

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 2021 should be read in conjunction with the MD&A for the year ended December 31, 2020, 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 2020 and the previous quarters of 2021. 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 November 8, 2021.

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

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

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

Forward-looking statements and information

Certain statements in this MD&A about the Company's current and future plans, expectations and intentions, results, market share growth and profitability, strategic objectives or any other future events or developments constitute forward-looking statements and information within the meaning of applicable securities laws. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements and information. Although management believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because there can be no assurance that they will prove to be correct. By their nature, such forward-looking statements and information are subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, market 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 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 7. 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 9.

Other non-GAAP measures are also used in The Empire Life Insurance Company ("Empire" or "Empire Life") section of the MD&A. These include references to return on common shareholders' equity, source of earnings, assets under management, annualized premium sales, gross and net sales for mutual funds, segregated funds and fixed annuities. These provide investors with supplemental measures of its operating performance and to highlight trends in its core business that may not otherwise be apparent when relying solely on GAAP financial measures. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Empire Life's management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

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

Sources of earnings breaks down Empire Life's earnings into several categories which are useful to assess the performance of the business. These categories include expected profit from in-force business,

impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. The sources of earnings components are reconciled to Empire Life's net income on page 16 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>	September 30	December 31
	2021	2020
General fund assets	\$ 10,185	\$ 10,259
Segregated fund assets	8,950	8,457
Total Empire Life assets	19,135	18,716
Mutual fund assets	115	120
Total assets under management	\$ 19,250	\$ 18,836

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 52.7% 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 includes 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 (millions of dollars)	Third quarter		Year to date	
	2021	2020	2021	2020
Contribution to net income (loss)				
E-L Corporate ⁽¹⁾	\$ 135	\$ 150	\$ 654	\$ (77)
Empire Life ⁽²⁾	33	51	221	67
Net income (loss)	168	201	875	(10)
Other comprehensive (loss) income ⁽²⁾	(3)	(1)	(33)	31
Comprehensive income	\$ 165	\$ 200	\$ 842	\$ 21

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

E-L Corporate (millions of dollars)	Third quarter		Year to date	
	2021	2020	2021	2020
Revenue				
Net gain (loss) on investments ⁽³⁾	\$ 134	\$ 184	\$ 628	\$ (74)
Investment and other income	29	30	102	96
Share of associates income (loss)	23	6	142	(56)
	186	220	872	(34)
Operating expenses	12	10	37	29
Income taxes	23	29	107	(5)
Non-controlling interests	16	31	74	19
	51	70	218	43
Net income (loss)	135	150	654	(77)
Other comprehensive income (loss), net of taxes ⁽¹⁾	5	(1)	4	(5)
Comprehensive income (loss)	\$ 140	\$ 149	\$ 658	\$ (82)

Empire Life <i>(millions of dollars)</i>	Third quarter		Year to date	
	2021	2020	2021	2020
Revenue				
Net premiums	\$ 227	\$ 221	\$ 675	\$ 639
Net (loss) gain on investments ⁽³⁾	(125)	37	(518)	439
Investment income	80	82	244	244
Fee income	69	61	202	185
	251	401	603	1,507
Benefits and expenses	200	324	281	1,398
Income and other taxes	15	22	87	32
Non-controlling and participating policyholders' interests	3	4	14	10
	218	350	382	1,440
Net income	33	51	221	67
Other comprehensive (loss) income, net of taxes ⁽²⁾	(8)	—	(37)	36
Comprehensive income	\$ 25	\$ 51	\$ 184	\$ 103

⁽¹⁾ Net of non-controlling interests

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

⁽³⁾ 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 \$168 million for the third quarter of 2021 or \$45.47 per common share compared to \$201 million or \$52.88 per common share in 2020.

The E-L Corporate segment reported net income of \$135 million for the third quarter of 2021 which compared to \$150 million for the the third quarter of 2020. This included net gain on investments of \$134 million compared to \$184 million in 2020. E-L Corporate's global investment portfolio had pre-tax total return, including dividend income of 2% for the third quarter of 2021 compared to 4% for the third quarter of 2020.

The Empire Life segment reported net income of \$33 million in the third quarter of 2021 compared to \$51 million for the third quarter of 2020. The decrease in third quarter earnings was primarily due to lower net income from the Individual Insurance line and unrealized and realized losses on assets in the Capital & Surplus segment compared to gains for the same period in 2020.

E-L Financial reported a consolidated net income of \$875 million or \$238.84 per common share for the first nine months of 2021 compared to a net loss of \$10 million or \$5.70 per common share in 2020.

E-L Corporate reported net income of \$654 million for the first nine months of 2021 compared to a net loss of \$77 million for the comparable period in 2020. The increase in earnings was primarily due to a higher net gain on investments of \$628 million in 2021 compared to a net loss of \$74 million in 2020. E-L Corporate's global investment portfolio had a pre-tax total return, including dividend income, of 12% in the first nine months of 2021 compared to a pre-tax total return of nil in 2020. The global investment portfolio has shown consistent growth throughout 2021; whereas investment returns during 2020 were significantly impacted by the international emergence and spread of COVID-19 which resulted in a significant decline in global stock markets in the first quarter of 2020.

Empire Life reported net income of \$221 million for the first nine months of 2021 compared to \$67 million for the comparable period in 2020. The increase in year to date earnings was primarily due to the release of segregated fund guarantee reserves in the first quarter of 2021.

Consolidated comprehensive income was \$165 million in the third quarter of 2021 or \$44.48 per common share compared to \$200 million or \$52.50 per common share for the third quarter of 2020. Other comprehensive loss ("OCL") was \$3 million in the third quarter of 2021 compared to \$1 million in 2020.

The increase in OCL in the third quarter of 2021 was primarily due to unrealized fair value losses on Empire's AFS investments partially offset by a gain on the remeasurement of the post-employment defined benefit plans.

Consolidated comprehensive income for the first nine months of 2021 was \$842 million or \$229.83 per common share compared to \$21 million or \$2.46 per common share for 2020. OCL was \$33 million in 2021 compared to other comprehensive income ("OCI") of \$31 million in 2020. The decrease in OCI is primarily due to unrealized losses on Empire's AFS assets compared to a year to date gain on AFS assets for the same period in 2020.

Normal course issuer bid

On March 4, 2021, the Company obtained approval from the TSX to renew its normal course issuer bid ("NCIB") to purchase up to 185,428 Common Shares between March 9, 2021 and March 8, 2022. 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 nine months of 2021, 400 Common Shares were purchased under the NCIB at a price of \$899.30 per share.

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>	Q3 2021	Q4 2020	Q3 2020
E-L Financial shareholders' equity	\$ 6,985	\$ 6,474	\$ 6,051
Less: First preference shares	(300)	(300)	(300)
	6,685	6,174	5,751
Adjustments for investments in associates not carried at fair value:			
Carrying value	(382)	(245)	(262)
Fair value ⁽¹⁾	407	344	274
	25	99	12
Non-controlling interest and deferred tax	(3)	(23)	(3)
	22	76	9
Net equity value	\$ 6,707	\$ 6,250	\$ 5,760
Common Shares ⁽²⁾ outstanding at period end	3,708,434	3,708,834	3,818,697
Net equity value per common share^{(2) (3)}	\$ 1,808.57	\$ 1,684.93	\$ 1,508.40

⁽¹⁾ Based on quoted market prices

⁽²⁾ Common Shares includes Series A Convertible Preference Shares

⁽³⁾ See non-GAAP measures

The Common Shares outstanding for Q3 2021 and Q4 2020 are lower compared to Q3 2020 amounts due to shares acquired as part of the Company's NCIB and the substantial issuer bid completed in December of 2020.

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*
	\$	%
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
2020	1,684.93	15.4
Year to date		
September 30, 2021	1,808.57	12.5
Compounded annual growth in net equity value*		
2011 - 2020 - 10 years		9.3
1969 - 2020 - Since inception		12.8

* This chart was drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies. Net equity value amounts are reduced by deferred income tax liabilities on net unrealized investment gains.

Summary of quarterly results

The following table summarizes the quarterly results:

<i>(millions of dollars, except per share amounts)</i>	2021				2020		2019	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue								
Net gain (loss) on investments ⁽¹⁾	\$ 9	\$ 507	\$ (406)	\$ 629	\$ 221	\$ 1,273	\$ (1,129)	\$ 139
Net premium income	227	223	225	221	221	202	216	229
Investment and other income	178	184	185	185	173	177	176	178
Associates ⁽²⁾	23	14	107	28	6	29	(92)	10
Total	\$ 437	\$ 928	\$ 111	\$ 1,063	\$ 621	\$ 1,681	\$ (829)	\$ 556
Net income (loss) ⁽³⁾	\$ 168	\$ 241	\$ 466	\$ 510	\$ 201	\$ 452	\$ (663)	\$ 293
Earnings (loss) per common share								
- basic	\$ 45.47	\$ 65.47	\$ 127.90	\$ 136.42	\$ 52.88	\$ 119.36	\$ (170.26)	\$ 73.68
- diluted	\$ 41.50	\$ 59.33	\$ 114.96	\$ 124.11	\$ 48.71	\$ 108.83	\$ (170.26)	\$ 67.58

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

⁽²⁾ Share of income (loss) of associates

⁽³⁾ Attributable to shareholders

Quarterly trend analysis

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

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

Revenue for the third quarter of 2021 decreased compared to the prior quarter and the third quarter of 2020, with fluctuations mainly due to the impact of the net gain (loss) on investments. The fair value change in fair value through profit and loss ("FVTPL") investments have experienced significant movement over the past year, reflecting volatility in both the bond and equity markets and movements in interest rates.

Net premiums increased in the third quarter compared to the prior quarter and the third quarter of 2020, primarily due to strong growth in the Employee Benefits and Individual Insurance lines compared to the same period in 2020. This was partially offset by lower net premiums in the fixed annuity portion of the Wealth Management line.

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:

Period ended September 30 (millions of dollars)	E-L Financial (non- consolidated)	United	Empire Life	Consolidation adjustments	E-L Financial Consolidated	
					2021	2020
Cash flows from:						
Operating activities	\$ 106	\$ (36)	\$ 301	\$ (66)	\$ 305	\$ 283
Financing activities	(331)	(25)	189	55	(112)	(145)
Investing activities	153	58	(298)	11	(76)	77
(Decrease) increase in cash and cash equivalents	(72)	(3)	192	—	117	215
Cash and cash equivalents, beginning of the period	171	68	189	—	428	303
Cash and cash equivalents, end of the period	\$ 99	\$ 65	\$ 381	\$ —	\$ 545	\$ 518

The increase in cash provided from operating activities in 2021 relative to 2020 reflects the increase in cash earnings during 2021 compared to the prior year. For Empire Life, cash flows from operating activities include insurance premiums, net investment income and fee income. These funds are primarily used to pay policy benefits, commissions, operating expenses and policyholder dividends.

In 2021 the cash used for financing activities was primarily due to the payment of a special cash dividend of \$80.00 per Common Share in the third quarter of 2021 and the redemption of Empire Life's Series 1 preferred shares during the second quarter of the year. This was partially offset by Empire Life's issuance of Limited Recourse Capital Notes ("LRCN") in the first quarter of 2021 and the Series 2021-1 Subordinated Debentures in the third quarter of the year. In 2020 the cash used for financing activities was due to the payment of a special cash dividend of \$25.00 per Common share in the second quarter, purchases of the Company's common shares under the NCIB program, and a \$60 million repayment of the margin loan, which was partly offset by E-L Financial's issuance of 4% senior unsecured notes.

Cash used for investing activities increased in 2021 relative to 2020 primarily due to Empire Life investing the proceeds from the issuance of the new capital instruments during the year combined with changes made to E-L Corporate's investment managers during 2021 which contributed to a significant increase in the investment portfolio turnover.

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>	2021	2020
Cash flows from:		
Operating activities		
Dividends from subsidiaries	\$ 51	\$ 167
Dividends and interest	75	58
Expenses and taxes, net of other income	(20)	(18)
	106	207
Financing activities		
Cash dividends	(327)	(125)
Share purchases	—	(120)
Issuance of 4% unsecured notes	—	198
Repayment of margin loan	—	(60)
Interest paid on borrowings	(4)	(1)
	(331)	(108)
Investing activities		
Purchases of investments	(383)	(369)
Proceeds from sales of investments	496	360
Net sales of short-term investments	—	13
Dividends from associates	40	7
	153	11
(Decrease) increase in cash and cash equivalents	(72)	110
Cash and cash equivalents, beginning of the period	171	125
Cash and cash equivalents, end of the period	\$ 99	\$ 235

During 2021, the non-consolidated cash and cash equivalents of E-L Financial decreased by \$72 million.

Operating cash flows for 2021 decreased compared with the prior period due to lower dividends received in the nine months ended September 30, 2021 compared to the same period in 2020. The decrease in dividends was primarily due to an additional dividend received from Empire Life in 2020.

The movement in financing cash flows are due to the reasons noted above. Cash flows from investment activities and dividends received from associates in 2021 included a special dividend paid by Algoma.

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 increased uncertainty and volatility which will impact the performance and expected returns of the investment portfolios.

The Company 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 developments in equity markets generally, and in connection with the Company's investment portfolios in particular.

To date, the Company has taken proactive measures through business continuity plans, carefully planning the return to premises for some employees. Processes supporting ongoing systems availability, stability and security are operating effectively and the Company 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 economies as well as increased volatility in equity markets. Unexpected developments in financial markets, regulatory environments, may also have adverse impacts on the Company's financial results.

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, 2021, investments - corporate had aggregate investments of \$6.1 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2020 of \$5.7 billion. The fair value of investments - corporate is summarized in the table below:

<i>(millions of dollars)</i>	September 30 2021	December 31 2020
Preferred shares	\$ 1	\$ 1
Common shares and units		
Canada and U.S.	4,085	3,491
Europe and United Kingdom	802	1,171
Emerging Markets	737	501
Japan	459	488
Other	52	37
Total	6,135	5,688
Total invested assets	\$ 6,136	\$ 5,689

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

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2021	2020	2021	2020
Revenue				
Net gain (loss) on investments	\$ 134	\$ 184	\$ 628	\$ (74)
Investment and other income	29	30	102	96
Share of associates income (loss)	23	6	142	(56)
	186	220	872	(34)
Operating expenses	12	10	37	29
Income taxes	23	29	107	(5)
Non-controlling interests	16	31	74	19
	51	70	218	43
Net income (loss)	135	150	654	(77)
OCI (OCL), net of taxes	5	(1)	4	(5)
Comprehensive income (loss)	\$ 140	\$ 149	\$ 658	\$ (82)

E-L Corporate reported a net income of \$135 million in the third quarter of 2021 compared to \$150 million in 2020. For the third quarter of 2021 there was a net gain on investments of \$134 million compared to \$184 million in 2020. E-L Corporate's global investment portfolio had pre-tax total return, including dividend income of 2% for the third quarter of 2021 compared to 4% for the third quarter of 2020.

During the nine months ended September 30, 2021, E-L Corporate reported a net gain on investments of \$628 million compared to a net loss of \$74 million in 2020. The Company's year to date pre-tax total

return on investments including dividend income was 12% compared to a pre-tax total return on investments of nil in the prior year. The global investment portfolio has shown consistent growth throughout 2021; whereas investment returns during 2020 were significantly impacted by the international emergence and spread of COVID-19 which resulted in a significant decline in global stock markets in the first quarter of 2020.

Investment and other income was lower for the third quarter of 2021 compared to 2020, and 5% higher on a year to date basis compared to the prior period. Investment and other income consists primarily of dividend income received from E-L Corporate's investment portfolio. In general, dividend income is impacted by the composition of the investment portfolio and foreign exchange rates.

Expenses increased during the quarter and on a year to date basis compared to the prior year primarily due to management fees related to the net increase in average investment balances and an increase in interest expense related to the 4% unsecured notes issued during the second quarter of 2020.

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 ⁽¹⁾	
	2021	2020	2021	2020
Algoma	\$ 12	\$ 8	\$ 114	\$ (44)
Economic	11	(2)	28	(12)
	\$ 23	\$ 6	\$ 142	\$ (56)

⁽¹⁾ Year to date includes a \$95 million impairment reversal (September 30, 2020 - an impairment write down of \$57 million).

Algoma's net income for the third quarter of 2021 increased over 2020 due to improved performance in the Domestic Dry-Bulk and Ocean Self-Unloader fleets and strong earnings from Global Short Sea Shipping, partially offset by lower demand in the Product Tanker segment.

On a year to date basis, Algoma's net earnings increased compared to the prior period largely due to significantly higher earnings from joint ventures and from the domestic dry-bulk segment in 2021, partially offset by lower customer demand in the Product Tanker segment.

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 2% in the third quarter of 2021 compared to 3% in the third quarter of 2020. On a year to date basis, Economic's global investment portfolio had a pre-tax total return, gross of fees, of 11% during 2021 compared to a negative return of 1% in 2020.

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

	September 30, 2021			December 31, 2020		
	Ownership	Carrying value	Fair value	Ownership	Carrying value	Fair value
Algoma	37.4 %	\$ 213	\$ 238	37.4 %	\$ 98	\$ 197
Economic	24.1 %	169	169	24.1 %	147	147
Total		\$ 382	\$ 407		\$ 245	\$ 344

Algoma and Economic are Canadian public companies for which further information is publicly available.

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, 2021, 56% (December 31, 2020 - 50%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 7% (December 31, 2020 - 9%) in the Japanese Yen and 6% (December 31, 2020 - 10%) in Euros representing the largest foreign currency exposures. The Company also holds investments within emerging markets. Investments in emerging markets are more likely to experience political, economic and social instability, which may result in higher levels of market value volatility.

Credit risk

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

Outlook

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

REPORT ON EMPIRE LIFE

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

Empire Life’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	
	2021	2020	2021	2020
Empire Life common shareholders’ net income	\$ 33	\$ 51	\$ 222	\$ 67
Non-controlling interests	—	—	1	—
Net income, contribution to E-L Financial	\$ 33	\$ 51	\$ 221	\$ 67

	Sep 30 2021	Jun 30 2021	Mar 31 2021	Sep 30 2020
Empire Life return on common shareholders’ equity (trailing four quarters)	16.4 %	18.5 %	20.3 %	8.9 %

Empire Life reported third quarter common shareholders’ net income of \$33 million for 2021, compared to net income of \$51 million for the third quarter of 2020. The decrease in third quarter earnings was primarily due to lower net income from the Individual Insurance line and unrealized and realized losses on assets in the Capital & Surplus segment compared to gains for the same period in 2020. Year-to-date common shareholders net income was \$222 million compared to \$67 million in 2020, primarily due to the release of segregated fund guarantee reserves in the first quarter of 2021.

The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus and on actions taken by governments, businesses and individuals, which could vary by region and result in differing outcomes. 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 these events will continue to have an impact on Empire Life’s performance in the near term.

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

Three months ended September 30 <i>(millions of dollars)</i>	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Expected profit on in-force business	\$ 29	\$ 32	\$ 6	\$ 7	\$ 14	\$ 14			\$ 50	\$ 53
Impact of new business	(3)	(2)	(3)	(3)	(3)	2			(9)	(3)
Experience gains (losses)	11	(12)	(1)	(5)	(12)	2			(2)	(15)
Management actions and changes in assumptions	—	—	—	—	2	16			2	16
Earnings (losses) on operations before income taxes	37	18	2	(2)	1	34	—	—	41	50
Earnings on surplus	—	—	—	—	—	—	4	23	4	23
Income (loss) before income tax	37	18	2	(2)	1	34	4	23	45	73
Income taxes	9	4	1	—	—	9	1	5	10	19
Empire Life's shareholders' net income (loss)	\$ 28	\$ 14	\$ 2	\$ (1)	\$ 1	\$ 25	\$ 4	\$ 17	\$ 35	\$ 55
Dividends on preferred shares ⁽¹⁾									(1)	(3)
Empire Life common shareholders' net income									\$ 33	\$ 51

Nine months ended September 30 <i>(millions of dollars)</i>	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Expected profit on in-force business	\$ 87	\$ 98	\$ 19	\$ 19	\$ 41	\$ 43			\$ 148	\$ 159
Impact of new business	(11)	(8)	(9)	(7)	4	1			(16)	(14)
Experience gains (losses)	167	(167)	(8)	5	(15)	13			144	(148)
Management actions and changes in assumptions	—	—	—	—	17	40			17	40
Earnings (losses) on operations before income taxes	243	(76)	2	17	48	96	—	—	293	37
Earnings on surplus	—	—	—	—	—	—	7	62	7	62
Income (loss) before income tax	243	(76)	2	17	48	96	7	62	300	99
Income taxes	62	(22)	1	4	9	24	—	15	72	21
Empire Life's shareholders' net income (loss)	\$ 180	\$ (54)	\$ 2	\$ 13	\$ 39	\$ 71	\$ 7	\$ 47	\$ 228	\$ 77
Dividends on preferred shares ⁽¹⁾									(6)	(10)
Empire Life common shareholders' net income									\$ 222	\$ 67

⁽¹⁾ Includes preference share dividends to E-L Financial

The expected profit on in-force business decreased by 6% for the third quarter and by 7% for the year to date, primarily driven by the Wealth Management line.

The impact of new business increased in the third quarter of 2021 primarily due to increased strain from the Individual Insurance line. For the year to date, the impact of new business increased relative to the same period in 2020, primarily due to increased strain in the Wealth Management and Employee Benefits lines partially offset by profit at issue in the Individual Insurance line. The impact of new business on the Individual Insurance line is positive, creating profit at issue, when the present value of future profits from the new business exceeds the sum of the margins in the initial policy liabilities for that business plus the expenses incurred at the point of sale.

Lower experience losses in the third quarter of 2021 were primarily driven by experience gains in the Wealth Management line, partially offset by experience losses in the Individual Insurance and Employee

Benefits lines. For the year to date, experience gains were primarily driven by a reduction in policy liabilities for segregated fund benefit guarantees, compared to an experience loss from a strengthening of these guarantee liabilities in the first half of 2020.

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

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

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 2021 and 2020. A discussion of results is provided in the Product Line section of the MD&A.

Three months ended September 30 (millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue										
Net premiums	\$ 14	\$ 28	\$ 103	\$ 90	\$ 109	\$ 104	\$ —	\$ —	\$ 227	\$ 221
Fee income	66	58	3	3	—	—	—	—	69	61
Investment income	10	9	1	1	54	55	15	16	80	81
Net (losses) gains on investments ⁽¹⁾	(3)	22	—	—	(120)	5	(3)	11	(126)	37
	88	117	108	93	43	163	12	27	251	401
Expenses										
Benefits and expenses	51	99	103	93	38	126	7	4	199	322
Income and other taxes	9	4	3	1	3	12	1	6	16	23
	60	104	106	94	41	138	8	10	215	345
Net income (loss) after tax	\$ 28	\$ 14	\$ 2	\$ (1)	\$ 2	\$ 25	\$ 4	\$ 17	\$ 36	\$ 56
Participating policyholders' portion									1	1
Dividends on preferred shares									1	3
Empire Life's common shareholders' net income									33	51
Non-controlling interests in net income									—	—
Net income attributable to owners of E-L Financial									\$ 33	\$ 51

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

Nine months ended September 30 (millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue										
Net premiums	\$ 55	\$ 74	\$ 299	\$ 264	\$ 322	\$ 301	\$ —	\$ —	\$ 675	\$ 639
Fee income	192	175	10	9	—	—	—	—	202	185
Investment income	29	29	2	3	166	163	46	50	244	244
Net (losses) gains on investments ⁽¹⁾	(12)	20	(4)	6	(481)	389	(22)	24	(518)	439
	265	298	307	283	7	853	25	74	603	1,507
Expenses										
Benefits and expenses	22	374	296	259	(55)	751	16	12	279	1,397
Income and other taxes	62	(22)	9	11	18	30	—	15	89	35
	84	352	305	270	(37)	782	16	27	368	1,431
Net income (loss) after tax	\$ 180	\$ (54)	\$ 2	\$ 13	\$ 45	\$ 70	\$ 8	\$ 47	\$ 235	\$ 76
Participating policyholders' portion									7	(1)
Dividends on preferred shares									6	10
Empire Life's common shareholders' net income									222	67
Non-controlling interests in net income									1	—
Net income attributable to owners of E-L Financial									\$ 221	\$ 67

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

Product line results - Wealth Management

Key Operating Results (millions of dollars)	Third quarter		Year to date	
	2021	2020	2021	2020
Fixed Annuities				
Assets under management	\$ 881	\$ 951	\$ 881	\$ 951
Gross sales	14	28	55	74
Net sales	(11)	2	(32)	(11)
Segregated Funds				
Assets under management	\$ 8,950	\$ 7,918	\$ 8,950	\$ 7,918
Gross sales	210	152	691	526
Net sales	18	(73)	(114)	(178)
Fee income	65	58	190	173
Net Premiums	\$ 14	\$ 28	\$ 55	\$ 74
Net income (loss) after tax	\$ 28	\$ 14	\$ 180	\$ (54)

Fixed annuities assets under management were 7% lower relative to the same period in 2020. Gross sales for the third quarter were lower by 48% and 25% on a year to date basis compared to the same periods in 2020.

Segregated fund assets under management are higher relative to the same period in 2020, reflecting the rebound in equity markets from the lows experienced in the first half of 2020. For the third quarter of 2021, gross sales were 39% higher than the same period in 2020. For the year to date, gross sales are 31% higher than the same period in 2020.

Segregated fund fee income was 13% and 10% higher for the third quarter and year to date, compared to the same periods in 2020 as higher average assets impacted fee revenues. Fee income from segregated funds is calculated daily for most products.

This line had net income of \$28 million for the quarter compared to a net income of \$14 million for the third quarter in 2020, primarily as a result of increases in policy liabilities for segregated fund guarantees recorded in the comparative period. For the year to date, the Wealth Management line had a net income of \$180 million compared to a net loss of \$54 million as the policy liability increases that were booked in the first half of 2020 were released in the first quarter of 2021. These guarantees are only payable if fund values are below the guaranteed values when the insurable event occurs.

Product line results - Employee Benefits

Key Operating Results (millions of dollars)	Third quarter		Year to date	
	2021	2020	2021	2020
Core	\$ 18	\$ 5	\$ 61	\$ 27
Other	6	3	19	27
Annualized premium sales	\$ 24	\$ 8	\$ 81	\$ 54
Net premiums	\$ 103	\$ 90	\$ 299	\$ 264
Net income (loss) after tax	\$ 2	\$ (1)	\$ 2	\$ 13

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

Net premiums for the third quarter increased by 15% relative to the same period in 2020 and by 13% for the year to date, primarily from growth in Empire Life's core group benefits offerings. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Net income for the year to date declined primarily due to unfavourable claims experience for long-term disability benefits and an increase in dental and extended health benefit claims compared to the same periods in 2020.

Product line results - Individual Insurance

Key Operating Results (millions of dollars)	Third quarter		Year to date	
	2021	2020	2021	2020
Shareholders'				
Annualized premium sales	\$ 7	\$ 7	\$ 27	\$ 17
Net premiums	73	71	218	207
Net income after tax	1	25	39	71
Policyholders'				
Annualized premium sales	\$ 3	\$ 3	\$ 12	\$ 9
Net premiums	36	33	104	94
Net income (loss) after tax	1	—	6	(1)
Net income after tax	\$ 2	\$ 25	\$ 45	\$ 70

Shareholders' annualized premium sales showed continued strength in the third quarter and have increased by 63% for the year to date, compared to the same period in 2020, primarily from increases in sales of Empire Life's term products. Policyholders' annualized premium sales also maintained momentum in the quarter and have increased by 30% for the year to date. Shareholders' net premiums were 2% higher in the quarter and 5% for the year to date compared to the prior periods. Policyholders' net premiums increased by 10% in the third quarter and year to date, reflecting recent strength in new premium sales.

Shareholders' net income for this product line declined to \$1 million for the third quarter of 2021 and \$39 million for the year to date, compared to \$25 million and \$71 million for the same periods in 2020.

Results - Capital and Surplus

<i>(millions of dollars)</i>	Third quarter		Year to date	
	2021	2020	2021	2020
Income from investments	\$ 13	\$ 31	\$ 40	\$ 71
(Losses) gains on hedging instrument	(2)	(4)	(16)	3
Interest and other expenses	(7)	(4)	(16)	(12)
Earnings before income taxes	4	23	7	62
Income taxes	1	5	—	15
Net income after tax shareholders' portion	4	17	7	47
Net income after tax policyholders' portion	—	—	1	—
Net income after tax	\$ 4	\$ 17	\$ 8	\$ 47

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

Income from investments for the third quarter of 2021 and year to date decreased primarily due to realized losses on assets classified as AFS and lower unrealized gains on assets valued as FVTPL in this segment. Losses on the hedging program (discussed in the Risk Management section) for the third quarter of 2021 and year to date, compared to a loss in the third quarter and a gain for the year to date in 2020, were primarily related to rising Canadian equity markets beginning in the second quarter of 2020 and continuing through the third quarter of 2021.

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, preferred shares and limited recourse capital notes are as follows:

<i>(millions of dollars)</i>	Date Issued	Earliest redemption date	Interest rate	Face amounts as at	
				September 30 2021	December 31 2020
Subordinated debentures					
Series 2016-1 ⁽¹⁾	December 2016	December 16, 2021	3.383 %	\$ 200	\$ 200
Series 2017-1 ⁽²⁾	September 2017	March 15, 2023	3.664 %	\$ 200	\$ 200
Series 2021-1 ⁽³⁾	September 2021	September 24, 2026	2.024 %	\$ 200	\$ —

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

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

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

Preferred Shares and Other Equity Instruments				As at	
(millions of dollars)	Date Issued	Earliest redemption date	Yield	September 30 2021	December 31 2020
Preferred shares, Series 1	January 2016	April 17, 2021	5.75 %	\$ —	\$ 150
Preferred shares, Series 3	November 2017	January 17, 2023	4.90 %	\$ 100	\$ 100
Limited Recourse Capital Notes, Series 1	February 2021	April 17, 2026	3.625 %	\$ 200	\$ —

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

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

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

On October 26, 2021, Empire Life announced its intention to redeem all of the outstanding \$200 million 3.383% Series 2016-1 unsecured subordinated debentures on December 16, 2021 at a redemption price equal to the principal amount together with accrued and unpaid interest to that date. The pro-forma Life Insurance Capital Adequacy Test ("LICAT") ratio reflecting this redemption would be 142% as of September 30, 2021. Refer to the next section "Regulatory Capital" for a discussion of LICAT.

Empire Life's debentures and preferred shares are rated by DBRS Limited ("DBRS"). DBRS has assigned the following ratings to Empire Life's securities:

Evaluation Type	Rating	Trend	Date of last rating action
Financial Strength Rating	A	Stable	June 3, 2021
Issuer Rating	A	Stable	June 3, 2021
Subordinated Debt	A(low)	Stable	June 3, 2021
Preferred Shares	Pfd-2	Stable	June 3, 2021
Limited Recourse Capital Notes	BBB(high)	Stable	June 3, 2021

Regulatory capital

The 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 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, 2021, the Total Ratio increased from the June 30, 2021 value, as a result of the issuance of the subordinated debt in September.

LICAT (millions of dollars)	Sep 30 2021	Jun 30 2021	Mar 31 2021	Dec 31 2020	Sep 30 2020
Available capital					
Tier 1	\$ 1,820	\$ 1,805	\$ 1,908	\$ 1,623	\$ 1,544
Tier 2	853	658	664	677	703
Total	\$ 2,673	\$ 2,463	\$ 2,572	\$ 2,300	\$ 2,247
Surplus allowance and eligible deposits	\$ 1,162	\$ 1,170	\$ 1,121	\$ 1,156	\$ 1,111
Base solvency buffer	\$ 2,561	\$ 2,536	\$ 2,503	\$ 2,541	\$ 2,542
LICAT Total Ratio	150 %	143 %	148 %	136 %	132 %
LICAT Core Ratio	103 %	103 %	108 %	96 %	91 %

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 the actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

Significant developments

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

Market risk

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

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes related to segregated fund guarantees whereas policy liabilities are currently negative and therefore floored at zero (as described further in the sections that follow). Therefore, a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. For the third quarter and year to date, Empire Life experienced a loss of \$1 million and \$12 million after tax primarily due to rising Canadian equity markets. This compares to a third quarter hedge loss of \$3 million and a year to date gain of \$2 million after tax in 2020.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of September 30, 2021, Empire Life had \$8.9 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.7 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	September 30 2021	December 31 2020
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	7 %	6 %
75% maturity guarantee and a 100% death benefit guarantee	44 %	44 %
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	7 %	7 %
Guaranteed minimum withdrawal benefit ("GMWB")	42 %	43 %

All Empire Life segregated fund guarantees are policy-based (not deposit-based), thereby generally lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. Policy-based guarantees consider all 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 the estimate is calculated. If period-end stock markets are high relative to market levels at the time that segregated fund policies are issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies are issued, the sensitivity is increased.

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

Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at September 30, 2021 and December 31, 2020, the sensitivity of Empire Life shareholders' net income and LICAT ratio resulting from stock market increases and decreases is provided in the following table.

Sensitivity to equity risk Impact on net income (<i>millions of dollars after tax</i>)	Increase		Decrease		
	20%	10%	10%	20%	30%
As at September 30, 2021					
Segregated fund guarantees	\$ —	\$ —	\$ (9)	\$ (57)	\$ (179)
Other equity risk	39	19	(17)	(31)	(42)
Equity hedge	(3)	(2)	5	17	36
Total	\$ 35	\$ 16	\$ (21)	\$ (72)	\$ (185)

As at December 31, 2020

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

Sensitivity to equity risk Impact on LICAT	Increase		Decrease		
	20%	10%	10%	20%	30%
As at September 30, 2021					
Segregated fund guarantees	13%	7%	(1)%	(5)%	(13)%
Other equity risk	1%	1%	1%	1%	1%
Equity hedge	(3)%	(1)%	1%	3%	4%
Total	11%	6%	1%	(2)%	(9)%

As at December 31, 2020

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

Empire Life's equity market sensitivity in a 20% and 30% stock market decline decreased, primarily as a result of the improvement in equity markets and the increase in bond yields during 2021. The segregated fund guarantee liability was reduced during the quarter as the value of withdrawal and guarantee benefits decrease when there is an increase in equity markets. This decreases net income sensitivity as any changes to the liability when it is above the zero floor will flow through net income.

Empire Life also has a reinsurance agreement to cede a portion of its 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 <i>(millions of dollars)</i>	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Policy Liabilities	LICAT Capital
	Fund Value	Amount at Risk	Fund Value	Amount at Risk	Fund Value	Amount at Risk		
September 30, 2021	\$ 2,570	\$ 729	\$ 72	\$ 2	\$ 791	\$ 10	\$ —	\$ 656
December 31, 2020	\$ 2,687	\$ 931	\$ 52	\$ 2	\$ 654	\$ 12	\$ 147	\$ 682

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to guaranteed minimum withdrawal benefit ("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, 2021, the aggregate amount at risk for all three categories of risk was \$742 million. As at December 31, 2020, the aggregate amount at risk for these three categories of risk was \$946 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

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

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in the assumed initial reinvestment rate ("IRR") for non-participating insurance business and segregated fund guarantees for September 30, 2021 and December 31, 2020, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR"). The AFS bonds provide a natural economic offset to the interest rate risk attributable to Empire Life's product liabilities.

Sensitivity to market interest rates LICAT:	Impact of 50 bps decrease
September 30, 2021 LICAT total ratio	3%
December 31, 2020 LICAT total ratio	3%