

**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 third quarter of 2020 should be read in conjunction with the MD&A for the year ended December 31, 2019, the Company's annual audited consolidated financial statements and the notes related thereto, the quarterly unaudited interim condensed consolidated financial statements and notes contained in this report, as well as, the Company's MD&A and unaudited interim condensed financial statements for the quarters of 2019 and the previous quarters of 2020. 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 is dated as of November 9, 2020.

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](http://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 risk including equity risk, hedging risk, interest rate risk, foreign exchange rate risk; liquidity risk; credit risk including counterparty risk; insurance risk including mortality risk, policyholder behaviour risk, expense risk, morbidity risk, product design and pricing risk, underwriting and claims risk, reinsurance risk; operational risk, including legal and regulatory risk, model risk, human resources risk, third party risk, technology, information security and business continuity risk; and business risk and strategic, including risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to litigation, risk with respect to reputation, risk with respect to risk management policies, risk with respect to intellectual property, risk with respect to significant ownership of common shares. Please see the section titled "Description of the Business" in E-L Financial's Annual Information Form available at [www.sedar.com](http://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 8. 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 10.

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. Quarterly and year to date returns are calculated on an annualized basis.

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 17 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>      | <b>September 30<br/>2020</b> | <b>December 31<br/>2019</b> |
|--------------------------------------|------------------------------|-----------------------------|
| General fund assets                  | \$ 10,129                    | \$ 9,462                    |
| Segregated fund assets               | 7,934                        | 8,499                       |
| Total Empire Life assets             | 18,063                       | 17,961                      |
| Mutual fund assets                   | 120                          | 139                         |
| <b>Total assets under management</b> | <b>\$ 18,183</b>             | <b>\$ 18,100</b>            |

## 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 include 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 52.6% 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 has a 37.4% interest in Algoma Central Corporation ("Algoma") and a 24.1% interest in Economic Investment Trust Limited ("Economic"). Algoma and Economic are accounted for using the equity method.

The Company's investment in Empire Life (99.4% 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<br>(millions of dollars) | Third quarter |               | Year to date |               |
|---|---------------|---------------|--------------|---------------|
|   | 2020          | 2019          | 2020         | 2019          |
| <b>Contribution to net income (loss)</b>            |               |               |              |               |
| E-L Corporate <sup>(1)</sup>                        | \$ 150        | \$ 66         | \$ (77)      | \$ 354        |
| Empire Life <sup>(2)</sup>                          | 51            | 35            | 67           | 97            |
| <b>Net income (loss)</b>                            | <b>201</b>    | <b>101</b>    | <b>(10)</b>  | <b>451</b>    |
| Other comprehensive (loss) income <sup>(2)</sup>    | (1)           | 5             | 31           | 56            |
| <b>Comprehensive income</b>                         | <b>\$ 200</b> | <b>\$ 106</b> | <b>\$ 21</b> | <b>\$ 507</b> |

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

| E-L Corporate<br>(millions of dollars)                         | Third quarter |              | Year to date   |               |
|--|---------------|--------------|----------------|---------------|
|  | 2020          | 2019         | 2020           | 2019          |
| Revenue  |               |              |                |               |
| Net gain (loss) on investments <sup>(3)</sup>                  | \$ 184        | \$ 54        | \$ (74)        | \$ 376        |
| Investment and other income                                    | 30            | 37           | 96             | 118           |
| Share of associates income (loss)                              | 6             | 4            | (56)           | 14            |
|  | <b>220</b>    | <b>95</b>    | <b>(34)</b>    | <b>508</b>    |
| Operating expenses   | 10            | 9            | 29             | 28            |
| Income taxes   | 29            | 12           | (5)            | 67            |
| Non-controlling interests                                      | 31            | 8            | 19             | 59            |
|  | <b>70</b>     | <b>29</b>    | <b>43</b>      | <b>154</b>    |
| <b>Net income (loss)</b>                                       | <b>150</b>    | <b>66</b>    | <b>(77)</b>    | <b>354</b>    |
| Other comprehensive (loss) income, net of taxes <sup>(1)</sup> | (1)           | 1            | (5)            | (7)           |
| <b>Comprehensive income (loss)</b>                             | <b>\$ 149</b> | <b>\$ 67</b> | <b>\$ (82)</b> | <b>\$ 347</b> |

| <b>Empire Life</b><br><i>(millions of dollars)</i>         | <b>Third quarter</b> |              | <b>Year to date</b> |               |
|--|----------------------|--------------|---------------------|---------------|
|  | <b>2020</b>          | <b>2019</b>  | <b>2020</b>         | <b>2019</b>   |
| Revenue  |                      |              |                     |               |
| Net premiums   | \$ 221               | \$ 218       | \$ 639              | \$ 681        |
| Net gain on investments <sup>(3)</sup>                     | 37                   | 109          | 439                 | 749           |
| Investment income  | 82                   | 84           | 244                 | 241           |
| Fee income   | 61                   | 65           | 185                 | 195           |
|  | <b>401</b>           | <b>476</b>   | <b>1,507</b>        | <b>1,866</b>  |
| Benefits and expenses                                      | 324                  | 427          | 1,398               | 1,725         |
| Income and other taxes                                     | 22                   | 12           | 32                  | 38            |
| Non-controlling and participating policyholders' interests | 4                    | 2            | 10                  | 6             |
|  | <b>350</b>           | <b>441</b>   | <b>1,440</b>        | <b>1,769</b>  |
| <b>Net income</b>  | <b>51</b>            | <b>35</b>    | <b>67</b>           | <b>97</b>     |
| Other comprehensive income, net of taxes <sup>(2)</sup>    | —                    | 4            | 36                  | 63            |
| <b>Comprehensive income</b>                                | <b>\$ 51</b>         | <b>\$ 39</b> | <b>\$ 103</b>       | <b>\$ 160</b> |

<sup>(1)</sup> Net of non-controlling interests

<sup>(2)</sup> Net of non-controlling interests and participating policyholders' amounts

<sup>(3)</sup> Includes fair value change in fair value through profit and loss ("FVTPL") investments and realized gain on available for sale ("AFS") investments

E-L Financial reported a consolidated net income of \$201 million for the third quarter of 2020 or \$52.88 per common share compared to \$101 million or \$24.61 per common share in 2019. The increase in net income for the third quarter of 2020 is primarily due to a net gain on investments within the E-L Corporate segment of \$184 million compared to \$54 million in 2019 reflecting the continued recovery of global equity market losses experienced during the first quarter of 2020. The pre-tax total return on E-L Corporate's global investment portfolio for the third quarter of 2020 was 4% compared to 2% in the prior year.

The Empire Life segment reported net income of \$51 million in the third quarter of 2020 compared to \$35 million for the third quarter of 2019. The increase in third quarter earnings was primarily a result of the favourable impact from changes in the investments supporting the Individual Insurance line, partially offset by increases in policy liabilities for segregated fund guarantees.

E-L Financial reported a consolidated net loss of \$10 million for the first nine months of 2020 or \$5.70 per common share compared to net income of \$451 million or \$111.99 per common share in 2019. The Company was impacted by the declines in equity markets which occurred toward the end of the first quarter of 2020 and were mainly related to the international emergence and spread of the novel coronavirus (or COVID-19). Although equity markets have substantially recovered during the second and third quarters of 2020, E-L Financial and Empire Life continue to monitor the developments in equity and fixed income markets.

E-L Corporate reported a net loss of \$77 million for the first nine months of 2020 compared to net income of \$354 million for the comparable period in 2019. The decrease in earnings was primarily due to a net loss on investments of \$74 million for the first nine months of 2020 compared to a net gain of \$376 million in 2019. E-L Corporate's global investment portfolio had a pre-tax total return including dividend income of approximately nil in the first nine months of 2020 compared to a pre-tax total return of 10% in 2019.

The Empire Life segment reported net income of \$67 million for the first nine months of 2020 compared to \$97 million for the comparable period of 2019. The decrease in year to date earnings was primarily a result of significant strengthening of policy liabilities supporting segregated fund guarantees.

Consolidated comprehensive income was \$200 million in the third quarter of 2020 or \$52.50 per common share compared to \$106 million or \$25.88 per common share for the third quarter of 2019. Other

comprehensive loss ("OCL") was \$1 million in the third quarter of 2020 compared to (other comprehensive income ("OCI") of \$5 million in 2019. The decrease in OCI was primarily due to the lower unrealized fair value gains on Empire Life's available for sale ("AFS") assets and a larger loss on the remeasurement of the post-employment defined benefit plans in 2020 compared to 2019. The loss on these components of OCI was primarily attributable to fluctuations in interest rates and credit spreads during the third quarter of 2020.

Consolidated comprehensive income was \$21 million for the first nine months of 2020 or \$2.46 per common share compared to \$507 million or \$126.31 per common share for the first nine months of 2019. The decrease is primarily due to the above mentioned items.

#### **Normal course issuer bid**

On March 9, 2020, the Company obtained approval from the TSX to commence a normal course issuer bid ("NCIB") to purchase up to 200,970 Common Shares between March 9, 2020 and March 8, 2021. Daily purchases (other than pursuant to a block purchase exemption) on the TSX under the NCIB are limited to 1,000 Common Shares. The price that the Company pays for the Common Shares is the prevailing market price at the time of acquisition.

During the second quarter of 2020 the Company had purchased the maximum permitted shares under the NCIB totaling 200,970 Common Shares. The total consideration paid for the shares acquired was \$120 million with an average price of \$599.18 per share.

#### **Senior unsecured notes**

In the second quarter of 2020, the Company issued \$200 million principal amount of 4.0% senior unsecured notes. The notes mature on June 22, 2050 and bear interest at an annual rate of 4.0% calculated and payable semi-annually in arrears on June 22 and December 22 of each year commencing December 22, 2020 and ending June 22, 2050.

#### **Substantial issuer bid**

On November 9, 2020 the Company announced its intention to commence a substantial issuer bid (the "Offer") pursuant to which the Company will offer to purchase up to \$100 million of its outstanding Common Shares for cash. The Offer will proceed by way of a "modified Dutch auction". The Offer would be for approximately 4.0% of the total number of issued and outstanding Common Shares, if the purchase price is determined to be \$650 (which is the minimum price per Common Share under the Offer) or approximately 3.5% of the total number of issued and outstanding Common Shares if the purchase price is determined to be \$750 (which is the maximum price per Common Share under the Offer).

**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>               | <b>Q3 2020</b>     | Q4 2019     | Q3 2019     |
|--|--------------------|-------------|-------------|
| E-L Financial shareholders' equity                                   | \$ <b>6,051</b>    | \$ 6,275    | \$ 6,005    |
| Less: First preference shares  | <b>(300)</b>       | (300)       | (300)       |
|  | <b>5,751</b>       | 5,975       | 5,705       |
| Adjustments for investments in associates not carried at fair value: |                    |             |             |
| Carrying value   | <b>(262)</b>       | (332)       | (323)       |
| Fair value <sup>(1)</sup>  | <b>274</b>         | 331         | 335         |
|  | <b>12</b>          | (1)         | 12          |
| Non-controlling interest and deferred tax                            | <b>(3)</b>         | —           | (3)         |
|  | <b>9</b>           | (1)         | 9           |
| Net equity value   | \$ <b>5,760</b>    | \$ 5,974    | \$ 5,714    |
| Common Shares <sup>(2)</sup> outstanding at period end               | <b>3,818,697</b>   | 4,019,667   | 4,019,667   |
| <b>Net equity value per common share<sup>(2) (3)</sup></b>           | \$ <b>1,508.40</b> | \$ 1,486.19 | \$ 1,421.57 |

<sup>(1)</sup> Based on quoted market prices

<sup>(2)</sup> Common Shares includes Series A Convertible Preference Shares

<sup>(3)</sup> See non-GAAP measures

The Common Shares outstanding at period ended September 30, 2020 are lower compared to prior period amounts due to shares acquired as part of the Company's NCIB.

## 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* |
|--|-------------------|---------|
|  | \$                | %       |
| 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)   |
| 2019   | 1,486.19          | 15.1    |
| <b>Year to date</b>                                  |                   |         |
| September 30, 2020                                   | 1,508.40          | 3.4     |
| <b>Compounded annual growth in net equity value*</b> |                   |         |
| 2010 - 2019 - 10 years                               |                   | 8.8     |
| 1969 - 2019 - Since inception                        |                   | 12.5    |

\* 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:

| <i>(millions of dollars, except per share amounts)</i> | <b>2020</b> |           |             |          | 2019     |         |          | 2018       |
|--|-------------|-----------|-------------|----------|----------|---------|----------|------------|
|  | Q3          | Q2        | Q1          | Q4       | Q3       | Q2      | Q1       | Q4         |
| Revenue  |             |           |             |          |          |         |          |            |
| Net gain (loss) on investments <sup>(1)</sup>          | \$ 221      | \$ 1,273  | \$ (1,129)  | \$ 139   | \$ 163   | \$ 209  | \$ 753   | \$ (419)   |
| Net premium income                                     | 221         | 202       | 216         | 229      | 218      | 225     | 238      | 237        |
| Investment and other income                            | 173         | 177       | 176         | 178      | 186      | 200     | 168      | 175        |
| Associates <sup>(2)</sup>                              | 6           | 29        | (92)        | 10       | 4        | 7       | 3        | (5)        |
| Total  | \$ 621      | \$ 1,681  | \$ (829)    | \$ 556   | \$ 571   | \$ 641  | \$ 1,162 | \$ (12)    |
| Net income (loss) <sup>(3)</sup>                       | \$ 201      | \$ 452    | \$ (663)    | \$ 293   | \$ 101   | \$ 42   | \$ 309   | \$ (238)   |
| Earnings (loss) per common share                       |             |           |             |          |          |         |          |            |
| - basic  | \$ 52.88    | \$ 119.36 | \$ (170.26) | \$ 73.68 | \$ 24.61 | \$ 9.70 | \$ 77.68 | \$ (61.62) |
| - diluted  | \$ 48.71    | \$ 108.83 | \$ (170.26) | \$ 67.58 | \$ 23.26 | \$ 9.70 | \$ 71.45 | \$ (61.62) |

<sup>(1)</sup> Fair value change on FVTPL investments and realized gain (loss) on AFS investments

<sup>(2)</sup> Share of income (loss) of associates

<sup>(3)</sup> 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 third quarter of 2020 decreased compared to the prior quarter but increased compared to third quarter of 2019, with the fluctuation mainly due to the impact of net investment gains. The fair value change in fair value through profit and loss ("FVTPL") investments decreased compared to the second quarter of 2020, reflecting volatility in both bond and equity markets experienced during the year. The Company's income on investments in associates was mostly attributable to movements in stock market prices for these investments.

Net premiums for the third quarter of 2020 increased compared to both the prior quarter and third quarter of 2019, with increases in all business lines compared to the second quarter of 2020.

## Liquidity and cash flows

### Consolidated cash flows

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

| Nine months ended September 30<br>(millions of dollars) | E-L Financial<br>(non-<br>consolidated) | United | Empire Life | Consolidation<br>adjustments | E-L Financial Consolidated |        |
|---|---|--------|-------------|------------------------------|----------------------------|--------|
|   |   |        |             |                              | 2020                       | 2019   |
| Cash flows from:  |   |        |             |                              |                            |        |
| Operating activities                                    | \$ 207                                  | \$ 8   | \$ 241      | \$ (173)                     | \$ 283                     | \$ 325 |
| Financing activities                                    | (108)                                   | (32)   | (176)       | 172                          | (145)                      | (83)   |
| Investing activities                                    | 11                                      | 30     | 35          | 1                            | 77                         | (204)  |
| Increase in cash and cash<br>equivalents                | 110                                     | 6      | 99          | —                            | 215                        | 38     |
| Cash and cash equivalents,<br>beginning of the period   | 125                                     | 38     | 140         | —                            | 303                        | 333    |
| Cash and cash equivalents, end of<br>the period         | \$ 235                                  | \$ 44  | \$ 239      | \$ —                         | \$ 518                     | \$ 371 |

The decrease in cash provided from operating activities in 2020 relative to 2019, reflects the decrease in cash earnings during 2020 compared to the prior year, along with changes in working capital levels.

The increase in cash used for financing activities in 2020 relative to 2019 was due to the payment of a special cash dividend of \$25.00 per Common share in the second quarter of 2020, purchases of the Company's common shares under the NCIB program, a \$60 million repayment of the margin loan offset by the \$198 million issuance of 4% senior unsecured notes.

The increase in cash provided from investing activities in 2020 relative to 2019 was primarily due to Empire Life's purchases and sales of investments supporting policy liabilities and the capital and surplus account.

*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).

**Nine months ended September 30**

| <i>(millions of dollars)</i>                       | <b>2020</b>   | 2019   |
|--|---------------|--------|
| Cash flows from:                                   |               |        |
| Operating activities                               |               |        |
| Dividends from subsidiaries                        | \$ 167        | \$ 64  |
| Dividends and interest                             | 58            | 71     |
| Expenses and taxes, net of other income            | (18)          | (21)   |
|  | <b>207</b>    | 114    |
| Financing activities                               |               |        |
| Cash dividends                                     | (125)         | (27)   |
| Share purchases                                    | (120)         | —      |
| Issuance of 4% unsecured notes                     | 198           | —      |
| Repayment of margin loan                           | (60)          | (25)   |
| Interest paid on borrowings                        | (1)           | (1)    |
| Purchases of subsidiary shares                     | —             | (1)    |
|  | <b>(108)</b>  | (54)   |
| Investing activities                               |               |        |
| Purchases of investments                           | (369)         | (733)  |
| Proceeds from sales of investments                 | 360           | 701    |
| Net sales of short-term investments                | 13            | —      |
| Dividends from associates                          | 7             | 14     |
|  | <b>11</b>     | (18)   |
| Increase in cash and cash equivalents              | <b>110</b>    | 42     |
| Cash and cash equivalents, beginning of the period | <b>125</b>    | 75     |
| Cash and cash equivalents, end of the period       | <b>\$ 235</b> | \$ 117 |

For the nine month period ended September 30, 2020, the non-consolidated cash and cash equivalents of E-L Financial increased by \$110 million.

Operating cash flows for 2020 increased compared with the prior period due to an additional dividend received from Empire Life in 2020 compared with the prior period. The movement in financing and investing cash flows are due to the reasons noted above.

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.

### **Novel Coronavirus (or COVID-19)**

The continued worldwide spread of novel coronavirus (or COVID-19) continues to impact international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts. This has created additional volatility in domestic and international equity markets. The Company continues to monitor developments in equity markets generally, and in connection with the Company's investment portfolio in particular. While it is too early to predict the impact of COVID-19 related factors, during a time of increased uncertainty and volatility, we expect that the performance of all portfolios, including the Company, will be affected in the near term.

### **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 September 30, 2020, investments - corporate had aggregate investments of \$5.2 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2019 of \$5.3 billion. The fair value of investments - corporate is summarized in the table below:

| <i>(millions of dollars)</i> | <b>September 30<br/>2020</b> | <b>December 31<br/>2019</b> |
|------------------------------|------------------------------|-----------------------------|
| Short-term investments       | \$ —                         | \$ 13                       |
| Preferred shares             | 1                            | 1                           |
| Common shares and units      |                              |                             |
| Canada and U.S.              | 3,157                        | 3,107                       |
| Europe and United Kingdom    | 1,089                        | 1,158                       |
| Emerging Markets             | 413                          | 454                         |
| Japan                        | 466                          | 468                         |
| Other                        | 37                           | 69                          |
| <b>Total</b>                 | <b>5,162</b>                 | <b>5,256</b>                |
| <b>Total invested assets</b> | <b>\$ 5,163</b>              | <b>\$ 5,270</b>             |

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

| <i>(millions of dollars)</i>                       | <b>Third quarter</b> |              | <b>Year to date</b> |               |
|--|----------------------|--------------|---------------------|---------------|
|  | <b>2020</b>          | <b>2019</b>  | <b>2020</b>         | <b>2019</b>   |
| Revenue  |                      |              |                     |               |
| Net gain (loss) on investments                     | \$ 184               | \$ 54        | \$ (74)             | \$ 376        |
| Investment and other income                        | 30                   | 37           | 96                  | 118           |
| Share of associates income (loss)                  | 6                    | 4            | (56)                | 14            |
|  | <b>220</b>           | <b>95</b>    | <b>(34)</b>         | <b>508</b>    |
| Operating expenses                                 | 10                   | 9            | 29                  | 28            |
| Income taxes                                       | 29                   | 12           | (5)                 | 67            |
| Non-controlling interests                          | 31                   | 8            | 19                  | 59            |
|  | <b>70</b>            | <b>29</b>    | <b>43</b>           | <b>154</b>    |
| <b>Net income (loss)</b>                           | <b>150</b>           | <b>66</b>    | <b>(77)</b>         | <b>354</b>    |
| Other comprehensive (loss) income,<br>net of taxes | (1)                  | 1            | (5)                 | (7)           |
| <b>Comprehensive income (loss)</b>                 | <b>\$ 149</b>        | <b>\$ 67</b> | <b>\$ (82)</b>      | <b>\$ 347</b> |

E-L Corporate reported net income of \$150 million in the third quarter of 2020 compared to \$66 million in 2019. For the third quarter of 2020 there was a net gain on investments of \$184 million compared to \$54

million in 2019. The pre-tax total return on investments was 4% for the third quarter of 2020 compared to 2% in 2019.

During the nine months ended September 30, 2020, E-L Corporate incurred a net loss on investments of \$74 million compared to a net gain on investments of \$376 million in 2019. The international emergence and spread of COVID-19 in 2020 has negatively impacted global stock markets, and the Company's year to date investment returns resulting in a pre-tax total return on investments including dividend income of approximately nil compared to 10% in the prior year.

E-L Corporate's investment and other income declined by \$7 million for the third quarter of 2020 compared to 2019 and \$22 million on year-to-date basis. This decline is primarily attributable to the impact of lower foreign dividends as certain companies within the investment portfolio have suspended or reduced dividends during these periods.

### Share of associates income

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

| <i>(millions of dollars)</i> | Third quarter |      | Year to date |       |
|------------------------------|---------------|------|--------------|-------|
|                              | 2020          | 2019 | 2020         | 2019  |
| Algoma                       | \$ 8          | \$ 7 | \$ (44)      | \$ 7  |
| Economic                     | (2)           | (3)  | (12)         | 7     |
|                              | \$ 6          | \$ 4 | \$ (56)      | \$ 14 |

<sup>(1)</sup> Year to date includes a \$57 million impairment loss (September 30, 2019 - \$9 million).

During the first quarter of 2020 the stock market prices for Algoma and Economic declined significantly. Although the equity markets partially recovered during the second and third quarters of 2020, on a year to date basis the Company's investment portfolio has been negatively impacted.

Algoma's net income for the third quarter of 2020 increased over 2019 due to higher operating earnings partly offset by an impairment provision recorded on a vessel owned by a joint venture. Although Algoma's operating earnings were higher on a year to date basis, net earnings declined compared to the prior period mostly due to the impairment provision recorded by the joint venture, higher depreciation and a foreign currency loss versus a gain in 2019.

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 3% in the third quarter of both 2020 and 2019. On a year to date basis, Economic's global investment portfolio had a pre-tax total return, gross of fees, of negative 1% during 2020 compared to a positive 13% return in 2019.

The ownership interests, carrying value and fair value of E-L Corporate's investment in associates is summarized in the table below:

|          | June 30, 2020 |                |            | December 31, 2019 |                |            |
|----------|---------------|----------------|------------|-------------------|----------------|------------|
|          | Ownership     | Carrying value | Fair value | Ownership         | Carrying value | Fair value |
| Algoma   | 37.4 %        | \$ 131         | \$ 143     | 37.0 %            | \$ 185         | \$ 184     |
| Economic | 24.1 %        | \$ 131         | \$ 131     | 24.0 %            | \$ 147         | \$ 147     |
| Total    |               | \$ 262         | \$ 274     |                   | \$ 332         | \$ 331     |

Additional information relating to Algoma and Economic may be found on their respective profiles at [www.sedar.com](http://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 September 30, 2020, 53% (December 31, 2019 - 49%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 10% (December 31, 2019 - 10%) in Euros and 9% (December 31, 2019 - 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](http://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’s net income attributable to the owners of E-L Financial, after adjustment for non-controlling interests, is shown in the following table:

| <i>(millions of dollars)</i>                     | Third quarter |              | Year to date |              |
|--|---------------|--------------|--------------|--------------|
|  | 2020          | 2019         | 2020         | 2019         |
| Empire Life common shareholders’ net income      | \$ 51         | \$ 35        | \$ 67        | \$ 98        |
| Non-controlling interests                        | —             | —            | —            | 1            |
| <b>Net income, contribution to E-L Financial</b> | <b>\$ 51</b>  | <b>\$ 35</b> | <b>\$ 67</b> | <b>\$ 97</b> |

|   |               |              |              |              |
|---|---------------|--------------|--------------|--------------|
| <b>Empire Life return on common shareholders’ equity (quarterly annualized)</b> | <b>16.9 %</b> | <b>8.7 %</b> | <b>5.8 %</b> | <b>8.4 %</b> |
|---|---------------|--------------|--------------|--------------|

Empire Life reported third quarter common shareholders’ net income of \$51 million for 2020, compared to net income of \$35 million for the third quarter of 2019. The increase in third quarter earnings was primarily a result of the favourable impact from changes in the investments supporting the Individual Insurance line, partially offset by increases in policy liabilities for segregated fund guarantees. Year to date common shareholders’ net income was \$67 million compared to \$98 million in 2019. The decrease in year to date earnings was primarily a result of significant strengthening of policy liabilities supporting segregated fund guarantees.

The impact of COVID-19 on Canadian and international business operations, supply chains, travel, consumer confidence and business forecasts, and domestic and international securities markets, is expected to continue through the rest of 2020 and potentially beyond. Empire Life continues to monitor developments in equity and fixed income markets generally, and in connection with Empire Life’s investment portfolios in particular. While the impact of COVID-19 related factors on Empire Life’s financial results is described in the sections that follow, during a time of increased uncertainty and volatility we expect that these events will continue have an impact on Empire Life’s performance in the near term.

The following table provides a breakdown of the sources of earnings for the third quarter and year to date:

| For the three months ended September 30<br><i>(millions of dollars)</i> | Wealth Management |       | Employee Benefits |      | Individual Insurance |        | Capital and Surplus |       | Total        |              |
|---|-------------------|-------|-------------------|------|----------------------|--------|---------------------|-------|--------------|--------------|
|   | 2020              | 2019  | 2020              | 2019 | 2020                 | 2019   | 2020                | 2019  | 2020         | 2019         |
| Expected profit on in-force business                                    | \$ 32             | \$ 27 | \$ 7              | \$ 6 | \$ 14                | \$ 13  |                     |       | \$ 53        | \$ 46        |
| Impact of new business  | (2)               | (3)   | (3)               | (6)  | 2                    | (4)    |                     |       | (3)          | (13)         |
| Experience (losses) gains   | (12)              | 9     | (5)               | 2    | 2                    | (12)   |                     |       | (15)         | (1)          |
| Management actions and changes in assumptions                           | —                 | —     | —                 | —    | 16                   | (1)    |                     |       | 16           | (1)          |
| Earnings (loss) on operations before income taxes                       | 18                | 33    | (2)               | 2    | 34                   | (4)    | —                   | —     | 50           | 30           |
| Earnings on surplus   | —                 | —     | —                 | —    | —                    | —      | 23                  | 18    | 23           | 18           |
| Income (loss) before income tax   | 18                | 33    | (2)               | 2    | 34                   | (4)    | 23                  | 18    | 73           | 49           |
| Income taxes  | 4                 | 8     | —                 | 1    | 9                    | (2)    | 5                   | 4     | 19           | 11           |
| Empire Life's shareholders' net income (loss)                           | \$ 14             | \$ 25 | \$ (1)            | \$ 1 | \$ 25                | \$ (2) | \$ 17               | \$ 14 | \$ 55        | \$ 38        |
| Dividends on preferred shares <sup>(1)</sup>                            |                   |       |                   |      |                      |        |                     |       | (3)          | (3)          |
| <b>Empire Life common shareholders' net income</b>                      |                   |       |                   |      |                      |        |                     |       | <b>\$ 51</b> | <b>\$ 35</b> |

| For the nine months ended September 30<br><i>(millions of dollars)</i> | Wealth Management |       | Employee Benefits |       | Individual Insurance |       | Capital and Surplus |       | Total        |              |
|--|-------------------|-------|-------------------|-------|----------------------|-------|---------------------|-------|--------------|--------------|
|  | 2020              | 2019  | 2020              | 2019  | 2020                 | 2019  | 2020                | 2019  | 2020         | 2019         |
| Expected profit on in-force business                                   | \$ 98             | \$ 85 | \$ 19             | \$ 19 | \$ 42                | \$ 40 |                     |       | \$ 159       | \$ 143       |
| Impact of new business   | (8)               | (9)   | (7)               | (15)  | 1                    | 3     |                     |       | (14)         | (21)         |
| Experience (losses) gains  | (167)             | 11    | 5                 | 5     | 13                   | (27)  |                     |       | (148)        | (11)         |
| Management actions and changes in assumptions                          | —                 | —     | —                 | —     | 40                   | (11)  |                     |       | 40           | (11)         |
| (Loss) earnings on operations before income taxes                      | (76)              | 87    | 17                | 9     | 95                   | 4     | —                   | —     | 37           | 100          |
| Earnings on surplus  | —                 | —     | —                 | —     | —                    | —     | 62                  | 38    | 62           | 38           |
| (Loss) income before income tax  | (76)              | 87    | 17                | 9     | 95                   | 4     | 62                  | 38    | 99           | 138          |
| Income taxes   | (22)              | 21    | 4                 | 2     | 24                   | (2)   | 15                  | 8     | 21           | 30           |
| Empire Life's shareholders' net (loss) income                          | \$ (54)           | \$ 66 | \$ 13             | \$ 7  | \$ 71                | \$ 5  | \$ 47               | \$ 30 | \$ 77        | \$ 108       |
| Dividends on preferred shares <sup>(1)</sup>                           |                   |       |                   |       |                      |       |                     |       | (10)         | (10)         |
| <b>Empire Life common shareholders' net income</b>                     |                   |       |                   |       |                      |       |                     |       | <b>\$ 67</b> | <b>\$ 98</b> |

<sup>(1)</sup>includes preference share dividends to E-L Financial

The expected profit on in-force business increased by 15% for the third quarter and by 12% on a year to date basis.

The impact of new business was lower in the third quarter of 2020 due to lower new business strain across all lines. Strain from the Individual Insurance line was positive in the third quarter compared to negative strain in the comparative period in 2019 and positive on a year to date basis compared to a positive amount in the comparative periods in 2019 primarily due to lower sales in 2020. The impact of new business on the Individual Insurance line is positive when the present value of future profits from the new business exceeds the sum of the margins in the initial policy liabilities for that business plus the expenses incurred at the point of sale.

Experience losses increased for the third quarter and increased for the year to date in 2020 compared to the same periods in 2019, primarily due to significant strengthening of policy liabilities supporting segregated fund benefit guarantees. This was partially offset by improved asset liability trading gains,

improved gains from increased yields on inforce assets backing the life insurance and annuity products and favourable claims experience in the Employee Benefits line.

Management actions and changes in assumptions were higher in the third quarter and year to date in 2020 relative to the same periods in 2019 primarily due to management's ongoing activities to improve the matching of assets and liabilities in the Individual Insurance line.

Earnings on surplus increased for the third quarter of 2020 relative to 2019, primarily due to higher realized fair value gains on Available for Sale ("AFS") bond assets in this segment.

### Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended September 30 and year to date for 2020 and 2019. A discussion of results is provided in the Product Line section of the MD&A.

| Three months ended September 30<br>(millions of dollars)  | Wealth Management |              | Employee Benefits |             | Individual Insurance |               | Capital & Surplus |              | Total        |              |
|---|-------------------|--------------|-------------------|-------------|----------------------|---------------|-------------------|--------------|--------------|--------------|
|   | 2020              | 2019         | 2020              | 2019        | 2020                 | 2019          | 2020              | 2019         | 2020         | 2019         |
| <b>Revenue</b>  |                   |              |                   |             |                      |               |                   |              |              |              |
| Net premium   | \$ 28             | \$ 30        | \$ 90             | \$ 91       | \$ 104               | \$ 97         | \$ —              | \$ —         | \$ 221       | \$ 218       |
| Fee income  | 58                | 62           | 3                 | 3           | —                    | —             | —                 | —            | 61           | 65           |
| Investment income   | 9                 | 10           | 1                 | 1           | 55                   | 55            | 16                | 17           | 81           | 84           |
| Net gains on investments <sup>(1)</sup>                   | 22                | 1            | —                 | —           | 4                    | 103           | 11                | 5            | 37           | 108          |
|   | 117               | 103          | 93                | 95          | 163                  | 254           | 27                | 22           | 401          | 475          |
| <b>Expenses</b>   |                   |              |                   |             |                      |               |                   |              |              |              |
| Benefits and expenses                                     | 99                | 70           | 93                | 92          | 126                  | 259           | 4                 | 4            | 322          | 426          |
| Income and other taxes                                    | 4                 | 8            | 1                 | 1           | 12                   | (1)           | 6                 | 4            | 23           | 13           |
|   | 104               | 78           | 94                | 94          | 138                  | 258           | 10                | 8            | 345          | 439          |
| <b>Net income (loss) after tax</b>                        | <b>\$ 14</b>      | <b>\$ 25</b> | <b>\$ (1)</b>     | <b>\$ 1</b> | <b>\$ 25</b>         | <b>\$ (4)</b> | <b>\$ 17</b>      | <b>\$ 14</b> | <b>\$ 56</b> | <b>\$ 36</b> |
| Participating policyholders' portion                      |                   |              |                   |             |                      |               |                   |              | 1            | (2)          |
| Dividends on preferred shares                             |                   |              |                   |             |                      |               |                   |              | 3            | 3            |
| Empire Life's common shareholders' net income             |                   |              |                   |             |                      |               |                   |              | 51           | 35           |
| Non-controlling interests in net income                   |                   |              |                   |             |                      |               |                   |              | —            | —            |
| <b>Net income attributable to owners of E-L Financial</b> |                   |              |                   |             |                      |               |                   |              | <b>\$ 51</b> | <b>\$ 35</b> |

<sup>(1)</sup> Includes fair value change on FVTPL investments and realized gains on AFS investments

| For the nine months ended September 30<br>(millions of dollars) | Wealth Management |              | Employee Benefits |             | Individual Insurance |             | Capital & Surplus |              | Total        |               |
|---|-------------------|--------------|-------------------|-------------|----------------------|-------------|-------------------|--------------|--------------|---------------|
|   | 2020              | 2019         | 2020              | 2019        | 2020                 | 2019        | 2020              | 2019         | 2020         | 2019          |
| <b>Revenue</b>  |                   |              |                   |             |                      |             |                   |              |              |               |
| Net premium   | \$ 74             | \$ 124       | \$ 264            | \$ 267      | \$ 301               | \$ 290      | \$ —              | \$ —         | \$ 639       | \$ 681        |
| Fee income  | 175               | 186          | 9                 | 9           | —                    | —           | —                 | —            | 185          | 195           |
| Investment income   | 29                | 30           | 3                 | 3           | 163                  | 158         | 50                | 50           | 244          | 241           |
| Net gains on investments <sup>(1)</sup>                         | 20                | 24           | 6                 | 5           | 389                  | 718         | 24                | 1            | 439          | 750           |
|   | 298               | 365          | 283               | 285         | 853                  | 1,166       | 74                | 51           | 1,507        | 1,866         |
| <b>Expenses</b>   |                   |              |                   |             |                      |             |                   |              |              |               |
| Benefits and expenses   | 374               | 277          | 259               | 270         | 751                  | 1,163       | 12                | 12           | 1,397        | 1,722         |
| Income and other taxes  | (22)              | 21           | 11                | 8           | 30                   | 4           | 15                | 8            | 35           | 41            |
|   | 352               | 299          | 270               | 278         | 782                  | 1,166       | 27                | 20           | 1,431        | 1,763         |
| <b>Net (loss) income after tax</b>                              | <b>\$ (54)</b>    | <b>\$ 66</b> | <b>\$ 13</b>      | <b>\$ 7</b> | <b>\$ 70</b>         | <b>\$ —</b> | <b>\$ 47</b>      | <b>\$ 31</b> | <b>\$ 76</b> | <b>\$ 103</b> |
| Participating policyholders' portion                            |                   |              |                   |             |                      |             |                   |              | (1)          | (5)           |
| Dividends on preferred shares                                   |                   |              |                   |             |                      |             |                   |              | 10           | 10            |
| Empire Life's common shareholders' net income                   |                   |              |                   |             |                      |             |                   |              | 67           | 98            |
| Non-controlling interests in net income                         |                   |              |                   |             |                      |             |                   |              | —            | 1             |
| Net income attributable to owners of E-L Financial              |                   |              |                   |             |                      |             |                   |              | \$ 67        | \$ 97         |

<sup>(1)</sup> Includes fair value change on FVTPL investments and realized gains on AFS investments

### Product Line Results - Wealth Management

| Key Operating Results<br>(millions of dollars) | Third quarter |              | Year to date   |               |
|--|---------------|--------------|----------------|---------------|
|  | 2020          | 2019         | 2020           | 2019          |
| <b>Fixed Annuities</b>                         |               |              |                |               |
| Assets under management                        | \$ 951        | \$ 959       | \$ 951         | \$ 959        |
| Gross sales                                    | 28            | 30           | 74             | 124           |
| Net sales                                      | 2             | 1            | (11)           | 13            |
| <b>Segregated Funds</b>                        |               |              |                |               |
| Assets under management                        | 7,918         | 8,344        | 7,918          | 8,344         |
| Gross sales                                    | 152           | 203          | 526            | 613           |
| Net sales                                      | (73)          | (54)         | (178)          | (246)         |
| Fee income                                     | 58            | 61           | 173            | 183           |
| <b>Mutual Funds</b>                            |               |              |                |               |
| Assets under management                        | 120           | 141          | 120            | 141           |
| Gross sales                                    | 1             | 2            | 6              | 6             |
| Net sales                                      | (4)           | (8)          | (15)           | (21)          |
| Fee income                                     | —             | 1            | 1              | 2             |
| <b>Net premiums</b>                            | <b>\$ 28</b>  | <b>\$ 30</b> | <b>\$ 74</b>   | <b>\$ 124</b> |
| <b>Benefits and expenses</b>                   | <b>99</b>     | <b>70</b>    | <b>374</b>     | <b>277</b>    |
| <b>Net income (loss) after tax</b>             | <b>\$ 14</b>  | <b>\$ 25</b> | <b>\$ (54)</b> | <b>\$ 66</b>  |

Fixed annuities assets under management were lower reflecting decreased sales of these products for the year to date. Gross sales in the third quarter were 7% lower and 40% for the year to date compared to the same periods in 2019.

Segregated fund assets under management are lower relative to the same period in 2019, reflecting the equity market declines experienced in late March this year. While equity markets have rebounded from their March lows, the TSX is still below its December 2019 levels. For the third quarter of 2020, gross sales were 25% lower than the same period in 2019 and 14% lower on a year to date basis.

Segregated fund fee income was 5% lower compared to the third quarter of 2019 and 5% lower on a year to date basis as lower average assets impacted fee revenues. Fee income from segregated funds and mutual funds is calculated daily for most products.

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.

This line had net income of \$14 million for the quarter and a net loss of \$54 million for the year to date compared to net income of \$25 million and \$66 million for the third quarter and year to date in 2019, respectively, primarily as a result of an increase in policy liabilities for segregated fund guarantees. These guarantees are only payable if fund values are below the guaranteed values when the insurable event occurs.

#### Product Line Results - Employee Benefits

| Key Operating Results<br>(millions of dollars) | Third quarter |             | Year to date |             |
|--|---------------|-------------|--------------|-------------|
|  | 2020          | 2019        | 2020         | 2019        |
| Annualized premium sales                       | \$ 8          | \$ 31       | \$ 54        | \$ 83       |
| Net premiums                                   | 90            | 91          | 264          | 267         |
| <b>Net (loss) income after tax</b>             | <b>\$ (1)</b> | <b>\$ 1</b> | <b>\$ 13</b> | <b>\$ 7</b> |

Annualized premium sales decreased in the third quarter and year to date compared to the same periods in 2019, primarily due to a large block transfer from a new strategic distribution partner in 2019. Empire Life continues to increase sales of its core products in the small to medium-sized business market and to enter into strategic partnerships to expand market share.

Net premiums for the third quarter and year to date decreased by 1%, relative to the same periods in 2019 as premium rebates were offered to customers to reflect lower health claims experience, as many health care providers were either closed or operating at a limited capacity and offering emergency services only, due to the COVID-19 pandemic. 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 third quarter declined on lower net premiums and higher claims relative to the same period in 2019. For the year to date, net income has increased, primarily due to favourable claims experience for dental and extended health benefits, driven by COVID-19 related closures of dental and paramedical offices.

**Product Line Results - Individual Insurance**

| <b>Key Operating Results</b><br><i>(millions of dollars)</i> | <b>Third quarter</b> |               | <b>Year to date</b> |             |
|--|----------------------|---------------|---------------------|-------------|
|  | <b>2020</b>          | <b>2019</b>   | <b>2020</b>         | <b>2019</b> |
| <b>Shareholders'</b>   |                      |               |                     |             |
| Annualized premium sales                                     | \$ 7                 | \$ 5          | \$ 17               | \$ 16       |
| Net premiums   | 71                   | 67            | 207                 | 205         |
| Net income (loss) after tax                                  | 25                   | (2)           | 71                  | 5           |
| <b>Policyholders'</b>  |                      |               |                     |             |
| Annualized premium sales                                     | 3                    | 4             | 9                   | 12          |
| Net premiums   | 33                   | 30            | 94                  | 85          |
| Net loss after tax   | —                    | (2)           | (1)                 | (6)         |
| <b>Net income (loss) after tax</b>                           | <b>\$ 25</b>         | <b>\$ (4)</b> | <b>\$ 70</b>        | <b>\$ —</b> |

Shareholders' annualized premium sales increased by 33% in the third quarter and 4% for the year to date compared to the same periods in 2019, while policyholders' annualized premium sales declined 25% in the third quarter and 24% for the year to date as the impact of COVID-19 lockdowns and physical distancing made underwriting of sales more challenging. Shareholders' net premiums were 5% higher in the quarter and 1% higher for the year to date compared to the prior periods. Policyholders' net premiums increased by 12% in the third quarter and by 11% for the year to date compared to the same periods in 2019, reflecting recent strength in policyholders' new premium sales.

Shareholders' net income for this product line was \$25 million for the third quarter of 2020 compared to a loss of \$2 million for the same period in 2019, primarily due to the favourable impact on policy liabilities from asset mix changes in the portfolio of investments supporting this line, as well as improved experience on non-economic assumptions. On a year to date basis, net shareholders' net income was \$71 million for the year to date compared to \$5 million in 2019 primarily due to gains from asset mix improvements and favourable experience gains. As of September 30, 2020, this product line has not had a significant increase in mortality experience due to COVID-19 related claims.

**Results - Capital and Surplus**

| <b>Key Operating Results</b><br><i>(millions of dollars)</i> | <b>Third quarter</b> |              | <b>Year to date</b> |              |
|--|----------------------|--------------|---------------------|--------------|
|  | <b>2020</b>          | <b>2019</b>  | <b>2020</b>         | <b>2019</b>  |
| Income from investments                                      | \$ 31                | \$ 24        | \$ 71               | \$ 61        |
| (Losses) gains on hedging instrument                         | (4)                  | (1)          | 3                   | (12)         |
| Interest and other expenses                                  | (4)                  | (4)          | (12)                | (12)         |
| Earnings before income taxes                                 | 23                   | 18           | 62                  | 38           |
| Income taxes   | 5                    | 4            | 15                  | 8            |
| Net income after tax shareholders' portion                   | 17                   | 14           | 47                  | 30           |
| Net income after tax policyholders' portion                  | —                    | —            | —                   | 1            |
| <b>Net income after tax</b>                                  | <b>\$ 17</b>         | <b>\$ 14</b> | <b>\$ 47</b>        | <b>\$ 31</b> |

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

Income from investments in the third quarter of 2020 was higher than the same period in 2019, primarily due to unrealized gains on assets valued as FVTPL in this line. For the year to date, income from investments was higher than the prior year, primarily due to higher realized gains on assets classified as AFS. Losses on the hedging program (discussed in the Risk Management section) in the third quarter were greater than the third quarter of 2019, primarily related to unrealized losses on Empire Life's hedging

instruments as equity markets continued to rebound in the third quarter from the lows experienced in March. On a year to date basis, Empire Life had a gain on its hedging program relative to a loss in the prior year.

### 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 |                  |
|------------------------------|----------------|--------------------------|---------------|--------------------|------------------|
| (millions of dollars)        | Date Issued    | Earliest redemption date | Interest rate | September 30 2020  | December 31 2019 |
| Series 2016-1 <sup>(1)</sup> | December 2016  | December 16, 2021        | 3.383 %       | \$ 200             | \$ 200           |
| Series 2017-1 <sup>(2)</sup> | September 2017 | March 15, 2023           | 3.664 %       | \$ 200             | \$ 200           |

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

<sup>(2)</sup> Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over the 3-month CDOR.

| Preferred Shares      |               |                          |        | Principal amounts as at |                  |
|-----------------------|---------------|--------------------------|--------|-------------------------|------------------|
| (millions of dollars) | Date Issued   | Earliest redemption date | Yield  | September 30 2020       | December 31 2019 |
| 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", its subordinated debt rating is "A (low)", its financial strength rating is "A" and its Preferred Share rating is Pfd-2. All ratings have a stable trend.

A.M. Best ratings of Empire Life are "A Excellent" financial strength rating, "a" long-term issuer credit rating, "bbb+" Subordinated Debt rating, and "bbb" Preferred Share rating. All ratings have a stable trend.

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

As of September 30, 2020, the Total Ratio and Core Ratio reduced significantly from December 31, 2019 primarily due to the significant strengthening of policy liabilities and regulatory capital supporting segregated fund benefit guarantees.

| LICAT<br>(millions of dollars)                 | September 30<br>2020 | June 30<br>2020 | March 31<br>2020 | December 31<br>2019 | September 30<br>2019 |
|--|----------------------|-----------------|------------------|---------------------|----------------------|
| <b>Available capital</b>                       |                      |                 |                  |                     |                      |
| Tier 1   | \$ 1,544             | \$ 1,527        | \$ 1,435         | \$ 1,616            | \$ 1,562             |
| Tier 2   | 703                  | 710             | 671              | 669                 | 681                  |
| Total  | \$ 2,247             | \$ 2,237        | \$ 2,106         | \$ 2,285            | \$ 2,243             |
| <b>Surplus allowance and eligible deposits</b> | \$ 1,111             | \$ 1,094        | \$ 1,029         | \$ 1,109            | \$ 944               |
| <b>Base solvency buffer</b>                    | \$ 2,542             | \$ 2,510        | \$ 2,371         | \$ 2,191            | \$ 2,133             |
| <b>LICAT Total Ratio</b>                       | 132 %                | 133 %           | 132 %            | 155 %               | 149 %                |
| <b>LICAT Core Ratio</b>                        | 91 %                 | 91 %            | 91 %             | 109 %               | 104 %                |

## 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.

### Significant Developments

Commencing in the first quarter of 2020, the spread of the COVID-19 pandemic, given its severity and scale, continues to affect Empire Life's business, some of our clients and also continues to pose risks to the Canadian economy. Empire Life continues to adjust operations as government restrictions and measures evolve. As the impacts of the COVID-19 pandemic continue to materialize, management is monitoring the effects of the disruption on Empire Life's business strategies and initiatives and the effects on its financial results.

The COVID-19 pandemic has and may continue to result in disruptions to clients and the way in which business is conducted, including prolonged duration of employees working from home. To date, Empire Life has taken proactive measures through business continuity plans, carefully planning the return to premise for some employees, and management teams have increased their efforts to preserve the well-being of employees and our ability to serve clients. Processes supporting ongoing systems availability, stability and security are operating effectively and Empire Life continues to monitor the threat landscape.

The duration and impacts of the COVID-19 outbreak cannot currently be determined. If the COVID-19 pandemic is prolonged, or further diseases emerge that give rise to similar effects, there may be further negative effects on the Canadian economy as well as increased volatility in equity and fixed income markets. Unexpected developments in financial markets, regulatory environments, or consumer

behaviour and confidence may also have adverse impacts on Empire Life's financial results and condition, and business.

### Market Risk

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

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes but does not have policy liabilities on the statement of financial position related to segregated fund guarantees. Therefore, a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. For the third quarter, Empire Life experienced a loss of \$3 million after tax, and a gain of \$2 million after tax on its hedging program for the year to date, primarily due to volatile Canadian equity markets. This compares to a hedge cost of \$1 million and \$9 million after tax, respectively, for the comparable period in 2019.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of September 30, 2020, Empire Life had \$7.9 billion of segregated fund assets and liabilities. Of this amount, approximately \$7.7 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

|  | September 30<br>2020 | December 31<br>2019 |
|--|----------------------|---------------------|
| <b>Percentage of segregated fund liabilities with:</b>   |                      |                     |
| 75% maturity guarantee and a 75% death benefit guarantee   | 5 %                  | 4 %                 |
| 75% maturity guarantee and a 100% death benefit guarantee  | 45 %                 | 46 %                |
| 100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date) | 7 %                  | 7 %                 |
| Guaranteed minimum withdrawal benefit ("GMWB")   | 43 %                 | 43 %                |

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

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

Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at September 30, 2020 and December 31, 2019, the sensitivity of Empire Life shareholders' net income and LICAT ratio resulting from stock market increases and decreases is provided in the following table.

| <b>Sensitivity to equity risk</b>                             | <b>Increase</b> |              | <b>Decrease</b> |                 |                 |
|---|-----------------|--------------|-----------------|-----------------|-----------------|
|   | <b>20%</b>      | <b>10%</b>   | <b>10%</b>      | <b>20%</b>      | <b>30%</b>      |
| Impact on net income ( <i>millions of dollars after tax</i> ) |                 |              |                 |                 |                 |
| <b>As at September 30, 2020</b>                               |                 |              |                 |                 |                 |
| Segregated fund guarantees                                    | \$ 113          | \$ 61        | \$ (18)         | \$ (127)        | \$ (255)        |
| Other equity risk   | 32              | 15           | (14)            | (25)            | (89)            |
| Equity hedge  | (10)            | (5)          | 7               | 16              | 28              |
| <b>Total</b>  | <b>\$ 135</b>   | <b>\$ 71</b> | <b>\$ (25)</b>  | <b>\$ (136)</b> | <b>\$ (317)</b> |

As at December 31, 2019

|                            |              |              |                |                |                 |
|----------------------------|--------------|--------------|----------------|----------------|-----------------|
| Segregated fund guarantees | \$ —         | \$ —         | \$ (10)        | \$ (76)        | \$ (229)        |
| Other equity risk          | 33           | 15           | (12)           | (20)           | (65)            |
| Equity hedge               | (2)          | (1)          | 4              | 16             | 38              |
| <b>Total</b>               | <b>\$ 31</b> | <b>\$ 14</b> | <b>\$ (18)</b> | <b>\$ (80)</b> | <b>\$ (256)</b> |

| <b>Sensitivity to equity risk</b> | <b>Increase</b> |            | <b>Decrease</b> |             |              |
|-----------------------------------|-----------------|------------|-----------------|-------------|--------------|
|                                   | <b>20%</b>      | <b>10%</b> | <b>10%</b>      | <b>20%</b>  | <b>30%</b>   |
| Impact on LICAT                   |                 |            |                 |             |              |
| <b>As at September 30, 2020</b>   |                 |            |                 |             |              |
| Segregated fund guarantees        | 7%              | 4%         | (1)%            | (9)%        | (16)%        |
| Other equity risk                 | —%              | —%         | —%              | —%          | (1)%         |
| Equity hedge                      | (1)%            | —%         | —%              | 1%          | 1%           |
| <b>Total</b>                      | <b>6%</b>       | <b>4%</b>  | <b>(1)%</b>     | <b>(7)%</b> | <b>(16)%</b> |

As at December 31, 2019

|                            |             |             |             |              |              |
|----------------------------|-------------|-------------|-------------|--------------|--------------|
| Segregated fund guarantees | 3%          | —%          | (6)%        | (16)%        | (22)%        |
| Other equity risk          | (1)%        | (1)%        | —%          | 1%           | 1%           |
| Equity hedge               | (3)%        | (2)%        | 1%          | 3%           | 3%           |
| <b>Total</b>               | <b>(1)%</b> | <b>(2)%</b> | <b>(4)%</b> | <b>(12)%</b> | <b>(18)%</b> |

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

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

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

| Segregated Funds<br><i>(millions of dollars)</i> | Withdrawal Benefit ><br>Fund Value |                   | Maturity Guarantee ><br>Fund Value |                   | Death Benefit > Fund<br>Value |                   | Policy<br>Liabilities | LICAT<br>Capital |
|--|------------------------------------|-------------------|------------------------------------|-------------------|-------------------------------|-------------------|-----------------------|------------------|
|  | Fund<br>Value                      | Amount at<br>Risk | Fund<br>Value                      | Amount<br>at Risk | Fund<br>Value                 | Amount<br>at Risk |                       |                  |
| September 30, 2020                               | \$ 2,664                           | \$ 993            | \$ 201                             | \$ 12             | \$ 2,827                      | \$ 80             | \$ 154                | \$ 696           |
| December 31, 2019                                | \$ 2,701                           | \$ 882            | \$ 51                              | \$ 2              | \$ 650                        | \$ 6              | \$ —                  | \$ 465           |

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at September 30, 2020, the aggregate amount at risk for all three categories of risk was \$1.1 billion. At December 31, 2019, the aggregate amount at risk for these three categories of risk was \$890 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

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

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in the assumed initial reinvestment rate ("IRR") for non-participating insurance business and segregated fund guarantees for September 30, 2020 and December 31, 2019, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR"). The AFS bonds provide a natural economic offset to the interest rate risk attributable to Empire Life's product liabilities.

| Sensitivity to market interest rates LICAT: | Impact of<br>50 bps decrease |
|---|------------------------------|
| September 30, 2020 LICAT total ratio        | (1)%                         |
| December 31, 2019 LICAT total ratio         | 1%                           |