

**REPORT ON E-L FINANCIAL CORPORATION LIMITED**

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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 2022 should be read in conjunction with the MD&A for the year ended December 31, 2021, 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 2021 and the previous quarters of 2022. 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, 2022.

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 weighted 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 risk, including risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to litigation, risk with respect to reputation, risk with respect to risk management policies, risk with respect to intellectual property, risk with respect to significant ownership of common shares and risk relating to the COVID-19 pandemic. Please see the section titled "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.

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 other specified 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 is not prescribed under GAAP and a comparable measure under GAAP is not available. Empire Life calculates this measure as the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

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

impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. The sources of earnings components are reconciled to 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>	<b>September 30 2022</b>	December 31 2021
General fund assets	<b>\$ 8,714</b>	\$ 10,274
Segregated fund assets	<b>8,143</b>	9,257
Total Empire Life assets	<b>16,857</b>	19,531
Mutual fund assets	<b>93</b>	114
<b>Total assets under management</b>	<b>\$ 16,950</b>	<b>\$ 19,645</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 54.9% (December 31, 2021 - 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 24.7% (December 31, 2021 - 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	
	2022	2021	2022	2021
<b>Contribution to net income (loss)</b>				
E-L Corporate <sup>(1)</sup>	\$ (5)	\$ 135	\$ (751)	\$ 654
Empire Life <sup>(2)</sup>	44	33	116	221
<b>Net income (loss)</b>	<b>39</b>	<b>168</b>	<b>(635)</b>	<b>875</b>
Other comprehensive income (loss) <sup>(2)</sup>	16	(3)	(156)	(33)
<b>Comprehensive income (loss)</b>	<b>\$ 55</b>	<b>\$ 165</b>	<b>\$ (791)</b>	<b>\$ 842</b>

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

E-L Corporate (millions of dollars)	Third quarter		Year to date	
	2022	2021	2022	2021
Revenue				
Net (loss) gain on investments <sup>(3)</sup>	\$ (60)	\$ 134	\$ (1,218)	\$ 628
Investment and other income	33	29	93	102
Share of associates income	30	23	35	142
	3	186	(1,090)	872
Operating expenses	9	12	27	37
Income taxes	—	23	(145)	107
Non-controlling interests	(1)	16	(221)	74
	8	51	(339)	218
<b>Net (loss) income</b>	<b>(5)</b>	<b>135</b>	<b>(751)</b>	<b>654</b>
Other comprehensive income, net of taxes <sup>(1)</sup>	6	5	7	4
<b>Comprehensive income (loss)</b>	<b>\$ 1</b>	<b>\$ 140</b>	<b>\$ (744)</b>	<b>\$ 658</b>

<b>Empire Life</b> <i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Revenue				
Net premiums	\$ 269	\$ 227	\$ 756	\$ 675
Net loss on investments <sup>(3)</sup>	(57)	(125)	(1,661)	(518)
Investment income	93	80	260	244
Fee income	75	69	216	202
	<b>380</b>	<b>251</b>	<b>(429)</b>	<b>603</b>
Benefits and expenses	314	200	(599)	281
Income and other taxes	19	15	48	87
Non-controlling and participating policyholders' interests	3	3	6	14
	<b>336</b>	<b>218</b>	<b>(545)</b>	<b>382</b>
<b>Net income</b>	<b>44</b>	<b>33</b>	<b>116</b>	<b>221</b>
Other comprehensive income (loss), net of taxes <sup>(2)</sup>	10	(8)	(163)	(37)
<b>Comprehensive income (loss)</b>	<b>\$ 54</b>	<b>\$ 25</b>	<b>\$ (47)</b>	<b>\$ 184</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 shareholder's net income of \$39 million or \$9.96 per common share for the third quarter of 2022 compared to \$168 million or \$45.47 per common share in 2021.

The decrease in net income for the third quarter of 2022 is primarily due to a net loss on investments within the E-L Corporate segment of \$60 million in 2022 compared to a net gain of \$134 million in the prior year. E-L Corporate's global investment portfolio had pre-tax total return, including dividend income of nil for the third quarter of 2022 compared to a pre-tax total return of positive 2% for the third quarter of 2021.

The Empire Life segment reported net income of \$44 million in the third quarter of 2022 compared to \$33 million for the third quarter of 2021. The increase in third quarter earnings was primarily a result of market conditions; positive yield curve impacts partly offset by poor equity market performance.

E-L Financial reported a consolidated net loss of \$635 million or \$180.64 per common share for the first nine months of 2022 compared to net income of \$875 million or \$238.84 per common share in 2021.

E-L Corporate reported a net loss of \$751 million for the first nine months of 2022 compared to net income of \$654 million for the comparable period in 2021. The decrease in earnings was due to a net loss on investments of \$1,218 million in 2022 compared to a net gain of \$628 million in 2021. E-L Corporate's global investment portfolio had a pre-tax total return, including dividend income, of negative 18% in the first nine months of 2022 compared to a pre-tax total return of positive 12% in 2021. Global equity markets have been negatively impacted by concerns around higher levels of inflation and rising interest rates.

Empire Life reported net income of \$116 million for the first nine months of 2022 compared to \$221 million for the comparable period in 2021. The decrease in year to date earnings was primarily due to the positive impact from the release of segregated fund guarantee related policy liabilities which occurred in the first quarter of 2021.

Consolidated comprehensive income was \$55 million in the third quarter of 2022 or \$14.30 per common share compared to \$165 million or \$44.48 per common share for the third quarter of 2021. Other comprehensive income ("OCI") was \$16 million in the third quarter of 2022 compared to other comprehensive loss ("OCL") of \$3 million in 2021. OCI increased in the third quarter of 2022 primarily due to higher unrealized fair value gains on Empire's AFS investments, partially offset by a loss on the remeasurement of the post-employment defined benefit plans.

Consolidated comprehensive loss for the first nine months of 2022 was \$791 million or \$224.13 per common share compared to comprehensive income of \$842 million or \$229.83 per common share for 2021. OCL was \$156 million in 2022 compared to \$33 million in 2021. The increased loss was primarily due to increases in interest rates and credit spreads during the second quarter of 2022.

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

On March 4, 2022, the Company obtained approval from the TSX to renew its normal course issuer bid ("NCIB") to purchase up to 184,938 common shares between March 9, 2022 and March 8, 2023. 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 first nine months of 2022, 40,660 common shares were purchased under the NCIB at an average price of \$872.05 per share for a total consideration of \$35 million.

#### **Substantial issuer bids**

On August 16, 2022 the Company announced its intention to commence a substantial issuer bid ("SIB") pursuant to which the Company offered to purchase up to \$100 million of its outstanding common shares for cash. As of September 28, 2022 the Company had taken up and paid for 103,626 common shares at a price of \$965.00 per common share. The common shares purchased under the SIB represent an aggregate purchase price of approximately \$100 million. The Company suspended any purchases of common shares under the NCIB during the SIB.

During the third quarter of 2022, United completed a SIB, which resulted in United taking up 454,545 of its outstanding common shares. Combined with the shares repurchased year to date under United's normal course issuer bid, E-L Financial's effective ownership has increased to 54.9% at September 30, 2022 from 52.7% at December 31, 2021.

**Net equity value per common share**

E-L Corporate's 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 2022</b>	Q4 2021	Q3 2021
E-L Financial shareholders' equity	\$ <b>6,208</b>	\$ 7,257	\$ 6,985
Less: First preference shares	<b>(300)</b>	(300)	(300)
	<b>5,908</b>	6,957	6,685
Adjustments for E-L Corporate's investments in associates not carried at fair value:			
Carrying value	<b>(422)</b>	(394)	(382)
Fair value <sup>(1)</sup>	<b>399</b>	412	407
	<b>(23)</b>	18	25
Non-controlling interest and deferred tax	<b>9</b>	(1)	(3)
	<b>(14)</b>	17	22
Net equity value	\$ <b>5,894</b>	\$ 6,974	\$ 6,707
Common shares <sup>(2)</sup> outstanding at period end	<b>3,557,348</b>	3,701,634	3,708,434
<b>Net equity value per common share<sup>(2) (3)</sup></b>	\$ <b>1,656.94</b>	\$ 1,884.08	\$ 1,808.57

<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 for Q3 2022 are lower compared to Q4 and Q3 2021 due to common shares acquired as part of the Company's NCIB and SIB programs.

## Growth in net equity value per common share

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 per common share and compounded annual growth in net equity value per common share is calculated as the change in net equity value per share for the respective period and includes dividends paid to common shareholders.

Annual	Net equity value per common share *	Growth*
	\$	%
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
2021	1,884.08	17.1
<b>Year to date</b>		
September 30, 2022	1,656.94	(10.3)
<b>Compounded annual growth in net equity value per common share*</b>		
2012 - 2021 - 10 years		13.2
1969 - 2021 - 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. See non-GAAP measures.

## Summary of quarterly results

The following table summarizes the quarterly results:

<i>(millions of dollars, except per share amounts)</i>	<b>2022</b>				2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Revenue									
Net (loss) gain on investments <sup>(1)</sup>	\$ (117)	\$ (1,510)	\$ (1,252)	\$ 562	\$ 9	\$ 507	\$ (406)	\$ 629	
Net premium income	269	244	243	241	227	223	225	221	
Investment and other income	201	190	176	189	178	184	185	185	
Associates <sup>(2)</sup>	30	2	4	15	23	14	107	28	
Total	\$ 383	\$ (1,074)	\$ (829)	\$ 1,007	\$ 437	\$ 928	\$ 111	\$ 1,063	
Net income (loss) <sup>(3)</sup>	\$ 39	\$ (439)	\$ (236)	\$ 278	\$ 168	\$ 241	\$ 466	\$ 510	
Earnings (loss) per common share									
- basic	\$ 9.96	\$ (123.75)	\$ (66.52)	\$ 75.82	\$ 45.47	\$ 65.47	\$ 127.90	\$ 136.42	
- diluted	\$ 9.96	\$ (123.75)	\$ (66.52)	\$ 68.55	\$ 41.50	\$ 59.33	\$ 114.96	\$ 124.11	

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

<sup>(2)</sup> Share of income 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 2022 increased compared to the second quarter of 2022 but decreased compared to the third quarter of 2021, with fluctuations mainly due to the impact of the net (loss) gain 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 for the third quarter increased by 19% relative to the same period in 2021 due to growth in Empire Life's Group Solutions and Individual lines.

## Liquidity and cash flows

The cash flow information, noted below, provides supplemental information that is considered useful in understanding the components within the cash flow statement on both a consolidated and non-consolidated basis.

### 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	
					2022	2021
Cash flows from:						
Operating activities	\$ 78	\$ 7	\$ 246	\$ (94)	\$ 237	\$ 305
Financing activities	(220)	(69)	(73)	92	(270)	(112)
Investing activities	(183)	59	(80)	2	(202)	(76)
(Decrease) increase in cash and cash equivalents	(325)	(3)	93	—	(235)	117
Cash and cash equivalents, beginning of the period	381	62	193	—	636	428
Cash and cash equivalents, end of the period	\$ 56	\$ 59	\$ 286	\$ —	\$ 401	\$ 545

The decrease in cash provided from operating activities in 2022 relative to 2021 reflects the decrease in cash earnings during 2022 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.

During the first nine months of 2022, cash used for financing activities was primarily due to \$135 million in share purchases under the SIB and NCIB programs and the payment of a special cash dividend of \$25.00 per common share in the second quarter of 2022. This was partially offset by a \$50 million increase in borrowings by both E-L Financial (non-consolidated) and United.

Cash used for investment activities increased in 2022 relative to 2021 primarily due to changes made to E-L Corporate's investment managers during the first quarter of 2022 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>	<b>2022</b>	2021
Cash flows from:		
Operating activities		
Dividends from subsidiaries	\$ 89	\$ 51
Dividends and interest	63	75
Expenses and taxes, net of other income	(74)	(20)
	<b>78</b>	106
Financing activities		
Cash dividends	(132)	(327)
Common share purchases	(135)	—
Increase in margin loan	50	—
Interest paid on borrowings	(3)	(4)
	<b>(220)</b>	(331)
Investing activities		
Purchases of investments	(725)	(383)
Proceeds from sales of investments	524	496
Dividends from associates	18	40
	<b>(183)</b>	153
Decrease in cash and cash equivalents	<b>(325)</b>	(72)
Cash and cash equivalents, beginning of the period	<b>381</b>	171
Cash and cash equivalents, end of period	<b>\$ 56</b>	<b>\$ 99</b>

During 2022, the non-consolidated cash and cash equivalents of E-L Financial decreased by \$325 million.

Operating cash flows for 2022 decreased compared with the prior year mainly due to higher income taxes paid in the first quarter on the 2021 realized gains.

The movement in financing cash flows for 2022 was mainly due to \$135 million in common shares purchased under the Company's SIB and NCIB program and a special cash dividend of \$25.00 per common share paid in the second quarter of 2022.

The movement in investing cash flows from the purchases and proceeds from sale of investments are due to the reasons noted above. Cash flows from dividends from associates in 2021 included a special dividend paid by Algoma during the first quarter of 2021.

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.

**Significant Developments**

The Russian war with Ukraine and the resulting sanctions have negatively impacted global economic growth forecasts. Further, the novel coronavirus (or COVID-19) continues to impact international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts. These

factors have led to higher levels of inflation and have created increased uncertainty and volatility, which impact the Company's investment portfolios.

Management is monitoring the developments in equity markets generally, and their effects on the Company's investment portfolios in particular. The duration and impacts of these events cannot currently be determined. Unexpected developments in financial markets and 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, 2022, investments - corporate had aggregate investments of \$5.1 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2021 of \$6.4 billion. The fair value of investments - corporate is summarized in the table below:

<i>(millions of dollars)</i>	<b>September 30 2022</b>	<b>December 31 2021</b>
Preferred shares	\$ 3	\$ 3
Common shares and units		
Canada and U.S.	3,662	4,496
Europe and United Kingdom	786	852
Emerging Markets	401	722
Japan	214	293
Other	42	40
<b>Total</b>	<b>5,105</b>	<b>6,403</b>
<b>Total invested assets</b>	<b>\$ 5,108</b>	<b>\$ 6,406</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>2022</b>	2021	<b>2022</b>	2021
Revenue				
Net (loss) gain on investments	\$ (60)	\$ 134	\$ (1,218)	\$ 628
Investment and other income	33	29	93	102
Share of associates income	30	23	35	142
	<b>3</b>	186	<b>(1,090)</b>	872
Operating expenses	9	12	27	37
Income taxes	—	23	(145)	107
Non-controlling interests	(1)	16	(221)	74
	<b>8</b>	51	<b>(339)</b>	218
<b>Net (loss) income</b>	<b>(5)</b>	135	<b>(751)</b>	654
OCI, net of taxes	6	5	7	4
<b>Comprehensive income (loss)</b>	<b>\$ 1</b>	\$ 140	<b>\$ (744)</b>	\$ 658

E-L Corporate reported a net loss of \$5 million in the third quarter of 2022 compared to net income of \$135 million in 2021. For the third quarter of 2022 there was a net loss on investments of \$60 million compared to a gain of \$134 million in 2021. E-L Corporate's global investment portfolio had pre-tax total return, including dividend income of nil for the third quarter of 2022 compared to a positive 2% for the third quarter of 2021.

During the nine months ended September 30, 2022, E-L Corporate reported a net loss on investments of \$1,218 million compared to a net gain of \$628 million in 2021. The Company's year to date pre-tax total return on investments including dividend income was negative 18% compared to a pre-tax total return on investments of positive 12% in the prior year. Global equity markets have been negatively impacted by concerns around higher levels of inflation and rising interest rates. During the quarter, the United States dollar appreciated 6.4% relative to the Canadian dollar and 9.7% fiscal year-to-date. This partly offsets negative total investment returns for United States dollar-denominated investments on a fiscal year-to-date basis.

Investment and other income was higher for the third quarter of 2022 compared to 2021 but lower on year to date basis compared to prior year. 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. Dividend income was impacted by changes in the global investment portfolio as a result of changes made to the investment portfolio managers completed during the fourth quarter of fiscal 2021.

Operating expenses have decreased for both the third quarter and year to date of 2022 compared to 2021, primarily attributable to lower investment management fees.

### Share of associates income

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

<i>(millions of dollars)</i>	Third quarter <sup>(1)</sup>		Year to date <sup>(1)</sup>	
	2022	2021	2022	2021
Algoma	\$ 16	\$ 12	\$ 26	\$ 114
Economic	14	11	10	28
	\$ 30	\$ 23	\$ 36	\$ 142

<sup>(1)</sup> Includes a \$29 million impairment reversal (September 30, 2021 - \$95 million).

Algoma's net income for the third quarter of 2022 increased over 2021 due to strong earnings from Global Short Sea Shipping and Product Tankers. This was partially offset by the Domestic Dry-Bulk and Ocean Self-Unloaders segments which incurred higher operating costs.

On a year to date basis, E-L Financial's income from Algoma decreased compared to the prior period largely due to a \$95 million reversal of impairment write downs in 2021. Excluding the impairment reversal, Algoma results increased for the first nine months of 2022 compared with the prior year mainly due to strong earnings from Global Short Sea Shipping, Ocean Self-Unloaders, and the sale of an investment property at the end of June.

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. During the third quarter of 2022, Economic completed a substantial issuer bid, which resulted in Economic taking up 103,007 of the company's outstanding common share. Combined with the shares repurchased year to date under Economic's normal course issuer bid, E-L Financial's effective ownership has increased to 24.7% at September 30, 2022 from 24.1% at December 31, 2021.

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 nil in the third quarter of 2022 compared to a positive return of 2% in the third quarter of 2021. On a year to date basis, Economic's global investment portfolio had a pre-tax total return, gross of fees, of negative 14% during 2022 compared to a positive return of 11% in 2021.

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

	September 30, 2022			December 31, 2021		
	Ownership	Carrying value	Fair value	Ownership	Carrying value	Fair value
Algoma	37.4 %	\$ 255	\$ 228	37.4 %	\$ 223	\$ 241
Economic	24.7 %	167	171	24.1 %	171	171
Total		\$ 422	\$ 399		\$ 394	\$ 412

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, 2022, 60% (December 31, 2021 - 59%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 8% (December 31, 2021 - 6%) in Euros and 4% (December 31, 2021 - 5%) 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 11 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 equity 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 Group Solutions 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	
	2022	2021	2022	2021
Empire Life common shareholders’ net income	\$ 45	\$ 33	\$ 117	\$ 222
Non-controlling interests	1	—	1	1
<b>Net income, contribution to E-L Financial</b>	<b>\$ 44</b>	<b>\$ 33</b>	<b>\$ 116</b>	<b>\$ 221</b>
	<b>Sep 30</b>	<b>Jun 30</b>	<b>Mar 31</b>	<b>Dec 31</b>
	<b>2022</b>	<b>2022</b>	<b>2022</b>	<b>2021</b>
<b>Empire Life return on common shareholders’ equity (trailing four quarters)</b>	<b>7.6 %</b>	<b>7.0 %</b>	<b>6.7 %</b>	<b>13.8 %</b>

Empire Life reported third quarter common shareholders’ net income of \$45 million for 2022, compared to a net income of \$33 million for the third quarter of 2021. The increase in third quarter earnings was primarily a result of market conditions; positive yield curve impacts offset by poor equity market performance. Year to date common shareholders net income was \$117 million which was less than the \$222 million in 2021, primarily due to the non-recurring release of segregated fund guarantee related policy liabilities which occurred in the first quarter of 2021.

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

Three months ended September 30	Wealth Management		Group Solutions		Individual Insurance		Capital and Surplus		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<i>(millions of dollars)</i>										
Expected profit on in-force business	\$ 34	\$ 29	\$ 7	\$ 6	\$ 12	\$ 14			\$ 53	\$ 50
Impact of new business	(2)	(3)	(1)	(3)	5	(3)			2	(9)
Experience (losses) gains	(2)	11	(4)	(1)	(10)	(12)			(16)	(2)
Management actions and changes in assumptions	—	—	—	—	37	3			37	3
Earnings on operations before income taxes	30	37	2	2	44	2	—	—	76	42
(Loss) earnings on surplus	—	—	—	—	—	—	(13)	4	(13)	4
Income (loss) before income tax	30	37	2	2	44	2	(13)	4	63	46
Income taxes	8	9	1	1	10	—	(4)	1	15	10
Empire Life’s shareholders’ net income (loss)	\$ 22	\$ 28	\$ 1	\$ 2	\$ 34	\$ 2	\$ (9)	\$ 4	\$ 48	\$ 36
Participating policyholders’ portion									(1)	(1)
Dividends on preferred shares <sup>(1)</sup>									(2)	(1)
<b>Empire Life common shareholders’ net income</b>									<b>\$ 45</b>	<b>\$ 33</b>

Nine months ended September 30 <i>(millions of dollars)</i>	Wealth Management		Group Solutions		Individual Insurance		Capital and Surplus		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Expected profit on in-force business	\$ 105	\$ 87	\$ 21	\$ 19	\$ 35	\$ 41			\$ 161	\$ 148
Impact of new business	(9)	(11)	(5)	(9)	12	4			(2)	(16)
Experience (losses) gains	(16)	167	(20)	(8)	(18)	(15)			(54)	144
Management actions and changes in assumptions	—	—	—	—	55	23			55	23
Earnings (loss) on operations before income taxes	80	243	(4)	2	84	54	—	—	160	293
Earnings on surplus	—	—	—	—	—	—	(2)	8	(2)	8
Income (loss) before income tax	80	243	(4)	2	84	54	(2)	8	158	307
Income taxes	19	62	(1)	1	17	9	—	—	35	72
Empire Life's shareholders' net income (loss)	\$ 61	\$ 180	\$ (3)	\$ 2	\$ 67	\$ 45	\$ (2)	\$ 8	\$ 123	\$ 235
Participating policyholders' portion									(2)	(7)
Dividends on preferred shares <sup>(1)</sup>									(4)	(6)
<b>Empire Life common shareholders' net income</b>									<b>\$ 117</b>	<b>\$ 222</b>

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

Experience gains (losses) were significantly lower for the year to date in 2022 as the comparable period in 2021 included a non-recurring release of segregated fund guarantee related policy liabilities which occurred in the first quarter of 2021. Experience in 2022 included the impact of the current market conditions; poor equity market performance partially offset by positive yield curve impacts. In addition, line of business experience included increased expenses in the Wealth Management line from an enhanced commission program on large deposits, unfavourable mortality and lapse experience for Individual Insurance and poor Group Solutions experience caused by both adverse LTD claim experience and the impact of inflation on pricing for Health and Dental lines.

Gains from management actions were higher than the comparable quarter in 2021 as the market conditions allowed duration matching improvements in the Individual Insurance line in the current period. In addition, the insurance contract liabilities were reduced to reflect the improved interest rate environment.

Earnings on surplus decreased in the third quarter, primarily due to market impacts which caused realized losses on Available for Sale ("AFS") assets.

The Company's Life Insurance Capital Adequacy Test ("LICAT") Total Ratio was 137% at September 30, 2022 compared to 144% at December 31, 2021, well above the requirements set by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as Empire Life's minimum internal target.

## Results by major product line

The following tables provide a summary of Empire Life results by major product line for the third quarter and year to date. 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		Group Solutions		Individual Insurance		Capital & Surplus		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<b>Revenue</b>										
Net premiums	\$ 43	\$ 14	\$ 114	\$ 103	\$ 112	\$ 109	\$ —	\$ —	\$ 269	\$ 227
Fee income	67	66	4	3	—	—	4	—	75	69
Investment income	8	10	3	1	66	54	16	15	93	80
Net loss on investments <sup>(1)</sup>	(9)	(3)	(3)	—	(30)	(120)	(22)	(3)	(57)	(126)
	109	88	118	108	157	43	(4)	12	380	251
<b>Expenses</b>										
Benefits and expenses	78	51	113	103	111	38	10	7	312	199
Income and other taxes	9	9	4	3	12	3	(5)	1	20	16
	87	60	117	106	123	41	5	8	332	215
<b>Net income (loss) after tax</b>	<b>\$ 22</b>	<b>\$ 28</b>	<b>\$ 1</b>	<b>\$ 2</b>	<b>\$ 34</b>	<b>\$ 2</b>	<b>\$ (9)</b>	<b>\$ 4</b>	<b>\$ 48</b>	<b>\$ 36</b>
Participating policyholders' portion									(1)	(1)
Dividends on preferred shares									(2)	(1)
Empire Life's common shareholders' net income									45	33
Non-controlling interests in net income									1	—
Net income attributable to owners of E-L Financial									\$ 44	\$ 33

Nine months ended September 30 (millions of dollars)	Wealth Management		Group Solutions		Individual Insurance		Capital & Surplus		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<b>Revenue</b>										
Net premiums	\$ 86	\$ 55	\$ 336	\$ 299	\$ 334	\$ 322	\$ —	\$ —	\$ 756	\$ 675
Fee income	193	192	12	10	—	—	11	—	216	202
Investment income	24	29	6	2	183	166	47	46	260	244
Net loss on investments <sup>(1)</sup>	(93)	(12)	(22)	(4)	(1,514)	(481)	(32)	(22)	(1,661)	(518)
	210	265	332	307	(997)	7	26	25	(429)	603
<b>Expenses</b>										
Benefits and expenses	130	22	327	296	(1,088)	(55)	28	16	(603)	279
Income and other taxes	19	62	8	9	24	18	—	—	51	89
	149	84	335	305	(1,064)	(37)	28	16	(552)	368
<b>Net income (loss) after tax</b>	<b>\$ 61</b>	<b>\$ 180</b>	<b>\$ (3)</b>	<b>\$ 2</b>	<b>\$ 67</b>	<b>\$ 45</b>	<b>\$ (2)</b>	<b>\$ 8</b>	<b>\$ 123</b>	<b>\$ 235</b>
Participating policyholders' portion									(2)	(7)
Dividends on preferred shares									(4)	(6)
Empire Life's common shareholders' net income									117	222
Non-controlling interests in net income									1	1
Net income attributable to owners of E-L Financial									\$ 116	\$ 221

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

**Product line results - Wealth Management**

<b>Key Operating Results</b> <i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>Fixed Annuities</b>				
Assets under management	\$ 735	\$ 881	\$ 735	\$ 881
Gross sales	43	14	86	55
Net sales	14	(11)	12	(32)
<b>Segregated Funds</b>				
Assets under management	\$ 8,143	\$ 8,950	\$ 8,143	\$ 8,950
Gross sales	181	210	643	691
Net sales	13	18	(65)	(114)
Fee income	66	65	192	190
<b>Net income after tax</b>	<b>\$ 22</b>	<b>\$ 28</b>	<b>\$ 61</b>	<b>\$ 180</b>

Fixed annuities assets under management were 17% lower relative to the same period in 2021. Gross sales in the third quarter have increased due to the favourable interest rate environment compared to the same period in 2021.

Segregated fund assets under management are lower relative to the same period in 2021, reflecting the poor equity market conditions. For the third quarter of 2022, gross sales were 14% lower than the same period in 2021. Segregated fund fee income was comparable to the third quarter of 2021. Fee income from segregated funds is calculated daily for most products.

This line had net income of \$21 million for the quarter compared to a net income of \$28 million for the third quarter in 2021, primarily due to negative impacts of the equity market drop and increased expenses in the Wealth Management line from an enhanced commission program on large deposits. The guarantees on segregated funds are only payable if fund values are below the guaranteed values when the insurable event occurs.

**Product line results - Group Solutions**

<b>Key Operating Results</b> <i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Core	\$ 14	\$ 18	\$ 44	\$ 61
Other	6	6	18	19
Annualized premium sales	\$ 20	\$ 24	\$ 62	\$ 81
Net premiums sales	\$ 114	\$ 103	\$ 336	\$ 299
<b>Net income (loss) after tax</b>	<b>\$ 1</b>	<b>\$ 2</b>	<b>\$ (3)</b>	<b>\$ 2</b>

Total annualized premium sales decreased in the third quarter compared to the same period in 2021, primarily due to lower sales of the Company's core product offerings. The Company continues to focus on sales of its core products in the small to medium-sized business market while also entering into strategic partnerships to expand market share.

Net premiums for the third quarter increased by 11% relative to the same period in 2021 primarily from prior growth in the Company's core group benefits offerings. Empire Life continues to focus on profitable sales in the Group Solutions market where price competition and high inflation continues for all major product lines.

Net income for the third quarter decreased compared to 2021 primarily due to unfavourable claims experience for LTD and health benefits.

**Product line results - Individual Insurance**

<b>Key Operating Results</b> <i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>Shareholders'</b>				
Annualized premium sales	\$ 9	\$ 7	\$ 23	\$ 27
Net premiums	73	73	220	218
Net income after tax	35	1	67	39
<b>Policyholders'</b>				
Annualized premium sales	\$ 3	\$ 3	\$ 11	\$ 12
Net premiums	39	36	114	104
Net (loss) income after tax	(1)	1	—	6
<b>Net income after tax</b>	<b>\$ 34</b>	<b>\$ 2</b>	<b>\$ 67</b>	<b>\$ 45</b>

Shareholders' annualized premium sales and Policyholders' annualized premium are similar to the same period in 2021. Total net income for this product line was \$67 million for year to date 2022 compared to \$45 million for the same period in 2021, poor equity market performance was more than offset by positive yield curve impacts.

**Results - Capital and Surplus**

<i>(millions of dollars)</i>	<b>Third quarter</b>		<b>Year to date</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
(Loss) income from investments	\$ (5)	\$ 13	\$ 24	\$ 40
Losses on hedging instrument	(3)	(2)	(2)	(16)
Interest and other expenses	(9)	(7)	(27)	(16)
(Loss) earnings before income taxes	(17)	4	(5)	7
Income taxes	6	1	1	—
Net (loss) income after tax shareholders' portion	\$ (11)	\$ 4	\$ (4)	\$ 7
Net income after tax policyholders' portion	1	—	2	1
<b>Net (loss) income after tax</b>	<b>\$ (10)</b>	<b>\$ 4</b>	<b>\$ (2)</b>	<b>\$ 8</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.

Net income decreased in the third quarter of 2022 in the capital and surplus segment primarily due to realized losses on sales of fixed income assets recorded as AFS.

**Sources of capital**

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth. Details of 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	Yield	<b>Face amounts as at</b>	
				<b>September 30 2022</b>	<b>December 31 2021</b>
Subordinated debentures					
Series 2017-1 <sup>(1)</sup>	September 2017	March 15, 2023	3.664 %	\$ 200	\$ 200
Series 2021-1 <sup>(2)</sup>	September 2021	September 24, 2026	2.024 %	\$ 200	\$ 200

<sup>(1)</sup> Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over the 3-month Canadian Deposit Offering Rate ("CDOR").

<sup>(2)</sup> 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				<b>As at</b>	
(millions of dollars)	Date Issued	Earliest redemption date	Yield	<b>September 30 2022</b>	December 31 2021
Preferred shares, Series 3	November 2017	January 17, 2023	4.900 %	\$ 100	\$ 100
Limited Recourse Capital Notes, Series 1	February 2021	April 17, 2026	3.625 %	\$ 200	\$ 200

The securities issued by Empire Life 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	May 30, 2022
Issuer Rating	A	Stable	May 30, 2022
Subordinated Debt	A(low)	Stable	May 30, 2022
Preferred Shares	Pfd-2	Stable	May 30, 2022
Limited Recourse Capital Notes	BBB(high)	Stable	May 30, 2022

### Regulatory capital

The LICAT measures a 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, 2022, the Total Ratio and Core Ratio decreased from June 30, 2022 primarily due to decreases in OCI income and surplus allowances, both related to overall increased interest rates.

LICAT (millions of dollars)	Sep 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021	Sep 30 2021
<b>Available capital</b>					
Tier 1	\$ 1,729	\$ 1,695	\$ 1,775	\$ 1,898	\$ 1,820
Tier 2	587	576	573	591	853
Total	\$ 2,316	\$ 2,271	\$ 2,348	\$ 2,489	\$ 2,673
<b>Surplus allowance and eligible deposits</b>	\$ 933	\$ 1,001	\$ 1,074	\$ 1,115	\$ 1,162
<b>Base solvency buffer</b>	\$ 2,366	\$ 2,363	\$ 2,410	\$ 2,508	\$ 2,561
<b>LICAT Total Ratio</b>	137 %	139 %	142 %	144 %	150 %
<b>LICAT Core Ratio</b>	101 %	101 %	105 %	107 %	103 %

### IFRS 17 Insurance Contracts ("IFRS 17") and IFRS 9 Financial Instruments ("IFRS 9") to be Adopted in 2023

For periods beginning on or after January 1, 2023, Empire Life will be adopting IFRS 17, which replaces IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Effective January 1, 2023, Empire Life will also be adopting IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement.

Empire Life continues to assess the impact that the adoption of IFRS 17 and IFRS 9 will have on the consolidated financial statements and estimates of the financial impacts are subject to change as we continue to assess the implications of adopting both standards. For additional details, refer to Note 2 in the interim condensed consolidated financial statements.

## **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**

The global economy saw a strong recovery through the first part of 2022 supported by gradual easing and reversal of public health restrictions, accommodating central bank monetary and fiscal policies, strong household and corporate balance sheets and large amounts of consumer demand. These factors have led to large increases in inflation which has triggered re-assessment of policy setting in many central banks, including Canada. Interest rates are now at levels not seen for over a decade. This combined with continuing supply side challenges has resulted in increased volatility across global markets through the second quarter of 2022. COVID risks remain, but many countries are now treating COVID as endemic, suggesting that further variants will be countered with far less stringent public health restrictions. Empire Life continues to adjust its operations, where necessary, as government restrictions and measures evolve.

Continued economic and political uncertainty may give rise to increased business and strategic risks. In addition, adverse economic conditions often arise in conjunction with volatile and deteriorating market conditions which may have an adverse impact on customer behaviour, sales and 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 price changes. 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 and, 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 \$2 million after tax primarily due to realized fair value losses. This compares to a hedge loss of \$1 million after tax for the comparable period in 2021.

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, 2022, Empire Life had \$8.1 billion of segregated fund assets and liabilities. Of this amount, approximately \$7.9 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	September 30 2022	December 31 2021
<b>Percentage of segregated fund liabilities with:</b>		
75% maturity guarantee and a 75% death benefit guarantee	8 %	7 %
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 %	42 %

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

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

Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at September 30, 2022 and December 31, 2021, 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 (millions of dollars after tax)	Increase		Decrease		
	20%	10%	10%	20%	30%
<b>As at September 30, 2022</b>					
Segregated fund guarantees	\$ 10	\$ 10	\$ (33)	\$ (132)	\$ (245)
Other equity risk	19	9	(7)	(13)	(46)
Equity hedge	(6)	(4)	9	23	44
<b>Total</b>	<b>\$ 23</b>	<b>\$ 15</b>	<b>\$ (31)</b>	<b>\$ (122)</b>	<b>\$ (247)</b>
<b>As at December 31, 2021</b>					
Segregated fund guarantees	\$ —	\$ —	\$ (10)	\$ (60)	\$ (189)
Other equity risk	40	19	(18)	(32)	(44)
Equity hedge	(2)	(2)	4	12	27
<b>Total</b>	<b>\$ 38</b>	<b>\$ 18</b>	<b>\$ (24)</b>	<b>\$ (81)</b>	<b>\$ (206)</b>

Sensitivity to equity risk	Increase		Decrease		
	20%	10%	10%	20%	30%
Impact on LICAT					
<b>As at September 30, 2022</b>					
Segregated fund guarantees	13%	5%	(4)%	(9)%	(16)%
Other equity risk	—%	—%	—%	—%	—%
Equity hedge	(2)%	(1)%	1%	1%	2%
<b>Total</b>	<b>11%</b>	<b>4%</b>	<b>(3)%</b>	<b>(8)%</b>	<b>(14)%</b>
<b>As at December 31, 2021</b>					
Segregated fund guarantees	11%	5%	(1)%	(7)%	(16)%
Other equity risk	—%	—%	1%	1%	—%
Equity hedge	(2)%	(1)%	1%	2%	3%
<b>Total</b>	<b>9%</b>	<b>4%</b>	<b>1%</b>	<b>(4)%</b>	<b>(12)%</b>

Empire Life's equity market sensitivity in a 20% and 30% stock market decline increased primarily as a result of poor equity market performance.

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	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		
<i>(millions of dollars)</i>								
September 30, 2022	\$ 2,634	\$ 1,068	\$ 218	\$ 20	\$ 3,546	\$ 229	\$ 13	\$ 591
December 31, 2021	\$ 2,617	\$ 766	\$ 27	\$ 2	\$ 200	\$ 3	\$ —	\$ 658

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, 2022, the aggregate amount at risk for all three categories of risk was \$1,318 million. As at December 31, 2021, the aggregate amount at risk for these three categories of risk was \$770 million. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes, including fund performance, deaths, deposits, withdrawals and maturity dates.

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

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in

assumed initial reinvestment rate ("IRR") for non-participating insurance business and segregated fund guarantees for September 30, 2022 and December 31, 2021, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR").

<b>Sensitivity to market interest rates LICAT:</b>	<b>Impact of 50 bps decrease</b>
<b>September 30, 2022 LICAT total ratio</b>	<b>1%</b>
December 31, 2021 LICAT total ratio	1%