

REPORT ON E-L FINANCIAL CORPORATION LIMITED

The following Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of E-L Financial Corporation Limited ("E-L Financial" or the "Company") for the first quarter of 2019 should be read in conjunction with E-L Financial's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019, as well as the MD&A and the audited consolidated financial statements which form part of the E-L Financial 2018 Annual Report dated March 5, 2019. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Figures in MD&A may differ due to rounding.

This MD&A contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, any forward-looking statements within this discussion will occur, or if they do, that any benefits may be derived from them.

Unless otherwise stated, all per share amounts are based on the average number of Common Shares and Series A Convertible Preference Shares outstanding for the period, adjusted for the Company's proportionate interest in its own common shares held indirectly through investments in associates.

Additional information relating to the Company, including its Annual Information Form, may be found at www.sedar.com.

Forward-looking statements and information

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

the Company; 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 the Company'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. The Company 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

The MD&A contains information using non-GAAP measures. Current Canadian GAAP is IFRS for the Company's consolidated financial statements. The Company believes that these measures provide useful information to its shareholders in evaluating the Company's financial results. Where non-GAAP measures are used, descriptions have been provided as to the nature of the adjustments made.

The MD&A contains reference to net equity value, net equity value per common share and growth in net equity value per common share. Net equity value per common share is described and reconciled to shareholders' equity on page 6. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

The MD&A also contains non-consolidated cash flow information of E-L Financial which is a non-GAAP presentation. The information is useful as it separates the Company's cash flows from the cash flows of its subsidiaries. This information is reconciled to the consolidated cash flows on page 8.

Other non-GAAP measures are also used in The Empire Life Insurance Company ("Empire" or "Empire Life") section of the MD&A. These include references to 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. These 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 GAAP financial measures. 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 in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

Return on Empire Life's common shareholders' equity is a profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

Sources of earnings break down Empire Life 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 Empire Life's net income on page 13 of this report.

Annualized premium sales are used as a method of measuring sales volume. It is equal to the premium expected to be received in the first twelve months for all new individual insurance and employee benefit policies sold during the period. Mutual fund gross and net sales and segregated fund gross and net sales

are also used as measures of sales volume. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

Assets under management is a non-GAAP measure of the assets managed by Empire Life, which includes general fund assets, mutual fund assets and segregated fund assets. They represent the total assets of Empire Life and the assets its customers invest in. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

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

<i>(in millions of dollars)</i>	March 31 2019	December 31 2018
General fund assets	\$ 9,021	\$ 8,447
Segregated fund assets	8,411	7,823
Total Empire Life assets	17,432	16,270
Mutual fund assets	152	145
Total assets under management	\$ 17,584	\$ 16,415

The Company

E-L Financial operates as an investment and insurance holding company. In managing its operations, the Company distinguishes between two operating segments, E-L Corporate and Empire Life.

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies and other private companies. E-L Financial holds a 52.2% interest in a closed-end investment corporation, United Corporations Limited ("United") which is listed on the Toronto Stock Exchange. United is an investment vehicle for long-term growth through investments in common equities. The invested assets and operations of United are consolidated and included in the E-L Corporate segment. In addition, E-L Corporate has two significant investments in associates which are a 36.8% interest in Algoma Central Corporation ("Algoma") and a 24.0% interest in Economic Investment Trust Limited ("Economic"). Algoma and Economic are accounted for using the equity method.

The Company's investment in Empire Life (99.3% interest) is consolidated by E-L Financial. The Empire Life operating segment underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products.

The Company's strategy is to accumulate shareholder value through long-term capital appreciation and dividend and interest income from its investments. E-L Financial oversees its investments through representation on the Boards of Directors of the subsidiaries and the other companies in which the Company has significant shareholdings.

Overview of results attributable to shareholders of E-L Financial

E-L Financial consolidated <i>(millions of dollars)</i>	First quarter	
	2019	2018
Contribution to net income		
E-L Corporate ⁽¹⁾	\$ 266	\$ 27
Empire Life ⁽²⁾	43	39
Net income	309	66
Other comprehensive income (loss) ⁽²⁾	39	(10)
Comprehensive income	\$ 348	\$ 56

The following tables summarize the results of the Company's business segments:

E-L Corporate <i>(millions of dollars)</i>	First quarter	
	2019	2018
Revenue		
Net gain on investments ⁽³⁾	\$ 341	\$ 22
Investment and other income	30	25
Share of associates income (loss)	3	(2)
	374	45
Operating expenses	9	9
Income taxes	49	5
Non-controlling interests	50	4
	108	18
Net income	266	27
Other comprehensive loss, net of taxes ⁽¹⁾	(4)	—
Comprehensive income	\$ 262	\$ 27

Empire Life <i>(millions of dollars)</i>	First quarter	
	2019	2018
Revenue		
Net premiums	\$ 238	\$ 211
Net gain (loss) on investments ⁽³⁾	412	(80)
Investment income	75	67
Fee income	64	66
	789	264
Benefits and expenses	728	207
Income and other taxes	17	16
Non-controlling and participating policyholders' interests	1	2
	746	225
Net income	43	39
Other comprehensive gain (loss), net of taxes ⁽²⁾	43	(10)
Comprehensive income	\$ 86	\$ 29

⁽¹⁾ Net of non-controlling interests

⁽²⁾ Net of non-controlling interests and participating policyholders' amounts

⁽³⁾ Includes fair value change on fair value through profit and loss ("FVTPL") investments and realized gains on available for sale ("AFS") investments

E-L Financial reported consolidated net income of \$309 million for the first quarter of 2019, or \$77.68 per common share compared with \$66 million, or \$15.69 per common share in 2018. The increase in net income is primarily due to higher net gains on investments within the E-L Corporate segment. E-L Corporate reported a net gain on investments of \$341 million in the first quarter of 2019 compared to \$22 million in 2018. E-L Corporate's global investment portfolio had a pre-tax total return of 8% in 2019 compared to a pre-tax total return of 1% in the prior year. Investments in Canada and the U.S. were the largest contributors to the first quarter 2019 investment performance with a positive pre-tax total return of approximately 11%.

The Empire Life segment reported net income of \$43 million for the first quarter of 2019 compared to \$39 million in 2018. The net income for 2019 increased primarily due to higher income from the Individual Insurance, Wealth Management and Capital and Surplus product lines, partially offset by lower income from Employee Benefits. Higher net income in the Wealth Management and Individual Insurance product lines were partly due to improved equity markets. Individual insurance also benefited from higher profits on new business, partly offset by losses from declining interest rate yields and unfavourable lapse experience. The Employee Benefits product line had less favourable claims experience compared to the first quarter of 2018.

Consolidated comprehensive income was \$348 million for the first quarter of 2019, or \$87.57 per common share compared to \$56 million, or \$13.39 per common share in 2018. Other comprehensive income for the first quarter of 2019 was \$39 million compared to an other comprehensive loss of \$10 million in 2018. The increase in other comprehensive income is primarily due to fair value gains on Empire Life's available for sale investments resulting from declining long-term interest rates and increases in equity markets compared to a slight increase in long-term interest rates in the first quarter of 2018.

Net equity value per common share

Investments in Algoma and Economic are accounted for using the equity method and are not carried at fair value. Therefore, to provide an indication of the accumulated shareholder value, the following table adjusts shareholders' equity to reflect investments in associates at fair value:

<i>(millions of dollars, except per share amounts)</i>	Q1 2019	Q4 2018	Q1 2018
E-L Financial shareholders' equity	\$ 5,862	\$ 5,523	\$ 5,601
Less: First preference shares	(300)	(300)	(300)
	5,562	5,223	5,301
Adjustments for investments in associates not carried at fair value:			
Carrying value	(330)	(335)	(326)
Fair value ⁽¹⁾	322	315	355
	(8)	(20)	29
Non-controlling interest and deferred tax	2	5	(6)
	(6)	(15)	23
Net equity value	\$ 5,556	\$ 5,208	\$ 5,324
Common Shares ⁽²⁾ outstanding at period end	4,019,667	4,019,667	4,019,667
Net equity value per common share^{(2) (3)}	\$ 1,382.18	\$ 1,295.65	\$ 1,324.26

⁽¹⁾ Based on quoted market prices

⁽²⁾ Common Shares includes Series A Convertible Preference Shares

⁽³⁾ See non-GAAP measures

Growth in net equity value

The Company's objective is to build long-term shareholder value by compounding growth in net equity value per common share over the long term. Set out below is a table that shows the net equity value per common share and growth for the respective fiscal periods. The growth in net equity value includes dividends paid to common shareholders.

Annual	Net equity value*	Growth*
	\$	%
2009	681.51	23.6
2010	747.28	9.7
2011	642.98	(13.9)
2012	740.49	15.2
2013	872.45	28.0
2014	970.65	11.3
2015	1,089.23	12.3
2016	1,159.26	6.8
2017	1,316.64	14.0
2018	1,295.65	(1.2)
Year to date		
March 31, 2019	1,382.18	6.8
Compounded annual growth in net equity value*		
2009 - 2018 - 10 years		9.7
1969 - 2018 - Since inception		12.4

* This chart was drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

Summary of quarterly results

The following table summarizes the quarterly results:

(millions of dollars, except per share amounts)	2019				2018				2017
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenue									
Net gain (loss) on investments ⁽¹⁾	\$ 753	\$ (419)	\$ (112)	\$ 75	\$ (58)	\$ 527	\$ (240)	\$ 209	
Net premium income	238	237	221	205	211	210	217	204	
Investment and other income	168	175	175	199	158	173	158	175	
Associates ⁽²⁾	3	(5)	10	7	(3)	14	9	12	
Total	\$ 1,162	\$ (12)	\$ 294	\$ 486	\$ 308	\$ 924	\$ 144	\$ 600	
Net income (loss) ⁽³⁾	\$ 309	\$ (238)	\$ 96	\$ 108	\$ 66	\$ 257	\$ 49	\$ 98	
Earnings per common share									
- basic	\$ 77.68	\$ (61.62)	\$ 23.33	\$ 26.56	\$ 15.69	\$ 64.47	\$ 11.60	\$ 23.84	
- diluted	\$ 71.45	\$ (61.62)	\$ 22.08	\$ 24.12	\$ 15.15	\$ 58.80	\$ 11.31	\$ 22.30	

⁽¹⁾ Fair value change on FVTPL investments and realized gain (loss) on AFS investments

⁽²⁾ Share of income (loss) of associates

⁽³⁾ Attributable to shareholders

Quarterly trend analysis

The consolidated revenue and consolidated net income of the Company are expected to fluctuate on a quarterly basis given its two segments. In particular, equity market movements, changes in interest rates, underwriting results, policy liability discount rates and policy reserve adjustments are likely to cause

fluctuations. Investment income includes dividend income earned by the Company. In general, dividends earned on investments outside North America peak in the second and fourth quarters of the year.

Revenue for the first quarter of 2019 increased from the prior quarter and the first quarter of 2018 mainly due to the impact of higher net investment gains for both E-L Corporate and Empire Life. The increase in net investment gains in 2019 is due to higher equity returns partially offset by the strengthening of the Canadian dollar, along with the impact of a decline in long term interest rates in the first quarter of 2019 versus an increase in 2018.

Net premiums for the first quarter of 2019 increased from the first quarter of 2018 primarily due to the growth in annuity premiums in the Wealth Management line. Net premiums remained flat compared to the prior quarter.

Liquidity and cash flows

Consolidated cash flows

The condensed cash flow of United and Empire Life, as well as E-L Financial non-consolidated and consolidated are presented below:

Three months ended March 31 (millions of dollars)	E-L Financial (non- consolidated)	United	Empire Life	Consolidation adjustments	E-L Financial Consolidated	
					2019	2018
Cash flows from:						
Operating activities	\$ 11	\$ 3	\$ 96	\$ (4)	\$ 106	\$ 61
Financing activities	(10)	(4)	(7)	4	(17)	(17)
Investing activities	(10)	(9)	(89)	—	(108)	(110)
Decrease in cash and cash equivalents	(9)	(10)	—	—	(19)	(66)
Cash and cash equivalents, beginning of the period	75	53	205	—	333	339
Cash and cash equivalents, end of the period	\$ 66	\$ 43	\$ 205	\$ —	\$ 314	\$ 273

The increase in cash provided from operating activities in the first quarter of 2019 relative to 2018, reflects the increase in cash earnings during 2019 compared to the prior period, along with changes in working capital levels.

Financing and investing activity cash flows during 2019 remained consistent with the prior year.

Non-consolidated cash flows of E-L Financial

E-L Financial's corporate cash flows from operating activities, before payment of dividends, are primarily comprised of dividends and interest received, less operating expenses and income taxes.

The following table details the non-consolidated cash flows of the Company on a direct basis, excluding the cash flows of the subsidiaries. This table has been prepared to assist the reader in isolating the cash flows of E-L Financial (non-consolidated).

Three months ended March 31*(millions of dollars)*

	2019	2018
Cash flows from:		
Operating activities		
Dividends from subsidiaries	\$ 2	\$ 2
Dividends and interest	17	14
Expenses and taxes, net of other income	(8)	(27)
	11	(11)
Financing activities		
Cash dividends	(9)	(9)
Purchases of subsidiary shares	(1)	(1)
	(10)	(10)
Investing activities		
Purchases of investments	(116)	(134)
Proceeds from sales of investments	107	124
Net (purchases) sales of short-term investments	(4)	18
Dividends from associates	3	2
	(10)	10
Decrease in cash and cash equivalents	(9)	(11)
Cash and cash equivalents, beginning of the period	75	25
Cash and cash equivalents, end of the period	\$ 66	\$ 14

For the three month period ended March 31, 2019, the non-consolidated cash flows of E-L Financial increased by \$52 million compared to 2018.

Operating cash flows for the first quarter of 2019 increased \$22 million over the prior year mainly due to income taxes paid in 2018. During the first quarter of 2017, for diversification reasons, E-L Financial re-allocated the assets managed from one of the global investment managers. This caused a higher investment portfolio turnover in 2017 compared to the current year resulting in higher income taxes paid during 2018.

Dividends and interest increased by \$3 million. Dividends received are impacted by changes in the composition of the investment portfolio, variability in foreign exchange rates and dividend yields.

E-L Financial maintains sufficient liquidity through holding cash equivalents and a sufficient amount of marketable investments that may be sold, if necessary, to fund new investment opportunities and to meet any operating cash flow requirements.

Analysis of business segments

The remainder of this MD&A discusses the individual results of operations and financial condition of the Company's business segments: E-L Corporate and Empire Life.

E-L CORPORATE

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies, a limited partnership and other private companies.

Investments in Economic and Algoma are reported as investments in associates and are discussed below. Investments in equities and fixed income securities held directly by E-L Financial and through United are combined to form "Investments – corporate".

Investments - corporate

Investments - corporate includes investments in equities and short-term fixed-income investments. At March 31, 2019, investments - corporate had aggregate investments of \$5.0 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2018 of \$4.6 billion. The fair value of investments - corporate is summarized in the table below:

<i>(millions of dollars)</i>	March 31 2019	December 31 2018
Short-term investments	\$ 4	\$ —
Preferred shares	3	3
Common shares and units		
Canadian and U.S.	2,709	2,464
Europe and United Kingdom	1,142	1,078
Emerging Markets	521	469
Japan	476	463
Other	103	119
Total	4,951	4,593
Total invested assets	\$ 4,958	\$ 4,596

The following table provides a summary of E-L Corporate's results:

<i>(millions of dollars)</i>	2019	First quarter 2018
Revenue		
Net gain on investments	\$ 341	\$ 22
Investment and other income	30	25
Share of associates income (loss)	3	(2)
	374	45
Operating expenses	9	9
Income taxes	49	5
Non-controlling interests	50	4
	108	18
Net income	266	27
Other comprehensive loss, net of taxes	(4)	—
Comprehensive income	\$ 262	\$ 27

The increase in E-L Corporate's net income for the first quarter of 2019 compared to the prior year is primarily due to a net gain on investments of \$341 million compared to \$22 million for the same period in 2018. The pre-tax total return on investments was 8% in the first quarter of 2019 compared to 1% in the prior year. Investments in Canada and the U.S. were the largest contributors to the first quarter 2019 investment performance with a positive pre-tax total return of approximately 11%.

The increase in net investment gains in 2019 is due to higher equity returns partially offset by a strengthening of the Canadian dollar.

Share of associates income

The details of E-L Corporate's share of income of associates are as follows:

<i>(millions of dollars)</i>	First quarter	
	2019	2018
Algoma	\$ (8)	\$ (2)
Economic *	11	—
	\$ 3	\$ (2)

* Includes a \$1.7 million impairment reversal booked in the first quarter of 2019.

The nature of Algoma's business is such that earnings in the first quarter of each year typically reflects a loss due to the reduced level of shipping activity during the winter and the timing of maintenance spending. The higher loss for the first quarter of 2019 was mainly as a result of a foreign currency loss in 2019 versus a gain reported in 2018 and higher lay-up and dry-dock expenses compared to the prior year.

Economic owns, directly and indirectly, long-term investments in the common shares of some publicly-traded Canadian companies, and a managed global investment portfolio of common shares of publicly-traded global companies.

Economic's global investment portfolio had a quarterly pre-tax total return, gross of fees, of 9% in the first quarter of 2019 versus a comparative return of 1% in the first quarter of 2018.

<i>(millions of dollars)</i>	March 31, 2019			December 31, 2018	
	Ownership	Carrying value	Fair value	Carrying value	Fair value
Algoma	36.8%	\$ 185	\$ 177	\$ 199	\$ 179
Economic	24.0%	145	145	136	136
Total		\$ 330	\$ 322	\$ 335	\$ 315

Additional information relating to Algoma and Economic may be found on their respective profiles at www.sedar.com.

Risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance.

Market risk

Market risk is the most significant risk impacting E-L Corporate as its investing activities are influenced by market price, foreign currency and interest rate risk. As the Company's investment portfolio is represented by Canadian and global equities, the value of its investments will vary from day to day depending on a number of market factors including economic conditions, global events, market news, and on the performance of the issuers of the securities in which the Company invests. Changes in foreign currency exchange rates will also affect the value of investments of non-Canadian dollar securities. As of March 31, 2019, 43% (December 31, 2018 - 44%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 11% (December 31, 2018 - 11%) in Euros and 10% (December 31, 2018 - 9%) in the Japanese Yen representing the largest foreign currency exposures. The Company also holds investments within emerging markets. Investments in emerging markets are more likely to experience political, economic and social instability, which may result in higher levels of market value volatility.

Credit risk

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact the Company is included in the Annual Information Form which is available at www.sedar.com. Disclosures regarding E-L Corporate's financial instruments, including financial risk management, are included in Notes 3, 5 and 9 to the consolidated financial statements.

Outlook

The Company's future earning prospects are dependent on the successful management of its E-L Corporate portfolio and on the continued profitability of its insurance company subsidiary. The performance of the E-L Corporate portfolio is impacted by global securities markets and the selection of equity and fixed income investments. The Company continues to maintain its strategy of accumulating shareholder value through long-term capital appreciation and dividend and interest income.

REPORT ON EMPIRE LIFE

Empire Life provides a broad range of life insurance and wealth management products, employee benefit plans and financial services to meet the needs of individuals, professionals and businesses through a network of Independent Financial Advisors ("IFA"), Managing General Agents ("MGA"), National Account firms, Mutual Fund Dealers and Employee Benefits brokers and representatives.

Empire Life reported first quarter common shareholders' net income of \$43 million for 2019, compared to \$39 million for first quarter 2018. The increase in earnings was primarily a result of higher income from the Individual Insurance, Wealth Management and Capital and Surplus product lines, partially offset by lower income from Employee Benefits. Return on common shareholders' equity ("ROE") for first quarter 2019 was 11.2% compared to 10.8% in 2018.

Empire Life's net income attributable to the owners of E-L Financial, after adjustment for non-controlling interests, is shown in the following table:

	First quarter	
(millions of dollars)	2019	2018
Empire Life common shareholders' net income	\$ 43	\$ 39
Non-controlling interests	—	—
Net income, contribution to E-L Financial	\$ 43	\$ 39

Empire Life return on common shareholders' equity (quarterly annualized) 11.2% 10.8%

The following table provides a breakdown of the sources of earnings for the first quarter:

For the quarter ended March 31	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
(millions of dollars)										
Expected profit on in-force business	\$ 32	\$ 28	\$ 6	\$ 6	\$ 13	\$ 15			\$ 51	\$ 49
Impact of new business	(3)	(2)	(3)	(3)	5	1			(2)	(4)
Experience gains (losses)	—	—	3	9	1	(4)			4	4
Management actions and changes in assumptions	—	—	—	—	(1)	—			(1)	—
Earnings on operations before income taxes	28	26	6	12	18	13	—	—	52	50
Earnings on surplus	—	—	—	—	—	—	8	5	8	5
Income before income tax	28	26	6	12	18	13	8	5	60	54
Income taxes	7	7	1	3	3	2	2	1	14	12
Empire Life's shareholders' net income	\$ 21	\$ 19	\$ 4	\$ 9	\$ 15	\$ 11	\$ 6	\$ 4	46	42
Dividends on preferred shares ⁽¹⁾									(3)	(3)
Empire Life common shareholders' net income									\$ 43	\$ 39

⁽¹⁾ 2019 year includes \$1 million (2018 - \$1 million) preference share dividends to E-L Financial

The expected profit on in-force business for the first quarter increased by 4% driven primarily by an increase in the Wealth Management line, partially offset by a decline in the Individual Insurance line.

The impact of new business was primarily driven by an increase in point-of-sale profitability on Individual Insurance product line sales, partially offset by the strain from segregated fund new business in the Wealth Management product line relative to 2018. The impact of new business on the Individual Insurance line is positive when the present value of future profits from the new business exceeds the sum of the margins in the initial policy liabilities for that business plus the expenses incurred at the point of sale.

The experience gains for the first quarter of 2019 declined slightly from 2018 due to less favourable claims experience in the Employee Benefits line, partially offset by favourable investment experience in the Individual Insurance line.

Earnings on surplus increased primarily due to higher yields on invested assets in surplus in 2019, partly offset by higher expenses from Empire Life's hedging program.

Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended March 31 for 2019 and 2018. A discussion of results is provided in the Product Line section of the MD&A.

Three months ended March 31	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(millions of dollars)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue										
Net premium	\$ 54	\$ 32	\$ 88	\$ 86	\$ 96	\$ 94	\$ —	\$ —	\$ 238	\$ 211
Fee income	61	63	3	3	—	—	—	—	64	65
Investment income	10	9	1	1	48	42	16	15	75	67
Net gains (losses) on investments ⁽¹⁾	19	(5)	1	—	395	(71)	(3)	(4)	412	(80)
	144	99	93	89	539	65	12	11	788	264
Expenses										
Benefits and expenses	115	74	85	75	522	52	4	6	727	206
Income and other taxes	7	6	4	5	5	4	2	1	18	17
	122	80	89	80	528	56	6	7	745	223
Net income after tax	\$ 21	\$ 19	\$ 4	\$ 9	\$ 11	\$ 9	\$ 6	\$ 4	\$ 43	\$ 41
Participating policyholders' portion									(3)	(1)
Dividends on preferred shares									3	3
Empire Life's common shareholders' net income									43	39
Non-controlling interests in net income									—	—
Net income attributable to owners of E-L Financial									\$ 43	\$ 39

⁽¹⁾ Includes fair value change on FVTPL investments and realized gains on AFS investments

Product Line Results - Wealth Management

Key Operating Results		First quarter	
<i>(millions of dollars)</i>		2019	2018
Fixed Annuities			
Assets under management	\$	969	\$ 952
Gross sales		53	32
Net sales		5	(7)
Segregated Funds			
Assets under management		8,392	8,386
Gross sales		221	268
Net sales		(84)	(35)
Fee income		60	62
Mutual Funds			
Assets under management		152	172
Gross sales		2	6
Net sales		(7)	(8)
Fee income		1	1
Net Premiums	\$	54	\$ 32
Net income after tax	\$	21	\$ 19

Fixed annuities assets under management increased by 2% during the last 12 months. Gross sales in the first quarter increased by 68% from last year, likely reflecting a shift in the market to guaranteed wealth products that often occurs after challenging and volatile equity markets.

Segregated fund assets under management climbed during most of 2018, declined in the fourth quarter of 2018, and then partially rebounded in the first quarter of 2019, bringing assets back to the level they were at a year ago. For the first quarter of 2019, gross sales were 18% lower compared to the same period in 2018. On November 12, 2018, Empire Life launched a new No Load purchase option within the GIF and Class Plus 3.0 product lines, and added four global fund options to Class Plus 3.0. The No Load option gives clients full access to their investments without any surrender charges. On May 28, 2018, Empire Life introduced seven new global funds, a fee for service option and a preferred pricing program to provide clients with more global and lower cost investment options within the GIF product line of segregated funds.

Segregated fund fee income decreased by 2% for the first quarter, reflecting the decrease in average assets under management in the first quarter of 2019 relative to the same period in 2018.

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

During the first quarter, net income for this product line increased by \$2 million, driven primarily by a decrease in policy liabilities for segregated fund guarantees due to improved equity markets.

Product Line Results - Employee Benefits

Key Operating Results		First quarter	
<i>(millions of dollars)</i>		2019	2018
Selected financial information			
Annualized premium sales	\$	22	\$ 26
Net premium		88	86
Net income after tax	\$	4	\$ 9

Annualized premium sales are 17% lower primarily due to a large block transfer from a new strategic distribution partner, which significantly increased the first quarter 2018 figure. Over the last two years, Empire Life has entered into a number of strategic partnerships to expand market share.

Net premiums increased by 3% for the same period. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Net income for the quarter decreased primarily due to less favourable claims experience on long-term disability benefits compared to favourable experience in 2018, partly offset by favourable health claims.

Product Line Results - Individual Insurance

Key Operating Results		First quarter	
<i>(millions of dollars)</i>		2019	2018
Shareholders'			
Shareholders' annualized premium sales	\$	5	\$ 5
Shareholders' net premiums		70	71
Net income after tax		15	11
Policyholders'			
Policyholders' annualized premium sales		4	3
Policyholders' net premiums		27	22
Net loss after tax		(3)	(2)
Net income after tax	\$	11	\$ 9

For the first quarter of 2019, shareholders' new premium sales remained the same as 2018 primarily due to competitive pricing, while policyholder's new premium sales increased from 2018. The total net premiums decreased slightly for shareholders but increased for policyholders in the first quarter of 2019 compared to the same period in 2018, reflecting strong recent policyholder's new premium sales. In November 2018, Empire Life introduced Guaranteed Life Protect, which offers customers guaranteed, lifetime coverage with no health or lifestyle questions asked. Empire Life has continued to modify its EstateMax[®] participating policy since it was launched in 2015. In February 2017, EstateMax[®] 8 Pay and Optimax Wealth[™] 8 Pay were introduced to provide new payment options to allow clients to pay for their participating policy in as few as eight years.

During the first quarter, shareholder net income for this product line increased by \$4 million relative to the same period last year. The increase is primarily related to a favourable impact from new business relative to the same period last year and favourable investment gains from equity investments backing this line, partially offset by losses from declining interest rate yields and unfavourable lapse experience.

Results - Capital and Surplus

Key Operating Results		First quarter	
<i>(millions of dollars)</i>		2019	2018
Income from investments	\$	20	\$ 11
Losses on hedging instruments		(9)	(1)
Interest and other expenses		(4)	(6)
Earnings before income taxes		8	5
Income taxes		2	1
Net income after tax shareholders' portion		6	4
Net income after tax policyholders' portion		—	—
Net income after tax	\$	6	\$ 4

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

Income from investments increased in the first quarter of 2019 compared to 2018 primarily from higher yields on invested assets. During the first quarter of 2019, Empire Life experienced higher expenses on its hedging program primarily due to the increase in Canadian equity markets compared to a decrease in 2018 (discussed in the Risk Management section). The decrease in interest expense was due to Empire Life's redemption of \$300 million of subordinated debentures in May 2018.

Sources of capital

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth. Details of the Empire Life's outstanding subordinated debt and preferred shares are as follows:

Subordinated debentures				Face amounts as at	
<i>(millions of dollars)</i>	Date Issued	Earliest redemption date	Interest rate	March 31 2019	December 31 2018
Series 2016-1 ⁽¹⁾	Dec. 2016	December 16, 2021	3.383%	\$ 200	\$ 200
Series 2017-1 ⁽²⁾	Sept. 2017	March 15, 2023	3.664%	\$ 200	\$ 200

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

⁽²⁾ Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

Preferred Shares				Principal amounts as at	
<i>(millions of dollars)</i>	Date Issued	Earliest redemption date	Yield	March 31 2019	December 31 2018
Preferred shares	January 2016	April 17, 2021	5.75%	\$ 150	\$ 150
Preferred shares	November 2017	January 17, 2023	4.90%	\$ 100	\$ 100

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

A.M. Best ratings of Empire Life are "A Excellent" financial strength rating (third highest of 16 categories), "a" long-term issuer credit rating (sixth highest of 21 categories), "bbb+" Subordinated Debt rating (eighth highest of 21 categories), and "bbb" Preferred Share rating (ninth highest of 21 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's balance sheet strength, which A.M.

Best categorizes as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Regulatory Capital

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

As of March 31, 2019, the Total Ratio and Core Ratio remained relatively unchanged from December 31, 2018. Compared to March 31, 2018, the decline in total ratio was mainly due to a decrease in available capital driven by a redemption of subordinated debentures in May 2018 and an increase in base solvency buffer.

LICAT (millions of dollars)	March 31 2019	December 31 2018	September 30 2018	June 30 2018	March 31 2018
Available capital					
Tier 1	\$ 1,507	\$ 1,476	\$ 1,526	\$ 1,513	\$ 1,480
Tier 2	692	653	608	614	915
Total	\$ 2,200	\$ 2,129	\$ 2,134	\$ 2,127	\$ 2,395
Surplus allowance and eligible deposits	\$ 921	\$ 887	\$ 1,001	\$ 1,005	\$ 996
Base solvency buffer	\$ 2,083	\$ 2,029	\$ 1,908	\$ 1,949	\$ 1,910
LICAT Total Ratio	150%	149%	164%	161%	178%
LICAT Core Ratio	103%	103%	117%	114%	114%

Risk Management

Caution Related to Sensitivities

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

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. The Company has a semi-static hedging program. The hedging program may employ 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. The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. During the first quarter of 2019, Empire Life experienced a hedge cost of \$6.3 million after tax on its hedging program primarily due to rising Canadian equity markets. This compares to a hedge cost of \$0.5 million for the comparable period in 2018.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of March 31, 2019, Empire Life had \$8.4 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.1 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	March 31 2019	December 31 2018
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	3%	3%
75% maturity guarantee and a 100% death benefit guarantee	47%	47%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	7%	7%
Guaranteed minimum withdrawal benefit ("GMWB")	43%	43%

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

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

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

Sensitivity to equity risk	Increase		Decrease		
	20%	10%	10%	20%	30%
Impact on net income (<i>millions of dollars after tax</i>)					
As at March 31, 2019					
Segregated Fund Guarantees	\$ nil	\$ nil	\$ (9)	\$ (54)	\$ (190)
Other Equity Risk	39	18	(15)	(26)	(71)
Equity Hedge	(2)	(2)	5	17	41
Total	\$ 36	\$ 16	\$ (20)	\$ (63)	\$ (220)

As at December 31, 2018

Segregated Fund Guarantees	\$ 3	\$ 3	\$ (11)	\$ (129)	\$ (269)
Other Equity Risk	38	18	(15)	(46)	(118)
Equity Hedge	(6)	(4)	9	26	50
Total	\$ 35	\$ 16	\$ (16)	\$ (150)	\$ (337)

Sensitivity to equity risk	Increase		Decrease		
	20%	10%	10%	20%	30%
Impact on LICAT					
As at March 31, 2019					
Segregated Fund Guarantees	5%	—%	(4)%	(13)%	(19)%
Other Equity Risk	(1)%	—%	—%	—%	(2)%
Equity Hedge	(1)%	(1)%	1%	3%	4%
Total	4%	(1)%	(3)%	(10)%	(16)%

As at December 31, 2018

Segregated Fund Guarantees	3%	—%	(10)%	(16)%	(22)%
Other Equity Risk	—%	(1)%	—%	—%	(2)%
Equity Hedge	(2)%	(1)%	1%	2%	3%
Total	1%	(1)%	(9)%	(14)%	(21)%

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

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

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

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees and the resulting policy liabilities and LICAT base solvency buffer for March 31, 2019 for Empire Life's segregated funds is provided in the following table:

Segregated Funds <i>(millions of dollars)</i>	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		
March 31, 2019	\$ 2,699	\$ 858	\$ 128	\$ 4	\$ 1,740	\$ 23	\$ nil	\$ 439
December 31, 2018	\$ 2,689	\$ 1,057	\$ 301	\$ 24	\$ 3,789	\$ 165	\$ \$4	\$ 433

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at March 31, 2019, the aggregate amount at risk for all three categories of risk was \$885 million. At December 31, 2018, the aggregate amount at risk for these three categories of risk was \$1,246 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

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

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

Sensitivity to market interest rates LICAT:	Before the sale of AFS assets	After the sale of AFS assets
	50bps decrease	50bps decrease
March 31, 2019 LICAT total ratio	—%	—%
December 31, 2018 LICAT total ratio	(5)%	(5)%