

The Empire Life Insurance Company

Management's Discussion and Analysis
For the nine months ended September 30, 2024



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Management's Discussion and Analysis

Dated as of October 30, 2024

This document provides Management's Discussion and Analysis (MD&A) of the unaudited operating results and financial condition of The Empire Life Insurance Company (Empire Life or the Company) for the third quarter of 2024. This MD&A should be read in conjunction with the Company's unaudited Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2024, as well as the MD&A and the audited Consolidated Financial Statements which form part of The Empire Life Insurance Company 2023 Annual Report dated February 29, 2024. Unless otherwise noted, both the unaudited Condensed Interim Consolidated Financial Statements and this MD&A are expressed in Canadian dollars. Some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components due to rounding.

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

The unaudited Condensed Interim Consolidated Financial Statements have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) (IFRS Accounting Standards), and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. This MD&A makes reference to certain non-generally accepted accounting principles (non-GAAP) measures. These non-GAAP measures are not recognized measures under IFRS Accounting Standards and do not have a standardized meaning prescribed by IFRS Accounting Standards. Therefore, they are unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information and complement IFRS Accounting Standards 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 Accounting Standards. Refer to the Non-GAAP Measures section in this report. Note that certain comparative amounts have been reclassified and restated to conform with the presentation adopted in the current period.

Management's assessment of industry dynamics, strategy, risks and risk management, critical accounting estimates, and outlook for the Company remain consistent with the disclosures in the 2023 Annual Report dated February 29, 2024, which is available at www.sedarplus.ca.

Financial Analysis - Overview

(in millions of dollars except per share amounts)	Third Quarter		Year to date		
	2024	2023	2024	2023	
Common shareholders' net income (loss)	\$ 177	\$ (5)	\$ 265	\$ 46	
Earnings per share - basic and diluted	\$ 179.88	\$ (5.25)	\$ 268.68	\$ 46.55	
Other Financial Highlights	Sep 30 2024	Jun 30 2024	Mar 31 2024	Dec 31 2023	Sep 30 2023
Return on common shareholders' equity ⁽¹⁾	24.0 %	12.7 %	10.4 %	10.5 %	3.9 %
LICAT total ratio	154 %	152 %	157 %	155 %	152 %

⁽¹⁾ See Non-GAAP Measures section.

Empire Life reported third quarter common shareholders' net income of \$177 million for 2024, compared to a net loss of \$5 million for the third quarter of 2023. The increase compared to the prior year is due to net investment and insurance finance result gains, driven by improvements in the interest rate environment and the impacts of management assumption updates in the third quarter.

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Results by Product Line

The following tables provide a summary of Empire Life results segmented by product line for the periods ended September 30, 2024 and September 30, 2023. A discussion of results is provided in the Product Line Results sections of the MD&A.

For the three months ended September 30, 2024 (in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Insurance service result					
Insurance revenue	\$ 61	\$ 171	\$ 125	\$ —	357
Insurance service expenses	(35)	(143)	(93)	—	(271)
Insurance service result	26	28	32	—	86
Net recovery (expense) from reinsurance contracts held	—	(11)	(13)	—	(24)
Net insurance service result	26	17	19	—	62
Investment and insurance finance result					
Investment income (loss), excluding segregated fund account balances					
Investment income	41	9	371	81	502
Change in investment contracts	(19)	—	—	—	(19)
Net investment result, excluding segregated fund account balances	22	9	371	81	483
Insurance finance income (expense), excluding segregated fund account balances					
Insurance contracts	(13)	(17)	(259)	—	(289)
Reinsurance contracts held	—	8	17	—	25
Net insurance finance income (expense), excluding segregated fund account balances	(13)	(9)	(242)	—	(264)
Segregated fund account balances net investment and insurance finance result					
Investment income (loss) on investments for segregated fund account balances	607	—	2	—	609
Insurance finance income (expenses) segregated fund account balances	(607)	—	(2)	—	(609)
Segregated fund account balances net investment and insurance finance result	—	—	—	—	—
Net investment and insurance finance result	9	—	129	81	219
Other income and expenses					
Fee and other income	—	2	—	6	8
Non-insurance expenses	(7)	(6)	(7)	(7)	(27)
Interest expenses	—	—	—	(4)	(4)
Total other income and expenses	(7)	(4)	(7)	(5)	(23)
Net income (loss) before taxes	\$ 28	\$ 13	\$ 141	\$ 76	258
Income taxes					(72)
Net income (loss) after taxes					186
Less: net income (loss) attributable to the participating account					6
Shareholders' net income (loss)					180
Less: preferred share dividends declared and distributions on other equity instruments					(3)
Common shareholders' net income (loss)				\$	177

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For the three months ended September 30, 2023 (in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Insurance service result					
Insurance revenue	\$ 63	\$ 160	\$ 114	\$ —	337
Insurance service expenses	(37)	(142)	(79)	—	(258)
Insurance service result	26	18	35	—	79
Net recovery (expense) from reinsurance contracts held	—	(6)	(13)	—	(19)
Net insurance service result	26	12	22	—	60
Investment and insurance finance result					
Investment income (loss), excluding segregated fund account balances					
Investment income	(16)	(7)	(448)	(76)	(547)
Change in investment contracts	—	—	—	—	—
Net investment result, excluding segregated fund account balances	(16)	(7)	(448)	(76)	(547)
Insurance finance income (expense), excluding segregated fund account balances					
Insurance contracts	12	3	464	—	479
Reinsurance contracts held	—	(2)	24	—	22
Net insurance finance income (expense), excluding segregated fund account balances	12	1	488	—	501
Segregated fund account balances net investment and insurance finance result					
Investment income (loss) on investments for segregated fund account balances	(157)	—	1	—	(156)
Insurance finance income (expenses) segregated fund account balances	157	—	(1)	—	156
Segregated fund account balances net investment and insurance finance result	—	—	—	—	—
Net investment and insurance finance result	(4)	(6)	40	(76)	(46)
Other income and expenses					
Fee and other income	—	2	—	6	8
Non-insurance expenses	(7)	(4)	(8)	(8)	(27)
Interest expenses ⁽¹⁾	—	—	—	(4)	(4)
Total other income and expenses	(7)	(2)	(8)	(6)	(23)
Net income (loss) before taxes	\$ 15	\$ 4	\$ 54	\$ (82)	(9)
Income taxes ⁽¹⁾					4
Net income (loss) after taxes					(5)
Less: net income (loss) attributable to the participating account					(3)
Shareholders' net income (loss)					(2)
Less: preferred share dividends declared and distributions on other equity instruments ⁽¹⁾					(3)
Common shareholders' net income (loss)				\$	(5)

⁽¹⁾ Amounts have been revised from those previously presented.

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For the nine months ended September 30, 2024 (in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Insurance service result					
Insurance revenue	\$ 186	\$ 500	\$ 362	\$ —	1,048
Insurance service expenses	(106)	(466)	(280)	—	(852)
Insurance service result	80	34	82	—	196
Net recovery (expense) from reinsurance contracts held	(1)	(17)	(35)	—	(53)
Net insurance service result	79	17	47	—	143
Investment and insurance finance result					
Investment income (loss), excluding segregated fund account balances					
Investment income	79	11	305	86	481
Change in investment contracts	(25)	—	—	—	(25)
Net investment result, excluding segregated fund account balances	54	11	305	86	456
Insurance finance income (expense), excluding segregated fund account balances					
Insurance contracts	(16)	(22)	(146)	—	(184)
Reinsurance contracts held	—	10	20	—	30
Net insurance finance income (expense), excluding segregated fund account balances	(16)	(12)	(126)	—	(154)
Segregated fund account balances net investment and insurance finance result					
Investment income (loss) on investments for segregated fund account balances	1,065	—	3	—	1,068
Insurance finance income (expenses) segregated fund account balances	(1,065)	—	(3)	—	(1,068)
Segregated fund account balances net investment and insurance finance result	—	—	—	—	—
Net investment and insurance finance result	38	(1)	179	86	302
Other income and expenses					
Fee and other income	1	7	—	23	31
Non-insurance expenses	(25)	(17)	(20)	(19)	(81)
Interest expenses	—	—	—	(12)	(12)
Total other income and expenses	(24)	(10)	(20)	(8)	(62)
Net income (loss) before taxes	\$ 93	\$ 6	\$ 206	\$ 78	383
Income taxes					(100)
Net income (loss) after taxes					283
Less: net income (loss) attributable to the participating account					10
Shareholders' net income (loss)					273
Less: preferred share dividends declared and distributions on other equity instruments					(8)
Common shareholders' net income (loss)				\$	265

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For the nine months ended September 30, 2023 (in millions of dollars)	Wealth Management	Group Solutions	Individual Insurance	Capital & Surplus	Total
Insurance service result					
Insurance revenue	\$ 177	\$ 476	\$ 338	\$ —	991
Insurance service expenses	(109)	(449)	(248)	—	(806)
Insurance service result	68	27	90	—	185
Net recovery (expense) from reinsurance contracts held	1	(12)	(40)	—	(51)
Net insurance service result	69	15	50	—	134
Investment and insurance finance result					
Investment income (loss), excluding segregated fund account balances					
Investment income	5	(1)	(124)	(27)	(147)
Change in investment contracts	(9)	—	—	—	(9)
Net investment result, excluding segregated fund account balances	(4)	(1)	(124)	(27)	(156)
Insurance finance income (expense), excluding segregated fund account balances					
Insurance contracts	(1)	(1)	141	—	139
Reinsurance contracts held	—	1	10	—	11
Net insurance finance income (expense), excluding segregated fund account balances	(1)	—	151	—	150
Segregated fund account balances net investment and insurance finance result					
Investment income (loss) on investments for segregated fund account balances	197	—	—	—	197
Insurance finance income (expenses) segregated fund account balances	(197)	—	—	—	(197)
Segregated fund account balances net investment and insurance finance result	—	—	—	—	—
Net investment and insurance finance result	(5)	(1)	27	(27)	(6)
Other income and expenses					
Fee and other income	1	6	(1)	15	21
Non-insurance expenses	(23)	(14)	(12)	(19)	(68)
Interest expenses ⁽¹⁾	—	—	—	(13)	(13)
Total other income and expenses	(22)	(8)	(13)	(17)	(60)
Net income (loss) before taxes	\$ 42	\$ 6	\$ 64	\$ (44)	68
Income taxes ⁽¹⁾					(12)
Net income (loss) after taxes					56
Less: net income (loss) attributable to the participating account					2
Shareholders' net income (loss)					54
Less: preferred share dividends declared and distributions on other equity instruments ⁽¹⁾					(8)
Common shareholders' net income (loss)				\$	46

⁽¹⁾ Amounts have been revised from those previously presented.

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Common shareholders' net income in the third quarter increased \$182 million relative to the third quarter of 2023, driven by gains in the Company's net investment and insurance finance result. These gains are due to favourable interest rate movements in the quarter compared to the less favourable interest rate movements from the same period in 2023, as well as the impact of insurance contract liability assumption updates. In 2024, management conducted the annual assumption update in the third quarter, in contrast to the fourth quarter in 2023.

Net insurance service result increased \$2 million in the third quarter, compared to the same period in 2023. Contributing factors include higher net insurance service results in the Group Solutions product line, driven by favourable assumption updates on life and long-term disability products, which were offset by unfavourable mortality experience in the Individual Insurance product line.

Net investment and insurance finance result increased \$265 million in the third quarter compared to the same period in 2023. This was mainly due to favourable interest rate movements compared to less favourable interest rate movements in the same period in 2023, as well as the impact of insurance contract liability assumption updates. Net investment gains from non-fixed income assets also supported the favourable third quarter result, driven by favourable market movements.

Total other income and expenses for the third quarter was a net expense of \$23 million, consistent with the same period in 2023.

Year-to-date Common shareholders' net income of \$265 million was a \$219 million increase compared to the first nine months of 2023. The change over prior year was primarily due to favourable interest rate movements in the third quarter of 2024, driving net investment and insurance finance result gains, compared to losses experienced in the third quarter of 2023 due to unfavourable interest rate movements.

Net insurance service result over the first nine months in 2024 increased \$9 million compared to the same period in the prior year, primarily due to higher net insurance service results in our Wealth Management line, which was partially offset by adverse mortality experience in our Individual Insurance product lines.

Net investment and insurance finance result increased \$308 million year-to-date in 2024 compared to the same period in 2023. This was due to the improved interest rate environment and the impacts of management assumption updates.

The year-to-date total other income and expenses was a net expense of \$62 million, a \$2 million increase over the first three quarters of 2023. The change reflects higher non-insurance operating expenses which were partially offset by gains in fee and other income due to disposal of property and equipment.

Management's Discussion and Analysis

Product Line Results - Wealth Management

(in millions of dollars)	Third Quarter		Year to date	
	2024	2023	2024	2023
Fixed annuities				
Assets under management ⁽¹⁾	\$ 997	\$ 839	\$ 997	\$ 839
Gross sales ⁽¹⁾	46	74	161	163
Net sales ^{(1) (2)}	15	51	69	89
Segregated funds				
Assets under management ⁽¹⁾	\$ 9,312	\$ 8,356	\$ 9,312	\$ 8,356
Gross sales ⁽¹⁾	210	141	643	562
Net sales ⁽¹⁾	(68)	(109)	(384)	(218)

⁽¹⁾ See Non-GAAP Measures section.

⁽²⁾ Prior year amounts have been revised from those previously presented.

(in millions of dollars)	Third Quarter		Year to date	
	2024	2023	2024	2023
Net insurance service result	\$ 26	\$ 26	\$ 79	\$ 69
Net investment and insurance finance result	9	(4)	38	(5)
Fee and other income	—	—	1	1
Non-insurance operating expenses	(7)	(7)	(25)	(23)
Net income (loss) before taxes	\$ 28	\$ 15	\$ 93	\$ 42

Fixed annuities assets under management were 19% higher relative to the third quarter of 2023. Assets under management for fixed annuities are higher this period compared to 2023, as we are now seeing the positive impact of strong 2023 sales reflected in assets under management. Gross sales in the third quarter were 38% lower than the same period in 2023 due to the declining interest rate environment which has drawn customer demand away from GIC and Annuity products, resulting in lower net sales compared to the third quarter of 2023.

Segregated fund assets under management were 11% higher in 2024 relative to the same period in 2023, reflecting favourable market movements, partially offset by net outflows. For the third quarter of 2024, gross sales of segregated funds were 49% higher than the same period in 2023 due in part to the launch of several new segregated funds at the end of the second quarter of 2024, and customer preferences shifting away from fixed annuity products back to segregated funds.

Net income for the third quarter increased \$13 million, compared to the same period in 2023. This improvement in quarterly earnings was due to gains in net investment and insurance finance results, driven by the impacts of discount rate assumption updates and the impact of interest rate movements on assets underlying the Company's Fixed annuity products in the quarter. The net insurance service result showed stable results quarter over quarter.

Management's Discussion and Analysis

Product Line Results - Group Solutions

(in millions of dollars)	Third Quarter		Year to date	
	2024	2023	2024	2023
Annualized premium sales				
Core ⁽¹⁾	\$ 18	\$ 14	\$ 52	\$ 35
Other ⁽¹⁾	7	7	30	20
Total annualized premium sales⁽²⁾	\$ 25	\$ 21	\$ 82	\$ 55

⁽¹⁾ Prior year amounts have been revised from those previously presented.

⁽²⁾ See Non-GAAP Measures section.

(in millions of dollars)	Third Quarter		Year to date	
	2024	2023	2024	2023
Insurance revenue	\$ 171	\$ 160	\$ 500	\$ 476
Net insurance service result	\$ 17	\$ 12	\$ 17	\$ 15
Net investment and insurance finance result	—	(6)	(1)	(1)
Fee and other income	2	2	7	6
Non-insurance operating expenses	(6)	(4)	(17)	(14)
Net income (loss) before taxes	\$ 13	\$ 4	\$ 6	\$ 6

Total annualized premium sales increased 19% in the third quarter compared to the same period in 2023. This increase was primarily due to improved sales through Group Solutions' core distribution partners.

Insurance revenue increased 7% in the third quarter compared to the same periods in 2023, primarily due to organic growth in specialty partnerships.

Net income before taxes increased by \$9 million for the quarter, compared to the same period in 2023, which was primarily due to favourable insurance contract liability assumption updates on life and long-term disability (LTD) products, and improved Net investment and insurance finance result due to favourable interest rate changes.

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Product Line Results - Individual Insurance

(in millions of dollars)	Third Quarter		Year to date	
	2024	2023	2024	2023
Shareholders'				
Shareholders' annualized premium sales ⁽¹⁾	\$ 9	\$ 10	\$ 31	30
Net income (loss) before taxes ⁽²⁾	138	52	197	63
Policyholders'				
Policyholders' annualized premium sales ⁽¹⁾	\$ 4	\$ 3	\$ 11	11
Net income (loss) before taxes ⁽²⁾	3	2	9	1

⁽¹⁾ See Non-GAAP Measures section.

⁽²⁾ Prior year amounts have been revised from those previously presented.

(in millions of dollars)	Third Quarter		Year to date	
	2024	2023	2024	2023
Net insurance service result	\$ 19	\$ 22	\$ 47	50
Net investment and insurance finance result	129	40	179	27
Fee and other income	—	—	—	(1)
Non-insurance operating expenses	(7)	(8)	(20)	(12)
Net income (loss) before taxes	\$ 141	\$ 54	\$ 206	64

Shareholders' annualized premium sales decreased 10% in the third quarter compared to the same period in 2023, due to increasing competition for non-participating term insurance products.

Shareholders' net income before taxes for the third quarter of 2024 increased \$86 million in 2024 compared to 2023, driven by increases in the Individual Insurance Net investment and insurance finance result. Net investment and insurance finance results improved by \$89 million in the quarter compared to 2023 due to discount rate assumption updates and gains on non-fixed income assets. Unfavourable mortality experience contributed to the \$3 million lower net insurance service result in the third quarter compared to the same period in 2023.

Results - Capital and Surplus

(in millions of dollars)	Third Quarter		Year to date	
	2024	2023	2024	2023
Net investment result	\$ 81	\$ (76)	\$ 86	(27)
Other income and expenses ⁽¹⁾	(5)	(6)	(8)	(17)
Net income (loss) before taxes	\$ 76	\$ (82)	\$ 78	(44)

⁽¹⁾ Amounts have been revised from those previously presented.

Net income before taxes in the Capital and Surplus segment increased \$158 million in the third quarter compared to the prior period loss, driven by gains in the Net investment result. These gains were due to favourable interest rate movements in the third quarter of 2024 relative to unfavourable interest rate movements experienced in the same quarter in 2023.

The year to date increase over prior year is primarily due to the strong net investment result gains in the third quarter. The Company also realized some modest gains in Other income and expenses related to the disposal of Property and equipment, which offset increased Non-insurance operating expenses.

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Results - Net Contractual Service Margin

(Amounts are net of reinsurance contracts held, in millions of dollars)	Third Quarter		Year to date	
	2024	2023	2024	2023
Net contractual service margin, beginning of period	\$ 1,483	\$ 1,528	\$ 1,415	\$ 1,544
Impact of new insurance business	16	13	45	48
Interest accretion ⁽¹⁾	6	6	18	20
Insurance experience ⁽²⁾	3	(5)	(1)	(10)
Economic experience ^{(1) (2)}	32	65	150	89
Assumption updates ⁽²⁾	(73)	—	(77)	(1)
CSM recognized for services provided	(41)	(40)	(124)	(123)
Net contractual service margin, end of period	\$ 1,426	\$ 1,567	\$ 1,426	\$ 1,567

⁽¹⁾ Amounts have been revised from those previously presented.

⁽²⁾ Insurance experience, Economic experience and Assumption updates are components of our Changes in estimates that adjust the CSM. Insurance experience represents the current period impacts of insurance experience, resulting in a change in future cash flows that adjust CSM. Economic experience represents the changes in the effect of time value of money and financial risk relating to contracts measured using the Variable Fee Approach (VFA) for our Wealth Management and Individual Insurance product lines. Assumption updates represent the future period impacts of changes in fulfillment cash flows that adjust CSM.

The net contractual service margin (CSM) for the third quarter of 2024 was \$1,426 million, a decrease of \$57 million in the quarter, largely driven by assumption updates, which were partially offset with favourable new insurance business:

- Assumption updates: The annual actuarial assumption updates were completed in the third quarter of 2024 which led to a \$73 million decrease in the CSM balance. Further details are provided in the following section.
- Economic experience: The positive impact of equity market returns in the third quarter on our segregated fund products led to an increase in the CSM balance which was slightly offset by decreasing interest rates.
- New insurance business: Traditional non-participating term and whole life insurance sales make up the majority of the new business CSM total for the quarter.
- CSM amortization: Remains relatively consistent quarter to quarter.

Results - Impact of Insurance Contract Liability Assumption Updates

Impacts from the update of insurance contract liability assumptions for the quarter ended September 30, 2024			
(Amounts are net of reinsurance contracts held, in millions of dollars)	Net income (loss) before taxes		Net CSM
Components of insurance contract liability assumption updates			
Discount rates	\$	68	\$ (30)
Mortality		(4)	(2)
Expense		(1)	(38)
Other		15	(3)
Total change from the update of insurance contract liability assumptions	\$	78	\$ (73)

In the third quarter management updated several assumptions that affect the measurement of insurance contract liabilities and reinsurance contracts held. These updates are primarily related to discount rates, mortality rates, and expenses. In 2023 management conducted the annual assumption updates in the fourth quarter.

For further details on the updates to insurance contract liability assumptions, refer to Note 6.1. Analysis by measurement component for insurance contracts of our unaudited Condensed Interim Consolidated Financial Statements for the quarter ended September 30, 2024.

Shareholder Dividends

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

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

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On October 30, 2024, the Board of Directors declared dividends for common shareholders and series 3 preferred shareholders. The following table provides details of the amounts and dates for Empire Life's per share dividends:

	Amount of Dividend per share	Payable Date	Record Date
Common shares	\$ 20.31	December 5, 2024	November 14, 2024
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.3866875	January 17, 2025	December 18, 2024

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

Total Cash Flow

(in millions of dollars)	Year to date	
	2024	2023 ⁽¹⁾
Cash flow provided from (used for)		
Operating activities	\$ 262	\$ 196
Investing activities	(296)	(6)
Financing activities	(133)	(79)
Net change in cash and cash equivalents	\$ (167)	\$ 111

⁽¹⁾ Prior year amounts have been revised from those previously presented.

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

For the nine months ended September 30, 2024, the Company's balance of cash and cash equivalents decreased by \$167 million, a year-over-year decrease of \$278 million. Cash flows provided from operating activities year to date increased by \$66 million, compared to the same period in 2023, due to improved earnings from operations. Year to date cash outflows for investing activities were \$296 million, an increase of \$290 million compared to the same period in 2023, which was driven by higher net purchases on our portfolio investments and increased investments in associates. Cash used for financing activities increased year over year due to payment of an additional dividend to common shareholders in the second quarter of 2024.

For an analysis of liquidity for Empire Life, refer to Notes 23.3 and 23.4 of our audited Consolidated Financial Statements for the year ended December 31, 2023.

Financial Instruments

Empire Life holds an investment portfolio that is actively managed to optimize yield, quality and liquidity while ensuring it is both diversified and duration-matched to our future obligations. Cash flows arising from these financial instruments are intended to match the liquidity requirements of Empire Life's insurance and investment contract liabilities, within the limits prescribed by the Company. Empire Life is subject to credit and market risk on these financial instruments.

Credit risk on these financial instruments could result in a financial loss should the other party fail to discharge an obligation. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, short-term investments and mortgages. 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 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

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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 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.

For additional information on our financial instruments, refer to Note 3 Financial Instruments of our unaudited Condensed Interim Consolidated Financial Statements for the quarter ended September 30, 2024.

Sources of Capital

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

(in millions of dollars)	As at	
	September 30, 2024	December 31, 2023
Subordinated debentures	\$ 399	\$ 399
Equity		
Preferred shares and other equity instruments	297	297
Common shares	1	1
Total Equity	\$ 298	\$ 298

Details of the Company's outstanding subordinated debentures are as follows:

(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	As at	
				September 30, 2024	December 31, 2023
Subordinated debentures, Series 2021-1 ⁽¹⁾	September 2021	September 24, 2026	2.024%	\$ 200	\$ 199
Subordinated debentures, Series 2023-1 ⁽²⁾	January 2023	January 13, 2028	5.503%	\$ 200	\$ 199

⁽¹⁾ Series 2021-1 Subordinated 2.024% unsecured debentures due 2031. From September 24, 2026, interest is payable at 0.67% over CORRA plus 0.32138% credit adjustment spread.

⁽²⁾ Series 2023-1 Subordinated 5.503% unsecured debentures due 2033. From January 13, 2028, interest is payable at 2.26% over CORRA.

Details of the Company's outstanding preferred shares and other equity instruments are as follows:

(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	As at	
				September 30, 2024	December 31, 2023
Preferred shares, Series 3	November 2017	January 17, 2028	6.187%	\$ 100	\$ 100
Limited Recourse Capital Notes, Series 1	February 2021	April 17, 2026	3.625%	\$ 197	\$ 197

Securities Rating

The securities issued by Empire Life are rated by DBRS Limited (Morningstar DBRS). Morningstar DBRS completed its annual rating review of the Company in the second quarter of 2024. Morningstar DBRS confirmed all credit ratings and updated the Company's trend to Positive from Stable.

Evaluation type	Rating	Trend	Date of last rating action
Financial strength rating	A	Positive	May 24, 2024
Issuer rating	A	Positive	May 24, 2024
Subordinated debt	A (low)	Positive	May 24, 2024
Preferred shares	Pfd-2	Positive	May 24, 2024
Limited Recourse Capital Notes	BBB (high)	Positive	May 24, 2024

Management's Discussion and Analysis

Regulatory Capital

The Life Insurance Capital Adequacy Test (LICAT) measures the capital adequacy of an insurer and is one of several indicators used by the Office of the Superintendent of Financial Institutions, Canada (OSFI) to assess an insurer's financial condition. The Company continues to have a strong capital position under the LICAT framework. Empire Life is required to maintain a minimum Core Ratio of 55% and a Total Ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total ratio.

LICAT (in millions of dollars)		Sep 30 2024	Jun 30 2024	Mar 31 2024	Dec 31 2023	Sep 30 2023
Available capital						
Tier 1	(A) \$	2,206	\$ 2,091	\$ 2,222	\$ 2,135	\$ 2,190
Tier 2	(B)	737	705	683	714	626
Total	(C) \$	2,943	\$ 2,796	\$ 2,905	\$ 2,849	\$ 2,816
Surplus allowance and eligible deposits	(D)	654	645	638	651	561
Base solvency buffer	(E)	2,334	2,261	2,254	2,252	2,228
LICAT total ratio	$((C+D)/E * 100)$	154%	152%	157%	155%	152%
LICAT core ratio	$((A+70\%D)/E * 100)$	114%	112%	118%	115%	116%

Empire Life maintained a strong LICAT position that is well above target levels in the third quarter of 2024. The Company's total and core LICAT ratios increased in the third quarter compared to the previous quarter, due to favourable earnings in the period, driven by net investment gains. During the year movement in total available capital related to acquisitions made and the payment of an additional dividend to common shareholders.

Risk Management

Empire Life is a financial institution offering wealth management, group solutions and individual insurance products. The Company is exposed to a number of risks as a result of its business activities. Effective risk management is critical to the overall profitability, competitive market positioning and long-term financial viability of the Company. While all risks cannot necessarily be eliminated or known with certainty, the goal of the Company's risk management program is to ensure that risk-taking activities are aligned with its strategy, in order to achieve business goals and deliver acceptable shareholder returns.

Caution Related to Sensitivities

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on the market prices, interest rates, assets, liabilities and business mix in place as at the respective calculation dates. The sensitivities are calculated independently for each risk variable, generally assuming that all other risk variables remain constant. The sensitivities do not take into account indirect effects such as potential impacts on goodwill impairments or valuation allowances on deferred tax assets. The sensitivities are provided for the consolidated entity. Actual results can differ materially from these estimates for a variety of reasons, including differences in the pattern or distribution of market shocks, the interaction between these risk factors, model errors, or changes in other assumptions such as business mix, effective tax rates, policyholder behaviour and other market variables relative to those underlying the calculation of the sensitivities. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined and should not be viewed as predictors for the Company's future Net income, CSM, Equity and capital sensitivities. Given the nature of these calculations, the Company cannot provide assurance that the actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

Management's Discussion and Analysis

Market Risk

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

There can be volatility in the Company's statement of operations from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes as well as liabilities on the statement of financial position related to segregated fund guarantees. Some net income volatility can result from the hedging instruments, as gains or losses are not directly offset by changes in the value of other assets and liabilities exposed to equity risk. For the quarter ended September 30, 2024, Empire Life experienced a net loss before taxes of \$3.9 million on the hedging program, due to realized losses on the portfolio investments. This compares to a hedge loss of \$0.8 million before taxes over the same period in 2023.

Empire Life's LICAT ratio is also sensitive to stock market volatility, primarily due to liability and capital requirements related to segregated fund guarantees. As of September 30, 2024, Empire Life had \$9.3 billion of segregated fund assets and liabilities. Of this amount, approximately \$9.1 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

	September 30 2024	December 31 2023
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	11%	9%
75% maturity guarantee and a 100% death benefit guarantee	43%	43%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	7%	7%
Guaranteed minimum withdrawal benefit (GMWB)	39%	41%
Total	100%	100%

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

The segregated fund regulatory capital framework includes the use of various constraints that provide a partial cushion against impacts. As a result, the sensitivity impacts are often non-linear or asymmetric. In addition, the contractual service margin provides a significant offset to potential impacts in the segregated fund guarantee liability. This significantly reduces the net income impacts from changes in interest rates or stock market levels.

Management's Discussion and Analysis

Empire Life also has equity market risk related to its equity assets backing life insurance contract liabilities and surplus. In the first quarter of 2024, we updated our asset mix, reducing exposure to equity risk. As at September 30, 2024 and December 31, 2023, the sensitivity of Empire Life shareholders' net income resulting from changes in equity market prices is provided in the following table:

Sensitivity to equity risk: (in millions of dollars)	Increase		Decrease	
	20%	10%	10%	20%
As at September 30, 2024				
Net Income and Equity CSM	\$ 19	\$ 10	\$ (4)	\$ (2)
	183	97	(111)	(241)
As at December 31, 2023				
Net Income and Equity CSM	\$ 43	\$ 21	\$ (19)	\$ (32)
	187	100	(116)	(254)

Based on equity market prices as at September 30, 2024 and December 31, 2023, the sensitivity of Empire Life's LICAT Total ratio resulting from increases and decreases on equity market prices is provided in the following table:

Sensitivity to equity risk: Impact on LICAT Total ratio	Increase		Decrease	
	20%	10%	10%	20%
Segregated fund guarantees	15%	8%	—%	(4)%
Other equity risk	1%	—%	—%	—%
Equity hedge	—%	—%	—%	(1)%
As at September 30, 2024	16%	8%	—%	(5)%
Segregated fund guarantees	13%	5%	(1)%	(11)%
Other equity risk	1%	—%	—%	(1)%
Equity hedge	(2)%	(1)%	1%	1%
As at December 31, 2023	12%	4%	—%	(11)%

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees, and the resulting insurance contract 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		Insurance Contract Liabilities	LICAT capital
	Fund value	Amount at risk	Fund value	Amount at risk	Fund value	Amount at risk		
September 30, 2024	\$ 2,329	\$ 680	\$ 9	\$ 1	\$ 80	\$ 1	\$ 117	\$ 393
December 31, 2023	\$ 2,557	\$ 952	\$ 44	\$ 2	\$ 1,101	\$ 12	\$ 102	\$ 422

The first six columns of the above table show amounts associated with all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. At September 30, 2024, the aggregate amount at risk for all three categories of risk was \$682 million. At December 31, 2023, the aggregate amount at risk for these three categories of risk was \$966 million. For these three categories of risk, the amount at risk is not currently payable, as payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

The level of insurance contract 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.

Management's Discussion and Analysis

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of a 50 basis point parallel shift in interest rates for September 30, 2024 and December 31, 2023, is shown in the table below. No change to credit spreads is assumed.

Sensitivity to market interest rates - LICAT	Impact of 50 bps Decrease
September 30, 2024 LICAT total ratio	4%
December 31, 2023 LICAT total ratio	2%

Quarterly Results

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

Selected quarterly financial results (in millions of dollars, except per share amounts)	Sep 30 2024	Jun 30 2024	Mar 31 2024	Dec 31 2023	Sep 30 2023	Jun 30 2023	Mar 31 2023	Dec 31 2022 ⁽¹⁾
Insurance revenue - Gross	\$ 357	\$ 351	\$ 339	\$ 335	\$ 337	\$ 328	\$ 326	\$ 323
Common shareholder's net income	\$ 177	\$ 35	\$ 52	\$ 111	\$ (5)	\$ (1)	\$ 52	\$ 5
Earnings per share - basic and diluted	\$ 179.88	\$ 35.94	\$ 52.86	\$ 112.15	\$ (5.25)	\$ (0.86)	\$ 52.66	\$ 5.32

⁽¹⁾ Amounts prior to January 1, 2023 are restated under IFRS 17.

Changes in Accounting Policies

In the nine months ended September 30, 2024 the Company has not adopted any new or amended accounting standards that would have resulted in a material impact on our Consolidated Financial Statements. For upcoming accounting policy changes, or changes implemented in the period, refer to Note 2.4. New and amended standards and interpretations of our unaudited Condensed Interim Consolidated Financial Statements for the quarter ended September 30, 2024.

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 anticipates 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: investment risk, including market risk (including equity risk, interest rate risk, and foreign exchange rate risk), liquidity risk, credit risk (including counterparty risk), and hedging risk; product risk, including 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; pension risk, and risk with respect to risk management policies; business and strategic risk, including environmental and social risk, risk with respect to financial strength, capital adequacy risk, risk with respect to competition, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to brand, risk with respect to intellectual property and risk with respect to significant ownership of common shares; risk relating to the securities of Empire Life, including risk with respect to market value, and risk with respect to regulatory constraints. Please see the section titled "Risk Factors" in Empire Life's Annual Information Form available at www.sedarplus.ca 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 insurance contract liabilities; and that 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

Management's Discussion and Analysis

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-GAAP Measures

Empire Life uses non-GAAP measures including return on common shareholders' equity, assets under management, annualized premium sales, gross and net sales for 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 financial measures as defined in IFRS Accounting Standards. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Empire Life's management also uses non-GAAP measures to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating the Company's underlying financial results.

Return on common shareholders' equity is a profitability measure that is not prescribed under IFRS Accounting Standards and a comparable measure under IFRS Accounting Standards 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, on a trailing 4-quarters basis.

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-GAAP measure of the assets managed by Empire Life, which includes general fund assets and segregated fund assets. It represents the total assets of Empire Life and the assets its customers invest in.

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

Reconciliation of Assets Under Management

As at (in millions of dollars)	September 30, 2024		December 31, 2023	
Assets Under Management				
General fund assets	\$	10,261	\$	9,852
Segregated fund assets		9,331		8,813
Total assets per financial statements	\$	19,592	\$	18,665

Empire Life Management's Discussion and Analysis

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

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

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

Transfer Agent and Registrar

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

Reporting Procedure for Accounting and Auditing Matters

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

Mr. Peter Levitt
The Empire Life Insurance Company
259 King Street East
Kingston, ON, K7L 3A8
Email: peter@levittadvisory.ca
Phone: 647-236-1064

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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