20 years of such benefit. The 20 years was changed to 80 years in 2020, resulting in a significant reserve reduction.

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

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

As at December 31, 2020						
	Insurance liabilities	Annuity liabilities	Investment contract liabilities	Equity and other liabilities	Total	
Cash and cash equivalents & Short-term investments	\$ 153,996	\$ 38,891	\$ 1,647	\$ 7,830	\$ 202,364	
Bonds	5,187,229	614,552	175,894	2,050,105	8,027,780	
Mortgages	22,503	128,709	6,002	—	157,214	
Preferred shares	234,436	187,723	7,744	186,999	616,902	
Common shares	870,965	—	—	47,735	918,700	
Derivative assets	3,344	—	—	2,033	5,377	
Loans on policies	55,805	—	653	—	56,458	
Policy contract loans	648	20,120	—	39,639	60,407	
Other	24,930	4,918	760	182,526	213,134	
Total	\$ 6,553,856	\$ 994,913	\$ 192,700	\$ 2,516,867	\$ 10,258,336	

Provisions made for anticipated future losses of principal and interest on investments and included as a component of policy liabilities are \$259,200 (2020 \$256,800).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(e) Liquidity

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

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

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

As at December 31	2021	2020
Assets:		
Cash and cash equivalents & Short-term investments	\$ 201,864	\$ 202,364
Canadian federal and provincial bonds	4,082,043	4,359,071
Other readily-marketable bonds and stocks	4,816,579	4,335,512
Total liquid assets	\$ 9,100,486	\$ 8,896,947
Liabilities:		
Demand liabilities with fixed values	\$ 875,418	\$ 807,656
Demand liabilities with market value adjustments	1,227,633	1,217,439
Total liquidity needs	\$ 2,103,051	\$ 2,025,095

11. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

As at December 31	2021	2020
Accounts payable	\$ 46,406	\$ 45,610
Post-employment benefit liability (Note 12)	23,503	68,527
Accrued interest on subordinated debt	4,735	2,554
Derivative liabilities (Note 3d)	2,429	1,410
Lease liabilities	5,690	6,798
Other	12,820	6,072
Accounts payable and other liabilities	\$ 95,583	\$ 130,971

Of the above total, \$28,236 (2020 \$74,094) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. In the absence of an active market for post-employment benefit liabilities, the actuarially determined value provides a reasonable approximation of fair value. Derivative liabilities are carried at fair value, as disclosed in Note 3(d). All other amounts are short-term in nature and their fair value approximates carrying value.

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12. Employee Benefit Plans

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

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

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

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

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

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

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

As at December 31	Pension benefits		Other post-employment benefits	
	2021	2020	2021	2020
Present value of obligations	\$ 247,223	\$ 280,587	\$ 8,706	\$ 8,919
Fair value of plan assets	232,426	220,979	—	—
Post-employment benefit asset (liability)	\$ (14,797)	\$ (59,608)	\$ (8,706)	\$ (8,919)

The post-employment benefit asset (liability), net of the cumulative impact of the asset ceiling, is included in the Consolidated Statements of Financial Position in Accounts payables and other liabilities (Note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

As at December 31	Pension benefits		Other post-employment benefits	
	2021	2020	2021	2020
Present value of defined benefit obligation - beginning of year	\$ 280,587	\$ 249,494	\$ 8,919	\$ 8,656
Current service cost	6,811	7,562	—	—
Past service cost	—	—	—	—
Interest expense	6,936	7,731	207	256
Decrease (increase) in net income before tax	13,747	15,293	207	256
Remeasurements				
(Gain) loss from changes in demographic assumptions	—	4,404	155	—
(Gain) loss from changes in financial assumptions	(25,650)	20,219	(563)	599
Actuarial (gain) loss from member experience	(112)	1,659	377	(229)
Change in effect of asset limit	1,630	—	—	—
Decrease (increase) in OCI before tax	(24,132)	26,282	(31)	370
Employee contributions	1,249	1,334	—	—
Benefits paid	(24,228)	(11,816)	(389)	(363)
Present value of defined benefit obligation - end of year	\$ 247,223	\$ 280,587	\$ 8,706	\$ 8,919

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

As at December 31	Pension benefits	
	2021	2020
Fair value of defined benefit assets - at beginning of year	\$ 220,979	\$ 215,534
Interest income	5,519	6,730
Administrative expense	(291)	(291)
Increase (decrease) in net income before tax	5,228	6,439
Remeasurements		
Return on plan assets, excluding amounts included in interest income	21,969	3,797
Gain (loss) from changes in demographic assumptions	—	—
Gain (loss) from changes in financial assumptions	—	—
Actuarial gain (loss) from member experience	—	—
Change in effect of asset limit	—	—
Increase (decrease) in OCI before tax	21,969	3,797
Plan transfers / curtailments		
Employer contributions	7,229	5,691
Employee contributions	1,249	1,334
Benefits paid	(24,228)	(11,816)
Fair value of defined benefit assets - end of year	\$ 232,426	\$ 220,979

The actual return on defined benefit assets net of administrative expense, for the year ended December 31, 2021 was a gain of \$27,197 (2020 gain of \$10,236).

Defined benefit plan expense is recognized in Operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include \$2,488 (2020 \$2,189) of employer contributions related to the defined contribution component of the Plan.

Expected contributions (including both employer and employee amounts) to the Company's defined benefit pension plans for the year ending December 31, 2021 are approximately \$7,916.

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

As at December 31	2021		2020	
Equity				
Canadian	\$ 82,532	36%	\$ 70,609	32%
Foreign	57,173	24%	57,521	26%
Total equity	139,705	60 %	128,130	58 %
Debt				
Canadian	71,278	31%	68,043	31%
Cash, cash equivalent, accruals	3,551	2%	5,946	3%
Mutual funds	9,229	4%	9,516	4%
Other	8,663	3 %	9,344	4 %
Total fair value of assets	\$ 232,426	100%	\$ 220,979	100%

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

The following weighted average assumptions were used in actuarial calculations:

As at December 31	Pension benefits		Other post-employment benefits	
	2021	2020	2021	2020
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	3.15%	2.55%	3.00%	2.40%
Discount rate - net interest	2.55%	3.15%	2.40%	3.05%
Rate of compensation increase	3.00%	3.00%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	n/a	n/a	5.4%	5.5%
Cost trend rate declines to	n/a	n/a	4.0%	4.0%
Year ultimate health care cost trend rate is reached	n/a	n/a	2040	2040

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

As at December 31	2021	2020
Males aged 65 at measurement date	22.13	22.05
Females aged 65 at measurement date	24.81	24.74
Males aged 40 at measurement date	23.97	23.90
Females aged 40 at measurement date	26.47	26.41

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

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

	Change in assumption	Impact on pension benefits		Impact on other post employment benefits	
		Increase	Decrease	Increase	Decrease
As at December 31, 2020					
Discount rate	1% \$	(30,131) \$	38,490 \$	(1,064) \$	880
Rate of compensation increase	1% \$	12,653 \$	(10,484)	n/a	n/a
Health care cost increase	1%	n/a	n/a \$	870 \$	(1,064)
Life expectancy	1 year \$	5,958 \$	(6,014) \$	270 \$	(614)

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

As at December 31	2021	2020
Staff pension plan	12	12
Supplemental employee retirement plan	9	10
Other post-employment benefits	10	11

Risks

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

Asset volatility

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

Changes in bond yields

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

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Life expectancy

The majority of the Plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plans' liabilities.

In case of the funded plans, the Pension Committee ensures that the investment positions are managed in accordance with the investment philosophy outlined in the investment policy approved by the Human Resources Committee of the Board. The fundamental philosophy is to achieve acceptably high investment return over the long term without jeopardizing the level of security of the members' benefits and without introducing too much volatility into the Company's future expense. The Company's objective is to match assets to the pension obligations by investing in equities as well as fixed interest securities. The Company monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Plan has not changed the processes used to manage its risks from previous periods. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The Plan invests primarily in Canadian Bonds and Equities through its' ownership of units in Empire Life segregated and mutual funds. The Company believes that equities offer the best returns over the long term with an acceptable level of risk.

The last triennial valuation on the Staff Pension Plan was completed in November 2020, as at December 31, 2019. The next triennial valuation will be completed in 2023, as at December 31, 2022.

13. Subordinated Debt

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

As at December 31				2021	2020
	Interest rate	Earliest par call or redemption Date	Maturity	Carrying value	Carrying value
Series 2016-1 ⁽¹⁾	3.383 %	December 16, 2021	2026	—	199,820
Series 2017-1 ⁽²⁾	3.664 %	March 15, 2023	2028	199,790	199,622
Series 2021-1 ⁽³⁾	2.024 %	September 24, 2026	2031	199,068	—
Total Subordinated Debt				\$ 398,858	\$ 399,442
Fair Value				\$ 401,850	\$ 416,654

⁽¹⁾ All of the outstanding Series 2016-1 Subordinated 3.383% Unsecured Debentures were redeemed on December 16, 2021.

⁽²⁾ Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

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

14. Insurance Premiums

For the year ended December 31	2021			2020		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 583,034	\$ (132,918)	\$ 450,116	\$ 544,534	\$ (120,865)	\$ 423,669
Health premiums	525,119	(134,295)	390,824	442,322	(100,331)	341,991
Total life and health premiums	1,108,153	(267,213)	840,940	986,856	(221,196)	765,660
Annuity premiums	74,746	(143)	74,603	94,774	(193)	94,581
Total insurance premiums	\$ 1,182,899	\$ (267,356)	\$ 915,543	\$ 1,081,630	\$ (221,389)	\$ 860,241

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15. Fee Income

For the year ended December 31	2021	2020
Investment management, policyholder administration and guarantee fees	\$ 260,409	\$ 239,473
Surrender charges and other miscellaneous fees	12,365	11,870
Fee income	\$ 272,774	\$ 251,343

16. Benefits and Expenses

(a) Insurance contract benefits and claims paid

For the year ended December 31	2021			2020		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 260,545	\$ (77,663)	\$ 182,882	\$ 259,655	\$ (82,233)	\$ 177,422
Health claims	356,449	(80,514)	275,935	280,732	(54,237)	226,495
Total life and health claims	616,994	(158,177)	458,817	540,387	(136,470)	403,917
Annuity benefits	172,056	(755)	171,301	175,379	(1,005)	174,374
Benefits and claims paid	\$ 789,050	\$ (158,932)	\$ 630,118	\$ 715,766	\$ (137,475)	\$ 578,291

(b) Change in insurance contract liabilities and reinsurance ceded

For the year ended December 31	2021			2020		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ 144,478	\$ (103,124)	\$ 41,354	\$ 868,145	\$ (289,466)	\$ 578,679
Health	44,314	(29,838)	14,476	66,839	(24,176)	42,663
Total life and health	188,792	(132,962)	55,830	934,984	(313,642)	621,342
Annuity	(243,200)	1,531	(241,669)	136,609	31	136,640
Change in insurance contract liabilities	\$ (54,408)	\$ (131,431)	\$ (185,839)	\$ 1,071,593	\$ (313,611)	\$ 757,982

17. Operating Expenses

Operating expenses include the following:

For the year ended December 31	2021	2020
Salary and benefits expense	\$ 104,923	\$ 100,907
Professional services	15,492	14,864
Rent, maintenance and amortization of right-of-use assets	18,306	18,346
Amortization of property and equipment and intangibles	13,396	11,226
Other	24,396	22,962
Total	\$ 176,513	\$ 168,305

Significant components of other expenses include travel, advertising, and office supplies and services.

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18. Income Taxes

(a) Income tax expense

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

For the year ended December 31	2021	2020
Current income tax expense	\$ 66,751	\$ 11,381
Deferred income tax expense (benefit)		
Relating to the origination and reversal of temporary differences	(2,342)	32,951
Income tax expense	\$ 64,409	\$ 44,332

During 2021 the Company paid income tax installments totaling \$22,790 (2020 \$114,490).

(b) Variance from statutory provision

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

For the year ended December 31	2021	2020
Net income before income taxes	\$ 323,343	\$ 201,563
Income tax provision at statutory rates	85,310	53,310
Increase (decrease) resulting from:		
Tax paid on dividends	(12,132)	(12,630)
Miscellaneous	(8,769)	3,652
Income tax expense	\$ 64,409	\$ 44,332

The current enacted corporate tax rates as they impact the Company in 2021 stand at 26.38% (2020 26.45%). Expected future tax rates are as follows:

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

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

(c) Deferred income taxes

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

As at December 31	2021	2020
Insurance contracts	\$ (39,452)	\$ (43,851)
Portfolio investments	(9,553)	(4,627)
Post-employment benefit plans	6,786	17,183
Other, net	(3,320)	(4,416)
Deferred income tax asset (liability)	\$ (45,539)	\$ (35,711)

Of the above total, \$44,663 is expected to be paid (2020 \$34,523 paid) more than one year after the Consolidated Statements of Financial Position date.

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

For the year ended December 31	2021	2020
Deferred income tax asset (liability) - beginning of year	\$ (35,711) \$	(8,805)
Deferred income tax benefit (expense)		
Statement of operations	2,342	(32,951)
Other comprehensive income	(12,170)	6,045
Deferred income tax asset (liability) - end of year	\$ (45,539) \$	(35,711)

(d) Income taxes included in other comprehensive income

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

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

For the year ended December 31	2021			2020		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (77,892) \$	(20,664) \$	(57,228) \$	107,384 \$	28,490 \$	78,894
Fair value change on available for sale investments reclassified to net income, including impairment write downs	1,477	276	1,201	(29,414)	(7,794)	(21,620)
Remeasurements of post-employment benefit liabilities	46,132	12,171	33,961	(22,855)	(6,046)	(16,809)
Total other comprehensive income (loss)	\$ (30,283) \$	(8,217) \$	(22,066) \$	55,115 \$	14,650 \$	40,465

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

For the year ended December 31	2021			2020		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (77,152) \$	(20,468) \$	(56,684) \$	103,147 \$	27,365 \$	75,782
Fair value change on available for sale investments reclassified to net income, including impairment write downs	2,360	512	1,848	(26,282)	(6,964)	(19,318)
Remeasurements of post-employment benefit liabilities	42,979	11,339	31,640	(21,858)	(5,782)	(16,076)
Shareholder portion of policyholder other comprehensive income (loss)	\$ (116) \$	(31) \$	(85) \$	120 \$	32 \$	88
Total other comprehensive income (loss)	\$ (31,929) \$	(8,648) \$	(23,281) \$	55,127 \$	14,651 \$	40,476

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

For the year ended December 31	2021			2020		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (740)	\$ (196)	\$ (544)	4,237	1,125	3,112
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(883)	(236)	(647)	(3,132)	(830)	(2,302)
Remeasurements of post-employment benefit liabilities	3,153	832	2,321	(997)	(264)	(733)
Shareholder portion of policyholder other comprehensive income (loss)	116	31	85	(120)	(32)	(88)
Total other comprehensive income (loss)	\$ 1,646	\$ 431	\$ 1,215	(12)	(1)	(11)

19. Earnings Per Share

Earnings per share is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred shares issued (refer to Note 20) do not dilute EPS as the preferred shares are not convertible into common shares.

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

For the year ended December 31	2021	2020
Basic and diluted EPS		
Common shareholders' net income	\$ 239,036	\$ 139,688
Weighted average number of common shares outstanding	985,076	985,076
Basic and diluted EPS	\$ 242.66	\$ 141.80

20. Capital Stock

As at	December 31, 2021			December 31, 2020		
	Shares authorized	Shares issued and outstanding	Amount	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 1	unlimited	—	\$ —	unlimited	5,980,000	\$ 149,500
Series 3	unlimited	4,000,000	\$ 100,000	unlimited	4,000,000	\$ 100,000
Limited recourse capital notes		200,000	\$ 200,000		—	\$ —
Common shares	2,000,000	985,076	\$ 985	2,000,000	985,076	\$ 985

In the fourth quarter of 2017, Empire Life issued to E-L Financial Corporation Limited 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 (Series 3 Preferred Shares) at \$25 per share. Holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 4.90% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including January 17, 2023. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.24%. Holders of Series 3 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 4 (Series 4 Preferred Shares), subject to certain conditions, on January 17, 2023 and on January 17 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 3.24%. Subject to regulatory approval, Empire Life may redeem the Series 3 Preferred Shares, in whole or in part, at par, on January 17, 2023 and every five years thereafter.

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

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

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.

21. Dividends

	Dividend declaration date	Shares issued and outstanding	Dividend rate per share	Total dividend (\$ 000's)	Dividend payment date
Common shareholder dividends					
Common shares	October 28, 2021	985,076	\$ 14.212010	\$ 13,998	December 7, 2021
	July 29, 2021	985,076	\$ 14.212101	\$ 14,000	September 8, 2021
	April 29, 2021	985,076	\$ 14.212101	\$ 14,000	June 8, 2021
	February 24, 2021	985,076	\$ 10.635322	\$ 10,477	April 1, 2021
	October 29, 2020	985,076	\$ 22.072300	\$ 21,743	December 8, 2020
	July 29, 2020	985,076	\$ 44.144700	\$ 43,486	September 9, 2020
	February 26, 2020	985,076	\$ 113.435853	\$ 111,743	April 8, 2020
Preferred shareholder dividends					
Series 1	February 24, 2021	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2021
	October 29, 2020	5,980,000	\$ 0.359375	\$ 2,149	January 17, 2021
	July 29, 2020	5,980,000	\$ 0.359375	\$ 2,149	October 17, 2020
	April 30, 2020	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2020
	February 26, 2020	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2020
Series 3	October 28, 2021	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2022
	July 29, 2021	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2021
	April 29, 2021	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2021
	February 24, 2021	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2021
	October 29, 2020	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2021
	July 29, 2020	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2020
	April 30, 2020	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2020
	February 26, 2020	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2020

On February 23, 2022, the Board approved the following cash dividends:

- \$18,175 (\$18.45 per share) on the issued and outstanding Common Shares, payable on March 31, 2022.
- \$1,225 (\$0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on April 17, 2022.

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22. Shareholders' Equity Entitlement

Shareholders' entitlement to \$4,328 (2020 \$3,594) of shareholders' equity is contingent upon future payment of dividends to participating policyholders.

23. Segmented Information

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

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

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

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

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

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

	For the year ended December 31, 2021				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 74,603	\$ 407,328	\$ 433,612	\$ —	\$ 915,543
Interest income	27,768	7,416	182,072	54,135	271,391
Total investment income	35,519	3,511	226,531	64,132	329,693
Fair value change in fair value through profit or loss assets	(9,725)	(4,030)	(344,918)	(4,742)	(363,415)
Realized gain (loss) on fair value through profit or loss assets	777	5	122,588	(17,761)	105,609
Realized gain (loss) on available for sale assets including impairment write downs	471	430	423	(2,801)	(1,477)
Fee income from external customers	258,532	13,604	536	102	272,774
Net benefits and claims	171,301	285,579	173,238	—	630,118
Net change in insurance contract liabilities	(241,669)	25,521	30,309	—	(185,839)
Change in investment contract provision	471	—	—	—	471
Policy dividends	—	—	36,820	—	36,820
Amortization of property and equipment and intangibles	2,394	4,700	6,302	—	13,396
Total operating expenses	58,355	54,948	61,818	1,392	176,513
Net commission expense	84,874	48,469	100,435	—	233,778
Interest expense	—	—	—	21,472	21,472
Premium tax	—	10,520	7,709	—	18,229
Investment and capital tax	—	—	3,822	—	3,822
Income tax expense (recovery)	71,897	(1,657)	(7,287)	1,456	64,409
Net income (loss) after tax	214,948	(2,532)	31,908	14,610	258,934

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	For the year ended December 31, 2020				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 94,581	\$ 357,039	\$ 408,621	\$ —	\$ 860,241
Interest income	28,424	6,208	181,905	54,734	271,271
Total investment income	37,825	3,993	221,932	65,673	329,423
Fair value change in fair value through profit or loss assets	31,218	5,348	320,531	(342)	356,755
Realized gain (loss) on fair value through profit or loss assets	4,068	3,551	154,499	(7,192)	154,926
Realized gain (loss) on available for sale assets including impairment write downs	(1,130)	(950)	3,266	28,228	29,414
Fee income from external customers	238,186	12,626	368	163	251,343
Net benefits and claims	174,374	235,063	168,854	—	578,291
Net change in insurance contract liabilities	136,640	21,384	599,958	—	757,982
Change in investment contract provision	989	—	—	—	989
Policy dividends	—	—	35,166	—	35,166
Amortization of property and equipment and intangibles	2,169	3,567	5,490	—	11,226
Total operating expenses	60,861	50,612	55,335	1,497	168,305
Net commission expense	74,636	46,792	81,133	—	202,561
Interest expense	—	—	—	14,437	14,437
Premium tax	—	9,225	9,517	—	18,742
Investment and capital tax	—	—	4,066	—	4,066
Income tax expense (recovery)	(13,497)	4,866	36,332	16,631	44,332
Net income (loss) after tax	(29,255)	13,665	118,856	53,965	157,231

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

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

	For the year ended December 31, 2020				
	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 994,913	\$ 192,700	\$ 6,553,856	\$ 2,516,867	\$ 10,258,336
Segregated funds	8,439,229	—	18,188	—	8,457,417
Total assets	\$ 9,434,142	\$ 192,700	\$ 6,572,044	\$ 2,516,867	\$ 18,715,753

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

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24. Commitments and Contingencies

Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. There was \$21,742 (December 31, 2020, \$40,012) of outstanding commitments as at December 31, 2021. The outstanding commitments are payable at any time up to and including December 31, 2023.

Other contingencies

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

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

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

25. Related Party Transactions

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

In the fourth quarter of 2017, the Company issued 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 to E-L Financial Corporation Limited at \$25 per share. Refer to Note 20 for further details.

Compensation of key management personnel

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

For the year ended December 31	2021	2020
Salaries and other short-term and long-term employee benefits	\$ 7,260	\$ 7,086
Post-employment benefits	468	525
Total	\$ 7,728	\$ 7,611

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

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26. Capital Management

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the Insurance Companies Act (Canada) as established and monitored by OSFI. OSFI has implemented the Life Insurance Capital Adequacy Test (LICAT) framework to monitor capital adequacy. Under this framework, the Company's capital adequacy is measured as a ratio of Available Capital plus Surplus Allowance and Eligible Deposits divided by a Base Solvency Buffer. The components of the LICAT ratio are determined in accordance with the guidelines defined by OSFI. OSFI has established a Supervisory Target Total Ratio of 100% and a Supervisory Target Core Ratio of 70%. As at December 31, 2021 and December 31, 2020 the Company was in compliance with the applicable regulatory capital ratios.

27. Risk Management

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

Caution related to sensitivities

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on the market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk factor, assuming that all other risk variables remain constant. 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 the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for the Company's future Net income, OCI, and capital sensitivities. Given the nature of these calculations, the Company cannot provide assurance that the actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

(a) Market risk

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

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

The Company buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of the Company. The Company's investment strategy also includes the use of publicly-listed common stocks or exchange-traded funds (ETFs) to support the liabilities under its insurance policies. Cash flows arising from these investments are intended to match the liquidity requirements of the Company's policies, within the limits prescribed by the Company. However, if the

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Company does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected.

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

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

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

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

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

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

(1) Equity risk

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

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The risk of fluctuation of the market value of the Company's segregated funds and mutual funds is generally assumed by the policyholders and unit holders, respectively. Market value variations of such assets will result in variations in the income of the Company to the extent management fees are determined in relation to the value of such funds. A significant and steady decline of the securities markets may result in net losses on such products which could adversely affect the Company. Additionally, certain of the Company's segregated fund products contain guarantees upon death, maturity or withdrawal, where the guarantee may be triggered by the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on the Company's financial position, LICAT position and results of operations. The Company has reinsured a portion of its segregated fund death benefit guarantee. The Company also has a semi-static, economic hedging program. The objective of the economic hedging program is to partially protect the Company from possible future LICAT ratio declines that might result from adverse stock market price changes. The program presently employs put options and futures on key equity indices. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed.

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

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

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

	As at December 31, 2021			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 17,836	\$ (23,535)	\$ 38,214	\$ (205,652)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 4,250	\$ (4,250)	\$ 8,500	\$ (8,500)
Policyholders' other comprehensive income	\$ nil	\$ nil	\$ nil	\$ nil

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	As at December 31, 2020			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ 117,189	\$ (23,331)	\$ 136,863	\$ (103,028)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 3,511	\$ (3,511)	\$ 7,022	\$ (7,022)
Policyholders' other comprehensive income	\$ nil	\$ nil	\$ nil	\$ nil

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

For the life insurance business, the Company's policy is to use equity investments to cover a portion of the estimated insurance liability cash flows of non-participating life and universal life products beyond 20 years following the balance sheet date. The value of the liabilities supported by these equity investments depends on assumptions about the future level of equity markets. The best-estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 9.2% (2020 9.0%). The Company uses an assumption of 7.2% (2020 7.7%) to include provisions for moderate changes in equity rates of return determined in accordance with Canadian actuarial standards of practice. The returns are then reduced by margins to determine the net returns used in the valuation. Changes in the current market would result in changes to these assumptions.

The impact of an immediate change in equity markets is described above. If the change in equity markets persisted for one year, then a change to the actuarial future equity market return assumption would be made. For non-participating insurance business, a 1.0% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing Net income by approximately \$129,800 (2020 \$166,100).

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

As at December 31	2021	2020
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 709,451	\$ 675,244
Percentage of total cash and investments	7.0%	6.7%
Exposure to the largest single issuer of common equities	\$ 454,457	\$ 447,166
Percentage of total cash and investments	4.5%	4.5%

(2) Interest rate risk

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

Rapid declines in interest rates may result in, among other things, increased asset calls and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased surrenders. Fluctuations in interest rates may cause losses to the Company due to the need to reinvest or divest during periods of changing interest rates, which may force the Company to sell investment

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assets at a loss. In addition, an interest rate sensitivity mismatch between assets and the liabilities that they are designated to support could have an adverse effect on the Company's financial position and operating results.

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

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

	As at December 31, 2020			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 11,547	\$ (12,325)	\$ 22,406	\$ (25,520)
Policyholders' net income	\$ 271	\$ (298)	\$ 519	\$ (625)
Shareholders' other comprehensive income	\$ (52,175)	\$ 61,963	\$ (94,562)	\$ 133,713
Policyholders' other comprehensive income	\$ (556)	\$ 583	\$ (1,086)	\$ 1,192

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

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

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

The estimated impact of an immediate change in interest rates is described above. If interest rates increase or decrease during the next year, then a change to the IRR assumption would be required to take into account the then-current economic outlook. For non-participating insurance business, a 1.0% decrease in interest rates would cause a decrease in reinvestment assumption for the next 40-years, resulting in an increase to policy liabilities thereby reducing net income by approximately \$50,800 (2020 \$47,100). This assumes no change in the URR assumption.

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For investment income expected to be earned on reinvestments beyond the rolling 40-year period, the Company uses an URR assumption. Under the Canadian Asset Liability Method, the URR assumption is prescribed as a long-term ultimate risk-free reinvestment rate of 2.9% (2020 3.1%) plus a maximum amount for credit spreads minus asset default rates of 0.9% (2020 0.8%). The prescribed level of the URR assumption may be periodically changed by the Actuarial Standards Board. As interest rates are currently lower than they were when the current URR assumptions were set, there may be a downward bias if the rates were to be updated.

In order to provide a margin that recognizes the longer-term mismatch, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the insurance contract liabilities are then adjusted to provide for credible adverse future scenarios. The Company uses an URR of 3.8% (2020 3.9%) to adjust for credible adverse scenarios.

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

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

(3) Foreign exchange rate risk

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

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. A 10% fluctuation in the US dollar would have an impact of approximately \$ nil (2020 \$ nil) on shareholders' Net income, \$ nil (2020 \$ nil) on policyholder's Net income, \$ nil (2020 \$ nil) on shareholders' OCI and \$ nil (2020 \$ nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

The Company uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage foreign exchange risks. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed.

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

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(b) Liquidity risk

Liquidity risk is the risk that an entity will not be able to fund all cash outflow commitments or obligations as they fall due or that, in order to fund commitments, an entity may have to sell assets at depressed prices resulting in losses at time of sale. Cash outflows could be in the form of benefit payments to policyholders, expenses, asset purchases and interest on debt. The majority of the Company's obligations relate to its policy liabilities, the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, and morbidity). The remaining obligations of the Company relate to the subordinated debt (refer to Note 13 - Subordinated Debt) and the Limited Recourse Capital Notes, to ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

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

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

The Company maintains a liquidity policy requiring an assessment of the Company's liquidity risk and specific procedures so that liquidity needs are met. Compliance with the policy is monitored by the Asset Management Committee and exposures and breaches are reported to the Investment Committee of the Board. The Company's current liquidity position as at December 31 is provided in a table in Note 10(e). Based on the Company's historical cash flows and current financial performance, management believes that the cash flows from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

The following table shows details of the expected maturity profile of the Company's undiscounted obligations with respect to its financial liabilities and estimated cash flows of policy liabilities. Subordinated debt that are not due at a single maturity date are included in the tables in the year of final maturity. Actual maturities could differ from contractual maturities because of the borrower's right to call or extend prepay obligations, with or without prepayment penalties. Policy liability cash flows include estimates related to the timing and payment of death and disability claims, policy maturities, annuity payments, policyholder dividends, amounts on deposit, commission and premium taxes offset by contractual future premiums and fees on in-force business. Recoverables from reinsurance agreements are also reflected. Segregated fund liabilities are excluded from this analysis. These estimated cash flows are based on the best estimate assumptions, with margins for adverse deviations, used in the determination of policy liabilities. The actuarial and other policy liability amounts included in the Company's 2021 Consolidated Financial Statements are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

	As at December 31, 2021				
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	\$ 69,210	\$ 175,021	\$ 706,802	\$ 25,147,726	\$ 26,098,759
Investment contract liabilities	3,365	13,457	10,686	7,840	35,348
Subordinated debt	11,548	228,852	206,760	—	447,160
Preferred shares	4,900	101,225	—	—	106,125
Accounts payable and Other liabilities	266,240	40,104	24,339	—	330,683
Total	\$ 355,263	\$ 558,659	\$ 948,587	\$ 25,155,566	\$ 27,018,075

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	As at December 31, 2020					
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total	
Insurance contract liabilities	\$ 69,513	\$ 157,882	\$ 599,674	\$ 23,853,965	\$ 24,681,034	
Investment contract liabilities	4,081	12,491	12,209	8,996	37,777	
Subordinated debt	14,094	31,960	413,800	—	459,854	
Preferred shares	156,549	93,082	—	—	249,631	
Accounts payable and Other liabilities	\$ 249,898	32,242	70,421	—	352,561	
Total	\$ 494,135	\$ 327,657	\$ 1,096,104	\$ 23,862,961	\$ 25,780,857	

The Asset Management Committee, which meets regularly, monitors the matched position of the Company's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match, to the extent possible, the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. The Company maintains a portion of its investments in cash, cash equivalents and short-term investments to meet its short-term funding requirements. As at December 31, 2021, 2.0% (2020 2.0%) of cash and investments were held in these shorter duration investments.

(c) Credit risk

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

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

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

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

As at December 31		2021		2020
Cash and cash equivalents	\$	193,217	\$	189,356
Short-term investments		8,647		13,008
Bonds		8,149,460		8,027,780
Preferred shares		441,339		616,902
Derivative assets		6,302		5,377
Mortgages		153,564		157,214
Reinsurance		175,933		141,136
Loans on policies		56,917		56,458
Policy contract loans		52,808		60,407
Accrued investment income		42,379		38,932
Insurance receivables		48,700		46,533
Trade accounts receivable		6,696		7,245
Total	\$	9,335,962	\$	9,360,348

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

The Company has made provision in its Consolidated Statements of Financial Position for credit losses. Provisions have been made partly through reduction in the value of the assets (see Note 3(b)) and partly through a provision in policy liabilities (see Note 10(c)).

Concentration of credit risk

(1) Bonds and debentures

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

As at December 31	2021		2020	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 484,746	6 %	\$ 394,570	5%
AA	2,059,678	25 %	2,289,540	28%
A	3,879,522	47 %	3,910,974	49%
BBB	1,681,358	21 %	1,429,025	18%
BB (and lower ratings)	44,156	1 %	3,671	—%
Total	\$ 8,149,460	100 %	\$ 8,027,780	100%

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

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

As at December 31		2021		2020
Provincial bond holdings	\$	3,739,035	\$	4,098,339
Percentage of total bond holdings		45.9%		51.1%

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

As at December 31	2021		2020	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 150,713	2%	\$ 188,385	2%
1 - 5 years	991,282	12%	678,391	8%
5 - 10 years	757,588	9%	696,271	9%
Over 10 years	6,249,877	77%	6,464,733	81%
Total	\$ 8,149,460	100 %	\$ 8,027,780	100%

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

As at December 31	2021	2020
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 4,416,034	\$ 4,886,504
Percentage of total cash and investments	43.8%	48.5%
Exposure to the largest single issuer of corporate bonds	\$ 269,638	\$ 236,086
Percentage of total cash and investments	2.7%	2.3%

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

(2) Preferred shares

The Company's preferred share investments are all issued by Canadian companies, with 1% (2020 1%) rated as P1, 96% rated as P2 (2020 97%) and the remaining 3% (2020 2%) rated as P3.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$153,564 or 100% (2020 \$156,445 or 99%) of the total mortgage portfolio.

(d) Product risk

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

(millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital & Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
For the year ended December 31										
Net premium income	\$ 74.6	\$ 94.6	\$ 407.3	\$ 357.0	\$ 433.6	\$ 408.6	\$ —	\$ —	\$ 915.5	\$ 860.2
Fee and other income	258.5	238.2	13.6	12.6	0.5	0.4	0.1	0.1	272.7	251.3
Total	\$ 333.1	\$ 332.8	\$ 420.9	\$ 369.6	\$ 434.1	\$ 409.0	\$ 0.1	\$ 0.1	\$ 1,188.2	\$ 1,111.5

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

Economic and environmental events, such as natural disasters, human-made disasters as well as pandemics, could occur in regions where Empire Life has significant insurance coverage, impacting financial results.

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The Company regularly evaluates its exposure to foreseeable risks through stress testing techniques including FCT analysis.

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

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

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

Policy liability assumptions are reviewed and updated at least annually by the Company’s Appointed Actuary. The impact of changes in those assumptions is reflected in earnings in the year of the change. Details related to the changes in assumptions are also discussed with the Audit Committee of the Board. The methods for arriving at the most material of these assumptions are outlined below. Also included are measures of the Company’s estimated net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities, based on a starting point and business mix as of December 31, 2021. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

(1) Mortality

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

For non-participating insurance business, a 2.0% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately \$18,600 (2020 \$17,100).

For annuity business, lower mortality (or longevity) is financially adverse so a 2.0% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately \$3,200 (2020 \$9,000).

(2) Policyholder behaviour (termination or lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of the Company’s own internal termination studies and recent CIA industry experience. Separate policy termination assumptions are used for permanent cash-value business, for renewable term insurance, term insurance to age 100 and for universal life insurance. In setting policy termination

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rates for renewable term insurance, it is assumed that extra lapses will occur at each renewal point and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

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

For non-participating insurance and annuity business, a 10.0% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing Net income by approximately \$173,500 (2020 \$183,500). For products where fewer terminations would be financially adverse to the Company, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to the Company, the change is applied as an increase to the lapse assumption.

(3) Expenses

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

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

For non-participating insurance business and annuity business combined, a 5% increase in the maintenance expense assumption would result in an increase to policy liabilities thereby reducing net income by approximately \$6,800 (2020 \$9,800).

(4) Morbidity

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

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

For non-participating insurance business where morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing Net income by approximately \$9,100 (2020 \$8,400).

(5) Product design and pricing risk

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

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

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

(6) Underwriting and claims risk

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

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

(7) Reinsurance risk

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

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

The Company does not have any assumed reinsurance business.

(e) COVID-19 Pandemic

In March 2020, the World Health Organization declared a pandemic related to the COVID-19 virus. The spread of the pandemic, given its severity and scale has affected and may continue to affect the Company's financial results, its customers and the Canadian economy. The Company continues to adjust its operations, where necessary, as government restrictions and measures evolve.

The duration and impact of the COVID-19 pandemic is difficult to determine. If the pandemic is prolonged, including the possibility of further waves, or new diseases emerge that give rise to similar effects, the adverse impact on the economy could deepen and result in further volatility and declines in equity markets and interest rates, increases in credit risk, insurance claims, or disruptions in business operations. These economic conditions may contribute to uncertainty over the carrying value of certain assets and liabilities in these financial statements. The Company has considered these events and their effects when applying the measurement techniques for critical accounting estimates and judgments provided in Note 2(c). The potential effect on the Company's financial results due to fluctuations in equity markets and interest rates are provided in Note 27(a).

GLOSSARY OF TERMS (unaudited)

Accumulated Other Comprehensive Income (AOCI)

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

Active Market

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

Available For Sale (AFS) Finance Assets

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

Canadian Asset Liability Method (CALM)

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

Canadian Institute of Actuaries (CIA)

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

Canadian Life and Health Insurance Association (CLHIA)

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

Chartered Professional Accountants of Canada (CPA Canada)

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

Earnings on Surplus

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

Effective Interest Method

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

Expected Profit from In-Force Business

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

Experience Gains and Losses

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

GLOSSARY OF TERMS (unaudited)

Fair Value Through Profit or Loss (FVTPL)

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

Impact on New Business

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

International Financial Reporting Standards (IFRS)

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

Life Insurance Capital Adequacy Test (LICAT)

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

Management Actions and Changes in Assumptions

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

Other Comprehensive Income (OCI)

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

Office of the Superintendent of Financial Institutions Canada (OSFI)

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

Participating Policies

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

Return on Common Shareholders' Equity (ROE)

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

PARTICIPATING ACCOUNT MANAGEMENT POLICY

Purpose

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

Scope

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

Policy

Description of the Participating Account and its Policies

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

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

Investment Policy

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

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

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

Investment Income Allocation

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

Expense Allocation

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

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

PARTICIPATING ACCOUNT MANAGEMENT POLICY

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

Income Tax Allocation

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

Surplus Management

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

Transfers to Shareholder Accounts

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

Appointed Actuary

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

Process to Approve (and Frequency)

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

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

PARTICIPATING POLICYHOLDER DIVIDENDS POLICY

Purpose

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

Scope

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

Policy Dividends are Declared at the Discretion of the Board

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

Principal Factors that Affect the Aggregate Amount of Dividends

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

Principal Sources of Income

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

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

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

Dividend Allocation

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

The Company uses a combination of factor-based and pricing methods when setting the dividend scale to allocate the aggregate amount of dividends among different dividend classes. The basic concept of this method is to allocate the aggregate amounts of dividends among dividend classes in the same proportion as the policies are considered to have contributed to the aggregate amount of dividends over the long term. The fundamental objective in the allocation

PARTICIPATING POLICYHOLDER DIVIDENDS POLICY

of dividends is the maintenance of reasonable equity between dividend classes and between generations of policyholders, taking into account practical considerations and limits.

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

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

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

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

Appointed Actuary

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

Process to Approve (and Frequency)

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

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

PARTICIPATING ACCOUNT FINANCIAL DISCLOSURE

	2021	2020
Participating Surplus		
Surplus and Accumulated OCI, start of year	\$ 44,148	\$ 40,112
Net Income and OCI (before dividends)	54,270	41,857
Amounts transferred to shareholders per S.461 of the ICA	—	—
Amounts transferred to shareholders per S.462(a) of the ICA, if included in net income	(3,387)	(2,655)
Net Income and OCI	50,883	39,202
Policyholder dividends (excl ERRs)	(36,820)	(35,166)
Surplus and Accumulated OCI, end of year	58,211	44,148
<hr/>		
Total Participating Assets	\$ 958,325	\$ 903,884
Section 462 transfer as a % of Distributable Profits	6.97 %	7.28 %

CORPORATE GOVERNANCE OVER RISK MANAGEMENT

The Empire Life Insurance Company (the “Company”) is a stock company that has both shareholders and participating policyholders. The Company also has a mutual fund subsidiary, Empire Life Investments Inc. (“ELII”).

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

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

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

The Board of Directors has plenary power. The Board’s responsibility is to oversee the conduct of the business and affairs of the Company including oversight and monitoring of the Company’s risk management. The Board discharges these responsibilities directly and through delegation to Board Committees and management. The Board met nine times in 2021 and is scheduled to meet at least six times in 2022.

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

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

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

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

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

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

CORPORATE GOVERNANCE OVER RISK MANAGEMENT

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

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

CORPORATE INFORMATION

Corporate Head Office

259 King Street East
Kingston, Ontario
Canada K7L 3A8
1 877 548-1881
info@empire.ca
www.empire.ca

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

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

RETAIL SALES OFFICES

WESTERN CANADA

Vancouver Retail Sales Office

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

Calgary Retail Sales Office

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

ONTARIO

Burlington Retail Sales Office

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

Toronto Retail Sales Office

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

QUEBEC

Montréal Retail Sales Office

1600-600 de Maisonneuve Boulevard W.
Montréal, Quebec H3A 3J2
514 842-9151
1 800 371-9151

Québec Retail Sales Office

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

GROUP SALES OFFICES

WESTERN CANADA

Vancouver Group Sales Office

707-1177 West Hastings Street
Vancouver, British Columbia V6E 2K3
604 232-5558
1 800 547-0628

Calgary Group Sales Office

310-1167 Kensington
Calgary, Alberta T2N 1X7
403 262-6386
1 888 263-6386

ONTARIO

Burlington Group Sales Office

108-1100 Burloak Drive
Burlington, Ontario L7L 6B2
905 335-6558
1 800 663-9984

Toronto Group Sales Office

200-36 York Mills Road
Toronto, Ontario M2P 2E9
416 494-6834
1 800 361-7980

QUEBEC

Montréal Group Sales Office

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

BOARD OF DIRECTORS

SHAREHOLDERS' DIRECTORS

Stephanie Bowman ^{3, 5, 6}

Corporate Director

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

Corporate Director

Scott F. Ewert ^{1, 4, 6}

Vice President and Chief Financial Officer
E-L Financial Corporation Limited

Edward M. Iacobucci ^{1, 2, 3, 5}

Professor of Law
University of Toronto

Duncan N.R. Jackman ⁶

Chairman of the Board
The Empire Life Insurance Company

Clive P. Rowe ^{4, 6}

Corporate Director

POLICYHOLDERS' DIRECTORS

Patricia M. Volker ^{1, 3, 6}

Corporate Director

Mark J. Fuller ^{2, 3, 5, 6}

President and Chief Executive Officer
Ontario Pension Board

Harold W. Hillier ^{1, 2, 3, 4}

Corporate Director

Mark Sylvia

President and Chief Executive Officer
The Empire Life Insurance Company

Jacques Tremblay ^{3, 5, 6}

Partner
Oliver Wyman Actuarial Consulting

¹ Member of Audit Committee

² Member of Conduct Review Committee

³ Member of Human Resources Committee

⁴ Member of Investment Committee

⁵ IT Oversight Committee

⁶ Member of Risk and Capital Committee

HONORARY CHAIRMAN

The Honourable Henry N.R. Jackman

Honorary Chairman

The Empire Life Insurance Company

CORPORATE MANAGEMENT

Mark Sylvia

President and Chief Executive Officer

Richard Carty

General Counsel and Senior Vice-President, Human Resources

Edward Gibson

Senior Vice-President, Capital Management and Chief Actuary

Michael Perry

Senior Vice-President, Group Solutions

Steve Pong

Senior Vice-President, Retail

Rebecca Rycroft

Senior Vice-President and Chief Financial Officer

Kathy Thompson

Senior Vice-President and Chief Risk Officer

Chris Volk

Senior Vice-President and Chief Technology Officer

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EMPIRE LIFE ANNUAL REPORT 2021

The Empire Life Insurance Company (Empire Life) is a proud Canadian company that has been in business since 1923. We offer individual and group life and health insurance, investment and retirement products, including mutual funds through our wholly-owned subsidiary Empire Life Investments Inc.

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

Follow us on social media @EmpireLife or visit empire.ca for more information, including current ratings and financial results.

Transfer Agent and Registrar

TSX Trust Company
1 Toronto Street, Suite 1200
Toronto, Ontario, M5C 2V6
Phone 416 682-3860
Toll Free 800 387-0825
www.tsxtrust.com

Reporting Procedure for Accounting and Auditing Matters

If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

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

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

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Insurance & Investments – Simple. Fast. Easy.®
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