

E - L FINANCIAL CORPORATION LIMITED

2016 ANNUAL INFORMATION FORM

March 3, 2017

E-L FINANCIAL CORPORATION LIMITED

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Forward-Looking Statements

This Annual Information Form (“AIF”) contains certain forward-looking statements which refer to expected or possible future developments. These statements may involve estimates and assumptions based on management experience, current conditions and expected future developments. Forward-looking statements are subject to risks and uncertainties due to their predictive nature, and actual results or events may differ due to a number of factors, including factors referred to in the “Risk Factors” sections in this AIF. No assurance can be given that expected or possible future developments expressed in, or implied by, forward-looking statements within this AIF will occur, or if they do, that any benefits may be derived from them.

Corporate Structure

E-L Financial Corporation Limited (“E-L Financial” or the “Company”) was incorporated on November 13, 1968 by Letters Patent under The Corporations Act (Ontario). The activities of E-L Financial are governed by the Business Corporations Act (Ontario).

Supplementary Letters Patent, dated January 17, 1969, created the first series of Preference Shares as Series A Convertible Preference Shares (“Series A Preference Shares”).

Supplementary Letters Patent, dated May 12, 1969, made the Common Shares shares without par value.

Articles of Amendment, dated May 23, 1984, deleted the objects of E-L Financial, changed the registered office of the Company, changed the number of directors of the Company, and added to the charter certain rights and privileges for the Common and Series A Preference Shares of the Company.

Articles of Amendment, dated September 22, 2004, created the second series of 4,000,000 Preference Shares as non-cumulative redeemable Series B Preference Shares (“Series B Preference Shares”) and provided for the automatic conversion of the Series B Preference Shares into First Preference Shares, Series 1 upon their creation no later than November 30, 2004.

Articles of Amendment, dated November 9, 2004, increased the authorized number of Common Shares from 10,597,267 to an unlimited number; created an unlimited number of First Preference Shares, issuable in series; and designated 4,000,000 First Preference Shares as First Preference Shares, Series 1. The 4,000,000 issued and outstanding Series B Preference Shares were then automatically converted to 4,000,000 issued and outstanding First Preference Shares, Series 1.

Articles of Amendment, dated October 16, 2006, designated 4,000,000 First Preference Shares as First Preference Shares, Series 2.

Articles of Amendment, dated March 30, 2012, designated 4,000,000 First Preference Shares as First Preference Shares, Series 3.

Articles of Amalgamation, dated January 1, 2014, amalgamated E-L Financial with its two wholly-owned subsidiaries 1865164 Ontario Limited and 2351406 Ontario Inc.

The head and registered office of E-L Financial is located at 165 University Avenue, 10th Floor, Toronto, Ontario, M5H 3B8, telephone (416) 947-2578.

E-L Financial has one major operating subsidiary, The Empire Life Insurance Company (“Empire” or “Empire Life”), and since December 31, 2012, E-L Financial has owned in excess of 50% of the issued and outstanding common shares of United Corporations Limited (“United”), a public closed-end fund. Each of Empire Life and United is a reporting issuer, trades on the Toronto Stock Exchange (“TSX”) and has a profile at www.sedar.com (“SEDAR”).

E-L Financial owns 100% of E-L Financial Services Limited (“ELFS”), a holding company, which in turn owns 98.3% of Empire. E-L Financial Services Limited was incorporated on May 21, 1986 under the Canada Business Corporations Act. Empire was incorporated by Letters Patent in the Province of Ontario on January 11, 1923. On October 9, 1987, Empire was continued by Letters Patent under the Canadian and British Insurance Companies Act as if it had been incorporated under Section 4.1 of that Act. Empire then was continued under the Insurance Companies Act (Canada) in 1992 when that Act became law.

United is an investment corporation, incorporated under the Companies Act (Canada) by Letters Patent dated May 6, 1933 and continued under the Canada Business Corporations Act by Certificate of Continuance dated September 20, 1977.

General Development of the Business – Three Year History

E-L Financial

The strategy of the Company is to accumulate shareholder value through long-term capital appreciation, interest and dividend income from its investments. Its investments include its operating subsidiary, Empire, and other corporate investments, which include direct investments in stocks and fixed income securities and indirect investments in stocks and fixed income securities through pooled funds, closed-end investment companies, and other investment companies. Other than Empire and United, E-L Financial’s most significant corporate investments are Economic Investment Trust Limited (“Economic”), another public closed-end investment company, and Algoma Central Corporation (“Algoma”), a public Canadian shipping company. In 2009, E-L Financial acquired additional common shares of Economic and Algoma, increasing its ownership in each to above 20%. As management has concluded that E-L Financial has the ability to exert significant influence over each of Economic and Algoma, the Company uses the equity method of accounting for these investments.

On December 17, 2015 E-L Financial completed the acquisition of 19% of the shares of ELFS, increasing the Company’s interest in Empire Life to 99.2%.

The Company’s investment strategy reflects opportunities both inside and outside of Canada.

Empire

Empire 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 (“NA”) firms and Employee Benefit brokers and representatives.

Over the past few years, Empire Life has focused on balanced growth and profit, with an emphasis on reducing unit expenses. Empire Life has strong relationships with its distribution partners and

has broadened its distribution reach by building and expanding on previously established relationships within the MGA network, continuing existing relationships within the IFA network, and increasing its market penetration within the NA channel, which includes mutual fund dealer firms, bank-owned investment dealer organizations, and large financial planning firms. Empire Life has three major product lines: wealth management, individual insurance, and employee benefits, and maintains distinct accounts for capital and surplus.

Over the last three years, Empire Life has continued to focus on growing its wealth management business. In 2014, Empire Life made significant changes to its segregated funds product line: in particular, it closed its then-existing segregated funds products to new policies effective October 31, 2014. Then, on November 3, 2014, Empire Life launched a new suite of investment products including a new segregated funds family called Empire Life Guaranteed Investment Funds (“Empire Life GIFs”), as well as a stand-alone Guaranteed Interest Contract and a new version of its guaranteed minimum withdrawal benefit (“GMWB”) product. Fees charged to the customer on the new product line are higher than those on the then-existing product line. The pricing and features of the new product line were established by Empire Life to address the economic, regulatory and competitive landscape in the life insurance industry. On April 20, 2015, Empire Life launched a new series of Empire Life GIFs, and a new segregated fund, Empire Life Monthly Income GIF. In addition, Empire Life Investments Inc. (Empire Life’s mutual fund subsidiary) launched 10 mutual funds in 2012 and a new diversified income mutual fund in January 2014. Empire Life’s mutual fund business is still in its early stages of development and represents a small portion of the wealth management product line. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

On February 16, 2016 Empire Life completed its Canadian public offering of 5.2 million Non-Cumulative Rate Reset Preferred Shares with gross proceeds of \$130 million. The preferred shares trade on the TSX under symbol EML.RR.A. On March 1, 2016, Empire issued an additional 780,000 Series 1 Preferred Shares pursuant to an over-allotment option exercised by the underwriters in connection with the offering, for gross proceeds of \$19.5 million, increasing the total size of the offering to \$149.5 million. The Series 1 Preferred Shares are listed on the TSX under the symbol EML.PR.A. On December 16, 2016, Empire Life completed a Canadian private placement of \$200 million principal amount of subordinated unsecured 3.383% fixed/floating debentures due December 16, 2026.

Empire Life’s Annual Information Form is incorporated by reference herein.

United

United is a closed-end investment corporation that trades on the TSX under the symbols UNC; UNC.PR.A; UNC.PR.B; and UNC.PR.C. United’s exposure to non-Canadian equities is approximately 97% of its investments. United is an investment vehicle for long-term growth through investments in common equities, as management believes that over long periods of time common equities, as an asset class, will outperform fixed income instruments or balanced funds.

Description of the Business

E-L Financial

E-L Financial operates as an investment and insurance holding company. It owns 99.2% of Empire as of December 31, 2016 and 51.8% of the common shares of United. Empire and United

are consolidated into E-L Financial for financial reporting purposes. It also owns investments in equities and fixed income securities directly, and indirectly, through pooled funds, closed-end investment companies and other investment companies.

The Company also has significant investments in Economic, another closed-end fund and Algoma, a public shipping company. E-L Financial treats these investments as equity method investments for financial reporting purposes.

The Company's strategy is to accumulate shareholder value through long-term capital appreciation, interest and dividend income from its investments. The Company has a global and diversified portfolio, and does not use leverage. From time to time, E-L Financial may use external investment managers to manage a portion of the portfolio. Further information relating to E-L Financial's investments may be found in the Company's 2016 Annual Management's Discussion and Analysis (Annual MD&A) and the Notes to the 2016 Consolidated Financial Statements ("Annual Financial Statements"), which are incorporated by reference herein.

The specialized skills and knowledge of its executive officers are consistent with E-L Financial's holdings, as well as individuals with specialized investment and tax knowledge acquired over many years, both at E-L Financial and outside the Company. E-L Financial has thirteen employees.

As at December 31, 2016, approximately 6% of the Company's consolidated assets were managed by Burgundy Asset Management Ltd. ("Burgundy"). Burgundy is a global investment manager that commenced operations in 1991 and whose head office is in Toronto, Ontario. Pursuant to the Burgundy Investment Management Agreement, Burgundy is currently responsible for selecting equities for E-L Financial across four mandates. The investment manager manages the portfolio using a long-term bottom-up investment philosophy, which is to purchase good companies with strong economics and management, whose shares are selling below Burgundy's estimate of intrinsic value. Investments are made primarily in publicly traded equity securities of companies in the U.S., Europe, Australia, Asia, and emerging markets.

Burgundy's mandates includes the parameter that existing positions in any one company will not exceed 10% of the market value of the portfolio.

Burgundy is not permitted to invest in shares of the Company or other reporting issuers related to the Company.

Burgundy is paid annual fees, consisting of a percentage of the market value of the assets ranging from 0.5% to 1.25% depending on the mandate. Fees are calculated daily and payable quarterly in arrears. Based on current assets no other fees are payable, such as a termination or performance fee. The contract may be terminated at any time by either party providing 30 days' written notice. The agreement is posted on the Company's profile on SEDAR.

For the year ended December 31, 2015, investment management fees paid to Burgundy were \$7,941,236.

During January 2017 the assets managed by Burgundy were reduced for diversification reasons.

Risk Factors

The following is a discussion of the risks relating to the business of E-L Financial and its

subsidiaries, Empire Life and United. Further risk and risk management information is included in the Annual MD&A and in the notes to the Annual Financial Statements for E-L Financial. These documents are also available on the issuer's profile on SEDAR.

The key risk factors relating to E-L Financial and its business are:

E-L Corporate

The value of the Company's investment portfolio is subject to general market and economic conditions, changes in interest rates, the liquidity of its investments, changes in the value of foreign currencies relative to the Canadian dollar, and the creditworthiness of issuers of debt securities in which the Company invests. The Company regularly reviews its portfolio and, while expecting and tolerating the volatility associated with such investments, attempts to mitigate its exposure to this risk through diversification.

The assets of the Company, and the income received by it from its investments, including the insurance subsidiary, are more than adequate to fund the Company's ongoing operating expenses and dividend payments.

Market risk

The value of the Company's Common Shares is dependent on the value of the securities in which the Company invests. The value of these 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.

Foreign investment risk

The Company's global securities will include investments in securities denominated in a currency other than Canadian dollars, which is the reporting currency for the Company. The Company invests in securities issued by corporations in countries other than in Canada. Investing in foreign securities can be beneficial by providing investment opportunities and portfolio diversification, but there are risks associated with foreign investments, including:

- companies outside of Canada may be subject to different regulations, standards, reporting practices and disclosure requirements than those which apply in Canada;
- the legal systems of some foreign countries may not adequately protect investor rights;
- political, social or economic instability may affect the value of foreign securities; and,
- foreign governments may make significant changes to tax policies which could affect the value of foreign securities.

Foreign currency risk

The investments of the Company denominated in other than Canadian dollars expose the Company to foreign currency risk. Foreign currency risk is the risk that the value of an investment denominated in foreign currency will fluctuate because of changes in exchange rates and create an adverse effect on earnings and net equity value when measured in Canadian dollars.

Liquidity risk

Liquidity risk has two aspects. First, in the case of the Company, it is the possibility that the Company will not be able to convert an investment to cash, which may be due to the size of the holding or the limited market for the investment. Second, in the case of the investor, the volume of the Company's Common Shares traded on the TSX has historically been low. There is a risk that shareholders may not be able to sell the Company's Common Shares on a timely basis.

Discount risk

The Company's share price usually trades at a discount relative to its net equity value per share. The share price is established by markets which reflect the demand and the supply for the Common Shares. As a result, the Company's shareholders may experience a return that is different from the net equity value return of the Company.

Securities lending risk

From time to time E-L Financial participates in securities lending. Securities lending could expose the lender to the risk of counterparty failure. RBC Investor Services Trust ("RBC IS"), the Company's custodian, acts as lending agent. The Company's agreement with RBC IS provides that RBC IS, as agent for the Company, lends the Company's securities to borrowing counterparties in exchange for a fee to be paid by these borrowers. RBC IS is responsible to return the borrowed securities to the Company when required, and RBC IS indemnifies the Company in the event of borrower default. The Company has recourse to the Royal Bank of Canada in the event of a failure to indemnify by RBC IS.

Conflicts of interest

E-L Financial has direct and indirect investments in related parties, including three reporting issuers, Economic, United and Algoma; and private companies. The Company's investments in related parties do not present a conflict of interest for the Company, as the Company operates as a discrete entity with a separate Board of Directors, the majority of whom are independent.

Investments in private companies

Approximately 4% of the Company's consolidated assets were invested in private companies. As securities of private companies do not trade in a public market, it could be difficult for the Company to sell securities in private companies if it so needs or wants. As a result, the value of these shares and their liquidity can change significantly in a short period of time.

Reliance on investment managers

E-L Financial engages investment managers to select the Company's global equity portfolio. As at December 31, 2016 approximately \$2 billion of the Company's investments are managed by external investment managers. The contribution of the managers is important to the performance of the Company's global portfolio and their poor performance could have an adverse impact on the Company.

Operational Risks

The Company relies on a small number of head office personnel who fulfil a broad range of duties and responsibilities. The loss of certain employees could temporarily adversely affect the operations of the Company, however it is not expected that the loss of these employees would impact the financial results of the Company.

Empire

Empire Life has three major product lines: wealth management, individual insurance, and employee benefits, and maintains distinct accounts for capital and surplus.

Wealth Management

Empire Life's wealth management product line comprises segregated fund products, guaranteed interest rate products, and mutual funds. Empire Life's wealth management products (except mutual funds) are a form of annuity and are sold on both an immediate and a deferred basis. Immediate annuities and registered retirement income funds provide payments that commence at the time of issue. Deferred annuities provide a series of payments that commence at a later date, and often with a period of accumulation of capital before commencement of payments. These deferred annuities are available on a non-registered basis, as tax-free savings accounts or as registered retirement savings plans ("RRSP"s). Accumulation of capital can be either on a guaranteed investment basis or through investments in a wide range of segregated investment funds. Empire Life's RRSPs are also available on a group basis. All of Empire Life's wealth management products are non-participating, meaning that holders of these products do not share in any profits earned by Empire Life on their premiums. Because the deferred annuity products are available as RRSPs, a high proportion of which are sold in the first 60 days of the calendar year, almost one-third of Empire Life's wealth management product sales usually occur in the first quarter of the calendar year.

Empire Life's wealth management products compete against those offered by other life insurers, banks and mutual fund companies. Empire Life has had considerable success in the wealth management product line with segregated fund assets under management of \$8.1 billion as at December 31, 2016, a compound annual growth rate (**CAGR**) of 11.1% from \$5.9 billion as at December 31, 2013. The increase was due to positive net sales during the three years and the increase in many global stock markets. Of the total segregated fund assets under management at the end of 2016, approximately \$7.8 billion have guarantees. Approximately 1.2% of the contracts with guarantees are contracts with a 75% maturity guarantee and 75% death benefit guarantee; 49.7% of the contracts with guarantees are contracts with a 75% maturity guarantee and 100% death benefit guarantee; 6.1% of the contracts with guarantees are contracts with a 100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date); and 43.0% of the contracts with guarantees are contracts with a GMWB. The growth of the segregated fund business has increased the sensitivity of Empire Life's net income

and Minimum Continuing Capital and Surplus Requirement (“MCCSR”) ratio to stock market volatility although, because all Empire Life’s segregated fund guarantees are policy-based (not deposit-based), Empire Life’s stock market sensitivity is lower relative to the guarantees offered by some competitors. For information relating to the sensitivity of Empire Life’s financial results to a decline in the stock market, including the impacts of these guarantees, please refer to the Annual MD&A and to Note 22 to the Annual Financial Statements.

A key element to effectively compete in this market is the ability to provide a competitive rate of return to clients. Customer deposits to Empire Life segregated funds have been relatively strong, with an increase in market share from 5.7% in 2013 to 6.5% in 2015.¹ Empire Life’s assets under management (segregated funds, guaranteed interest products, and mutual funds) grew from \$7.1 billion as at December, 31 2013 to \$9.2 billion as at December 31, 2016.

Individual Insurance

Empire Life offers term life insurance, whole life insurance (participating and non-participating), health and disability insurance, and universal life insurance. The participating policies permit the policyholders to share in the profits earned by Empire Life on their premiums. Premiums on participating policies are generally higher than premiums on comparable non-participating policies, the policyholders of which do not share in any profits earned on their premiums. The individual insurance product line seeks to offer income protection and estate protection and is marketed towards middle-income families, independent business persons, professionals, and individuals in the pre- and post- retirement market across Canada.

Employee Benefits

Empire Life’s employee benefits products include life, short and long-term disability, extended health, dental, critical illness, and accidental death and dismemberment, all of which are sold on a non-participating basis only. Employee benefits products are sold on an insured basis (where Empire Life assumes substantially all of the claims risk) or on an administrative services only basis (where plan administration and claims payment services are provided on a fee-for-service basis).

Summary of Revenues

The following table shows revenue information for each of Empire Life’s three product lines, plus revenue information from capital and surplus for the years ended December 31, 2016, 2015 and 2014. Please also see the Annual MD&A and Annual Financial Statements.

(in millions of dollars)	Wealth Management			Employee Benefits			Individual Insurance			Capital & Surplus			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Net premium revenue	\$176	\$144	\$186	\$339	\$325	\$319	\$ 367	\$366	\$362	\$ -	\$ -	\$ -	\$ 882	\$ 835	\$ 867
Investment income	41	43	49	4	4	4	176	171	151	34	41	42	255	259	246
Fair value change in assets	(4)	(28)	20	-	(2)	4	22	(56)	514	(6)	1	-	12	(85)	538
Realized gain (loss) on assets including impairment write	(1)	1	9	1	1	-	48	38	65	-	21	13	32	61	87
Fee income	217	207	178	9	9	9	2	1	1	-	-	-	228	217	188
Total Revenue	\$429	\$367	\$442	\$353	\$337	\$336	\$615	\$520	\$1,093	\$ 12	\$ 63	\$ 55	\$1,409	\$ 1,287	\$ 1,926

Revenue volatility was primarily driven by the impact of market interest rate movements on fair value change in FVTPL investments. The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities.

Risk Factors

The risks and uncertainties described below are those Empire currently believes to be material, but they are not the only ones Empire faces. Additional risks and uncertainties not currently known to Empire or that are currently believed not reasonably likely to materially affect Empire may also impair its business, results of operations and financial condition.

Risk Management at Empire Life

Empire is exposed to a number of risks as a result of its business activities. The goal of Empire's risk management process is to ensure that the operations that expose it to risk are consistent with its strategy, business objectives and risk philosophy, while maintaining an appropriate risk/reward balance and enhancing stakeholder value. When making decisions about risk taking and risk management, Empire considers:

- the need to meet the expectations of its customers, shareholders and creditors and to protect the commitments that have been made to them;
- the need to be adequately compensated for the capital it deploys to support business activities and strategic objectives;
- the need to protect its brand; and
- the need to maintain its targeted financial strength rating.

Empire Life's risk appetite defines the aggregate level of risk the Company is willing to take to achieve its business strategies. The risk appetite supports the pursuit of shareholder value but does not compromise the Company's ability to pay claims and fulfil policyholder commitments.

Empire's risk management framework is structured based on a number of guiding principles:

- due to the long-term nature of the majority of its commitments, Empire accepts capital market risk provided it is managed within specific risk tolerances and limits. Empire takes a low-risk, value-oriented approach to managing its investments – it accepts credit and alternative asset risk provided it is rewarded through appropriately enhanced returns;
- Empire manages liquidity across the business to provide a high level of confidence that all obligations (to customers, creditors and shareholders) will be met when they fall due;
- Empire accepts insurance risks provided they are properly priced and managed in order to deliver value to its customers and shareholders;
- Empire is forward-looking in its business planning and takes a prudent approach to capital management. It strives to have a high level of confidence that capital is sufficient to support planned future activities;
- Management is active in industry committees and, through a network of oversight functions, monitors the landscape so that Empire is appropriately positioned to manage regulatory, tax, accounting and actuarial changes;
- Empire accepts that operational risks are a part of doing business and knows that risk management is a key part of decision-making. It protects its business and customers by engaging in cost-effective risk mitigation; and
- Empire expects ethical conduct by all of its employees and it acts with integrity at all times.

Empire's Board of Directors oversees and monitors Empire's risk management framework, processes and practices, and reviews and approves Empire's enterprise risk management policy and overall risk appetite. Senior management shares accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency of contact across the management team. Empire has an Asset Management (AM)

Committee with responsibility for overseeing the management of corporate policies established by both the Investment Committee and Risk and Capital Committee of the Board. Risk management policy development is centralized under the leadership of the Chief Risk Officer and applies to all business units. The Chief Risk Officer is a member of the Asset Management Committee and has Board reporting responsibility with respect to risk and capital management. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers and the risk management department. There is senior management representation and oversight on various interdisciplinary risk control committees. Empire formally establishes and documents its values and risk tolerances through several company-wide policies including a Code of Business Conduct, corporate disclosure principles, enterprise risk management, capital management and whistleblower policies. Empire's strategic risk management policies (including those related to product design and pricing, investment and capital management) are also approved by its Board, or a Board committee.

Empire's risks are discussed below from the most to the least serious in terms of the likelihood and potential adverse impact on Empire Life.

Investment Risks

Included in this category are market risks, liquidity risk, credit risk (including counterparty risk), and hedging risk. Management considers the market price fluctuations from the common stock portfolio and persistent low long-term interest rates to be the most serious risk facing Empire Life. A breakdown of Empire Life's investments is provided in note 5 to the Annual Financial Statements. The fair values of these investments are inherently volatile and frequently change in value as a result of factors beyond Empire Life's control, including general economic and capital market conditions.

Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, trading prices of equity, real estate and other securities, credit spreads and foreign exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements, and the composition of Empire Life's investment portfolio.

Empire Life buys investment-quality bonds to support, to a very large extent, the liabilities under its insurance and annuity policies. Empire Life's investment strategy also includes the use of publicly-listed "large cap" common stocks to support the liabilities under its insurance policies. Cash flows from these investments are intended to match the liquidity requirements of Empire Life's policies, within the limits prescribed by Empire Life. If Empire Life does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected.

Under the Canadian insurance accounting and regulatory capital regimes, Empire Life's results for any fiscal period reflect equity market values and interest rates at the end of the period through mark-to-market accounting. Consequently, a decline in public equity market values or changes in interest rates or spreads could result in material charges to net income attributed to shareholders, increases to regulatory capital requirements and reduction in Empire Life's capital ratios.

A decrease in the fair value of Empire Life's common stock portfolio results in reduced shareholders' equity, reduced policyholders' surplus, and a reduced MCCR position. Regulatory pressure to increase capital escalates as the MCCR ratio approaches the Office of the Superintendent of Financial Institutions (Canada)'s ("OSFI"'s) supervisory minimum. Net income would also be reduced if declines in value are realized through dispositions or recognized in provisions for impairment.

Empire manages this risk exposure mainly through investment limits and oversight of its in-house investment managers and external investment firms by the Investment Committee of the Board. The Investment Committee actively monitors the portfolio size and asset mix. In 2014, Empire initiated a semi-static hedging program as part of its approach to managing this risk. Empire is fully exposed to the portfolio's fair value changes and does not hedge this exposure. See "Hedging Risk" for more information.

Empire's general fund investments are subject to limits established by the ICA and to investment guidelines established by the Investment Committee. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments by segment. The Investment Committee receives monthly reporting on general fund asset mix and performance by segment, derivatives matching, segregated fund asset mix and performance, and investment transactions for all funds. In addition, on at least a quarterly basis, management and Empire's investment managers report to the Investment Committee, and through the Investment Committee to Empire's Board of Directors, on portfolio content, asset mix, Empire's matched position, performance of general and segregated funds, and compliance with the investment guidelines.

Empire's Asset Management Committee meets regularly and reports at least quarterly to the Investment Committee of the Board. The Asset Management Committee monitors the matched position of Empire's investments in relation to its liabilities within the various segments of Empire's operations. The matching process is designed to require that assets supporting policy liabilities closely match the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Asset segmentation guidelines, which are reviewed regularly with the Investment Committee, have been established to govern these activities. The Asset Management Committee reports regularly to the Investment Committee on Empire's matched positions, asset mixes, and investment allocation decisions relative to Empire's asset segments.

Empire uses stochastic models to monitor and manage risk associated with segregated fund guarantees, and establishes policyholder liability provisions in accordance with standards set forth by the Canadian Institute of Actuaries. Product development and pricing policies also require consideration of portfolio risk and capital requirements in the design, development and pricing of the products. The Chief Risk Officer reports quarterly to the Risk and Capital Committee of the Board on the nature and value of Empire's segregated fund guarantee liabilities, including potential top-up exposure and capital requirements.

Empire has established a capital management policy, capital management levels that exceed regulatory minimums, and Dynamic Capital Adequacy Testing that takes into account the potential effect of adverse investment-risk scenarios (including adverse market conditions and adverse interest rates) on Empire's capital position and liquidity. Management monitors its MCCR position on a regular basis and reports at least quarterly to the Board of Directors on Empire's MCCR status.

For life and health insurance, the projected cash flows from the matched assets are combined with estimated future reinvestment rates based on both the current economic outlook and Empire's expected future asset mix. In order to provide a margin that recognizes the mismatch of assets and liabilities, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the policy liabilities are then adjusted to provide for credible adverse future scenarios.

In order to match the savings component of policy liabilities that vary with a variety of indices and currencies, Empire maintains certain equity, fixed income and currency financial instruments as part of its general fund assets. Asset-liability mismatch risk for these liabilities is monitored on a daily basis.

For the life insurance business, where the insurance liabilities have longer terms than most available bonds and mortgages, Empire reinvests net cash flows arising in the future to extend the duration of its assets. The yields assumed for these future reinvestments are related to current interest rates, the current economic outlook and Empire's expected future asset mix.

For the annuity business, where the timing and amount of the benefit obligations may be readily determined, the matching of the asset and liability cash flows is tightly controlled. A sudden increase or decrease in interest rates would have a negligible effect on future profits from annuity business currently in force.

Empire's most significant market risks are equity risk, interest rate risk, and foreign exchange rate risk.

Equity Risk

Empire Life's investment portfolio primarily includes bonds and equity securities, and the fair values of its investments vary according to changes in general economic and securities market conditions, including volatility and declines in equity markets. Equity market volatility could occur as a result of general market volatility or as a result of specific social, political or economic events. A decline in securities markets could have an adverse impact on the return on assets backing capital, capital adequacy, management fees collected on segregated fund contracts, mutual fund contracts, index funds within universal life contracts, and insurance policy liabilities and capital requirements, particularly in respect of segregated fund guarantees.

The risk of fluctuation of the market value of Empire Life's segregated funds and mutual funds is generally assumed by the policyholders and unitholders, respectively. Market value variations of these assets will result in variations in the income of Empire Life to the extent fees are determined in relation to the value of these funds. A significant and steady decline of the securities markets may result in net losses on these products, which could adversely affect Empire Life. Additionally, certain of Empire Life's segregated fund products contain guarantees upon death, maturity, or withdrawal, where the guarantee may vary with, or may be triggered by, the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on Empire Life's financial position, MCCR ratio, and results of operations.

Empire has reinsured a portion of its segregated fund death benefit guarantee. During the fourth quarter of 2014, Empire initiated a semi-static, economic hedging program. The objective of the hedging program is to partially protect Empire from possible future MCCR ratio declines that might result from adverse stock market price changes. Please see "Hedging Risk" below.

The impact of a market decline for segregated fund guaranteed policy liabilities and for other liabilities on financial results are set out in the Annual MD&A and in note 22 to the Annual Financial Statements.

Interest Rate Risk

Interest rate risk arises when economic losses are incurred due to the need to reinvest or divest during periods of changing interest rates. Changes in interest rates, as a result of the general market volatility or as a result of specific social, political or economic events, could have an adverse effect on Empire Life's business and profitability in several ways. Certain of Empire Life's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, Empire Life may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited to customers, thereby adversely affecting Empire Life's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of these funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased surrenders. Similarly, a prolonged low interest rate environment would result in lower assumptions of future interest rates and require Empire to increase its provisions. Increase in these provisions due to these causes would negatively affect Empire's net income attributed to shareholders. Fluctuations in interest rates may cause losses to Empire Life due to the need to reinvest or divest during periods of changing interest rates, which may force it to sell investment assets at a loss. In addition, an interest rate sensitivity mismatch between assets and the liabilities they are designated to support could have an adverse effect on Empire Life's financial position and operating results.

The effect on financial results of a change in interest rates is disclosed in Annual MD&A and in note 22 to the Annual Financial Statements.

Interest rate risk is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. Empire's investment guidelines establish investment objectives and eligible interest rate sensitive investments, as well as establish diversification criteria, exposure, concentration and asset quality limits for these investments. The Asset Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable levels and within risk tolerances. Product development and pricing policies and practices also require consideration of interest rate risk in the design, development and pricing of the products.

Foreign Exchange Rate Risk

Foreign exchange rate risk arises when the fair value of cash flows of a financial instrument fluctuates due to changes in exchange rates. This may create an adverse effect on earnings and equity when measured against Empire Life's functional currency.

Empire Life's primary foreign currency exposure arises from portfolio investments denominated in US dollars. If the Canadian dollar strengthens relative to these currencies, net income attributed to shareholders and Empire Life's reported shareholders' equity would both decline. Further, to

the extent that the resultant change in available capital is not offset by a change in required capital, Empire's regulatory capital ratios would be reduced. A weakening of the Canadian dollar against the foreign currencies in which Empire does business would have the opposite effect, and would increase net income attributed to shareholders and shareholders' equity.

The risk from foreign currency exposure on the market value of Empire Life's segregated funds and mutual funds is generally assumed by the policyholders. Market value variations of these assets resulting from foreign currency movements will result in variations to Empire Life's fee income. Additionally, certain of Empire Life's segregated fund products contain guarantees. If a significant market decline is experienced due to foreign currency movements, the resulting increased cost of providing these guarantees could have an adverse effect on Empire Life's financial position, MCCR ratio, and results of operations, as described above in the risk factor "Equity Risk".

Empire Life uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage foreign exchange risks. Improper use of these instruments could have an adverse impact on earnings. Empire manages this risk by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed, with total credit exposure limited to \$100 million.

Empire has a foreign exchange risk management policy which outlines objectives, risk limits and authority associated with any foreign exchange exposure. Oversight and management of this policy falls under the responsibility of the Asset Management Committee, which reports exposures and breaches to the Risk and Capital Committee of the Board.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to fund all cash outflow commitments or obligations as they fall due or that, in order to fund commitments, an entity may have to sell assets at depressed prices resulting in losses at time of sale. Cash outflows could be in the form of benefit payments to policyholders, expenses, asset purchases and interest on debt. The majority of Empire Life's obligations relate to its policy liabilities, the duration of which vary by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, and morbidity). The remaining obligations of Empire Life relate to one subordinated debenture issue which, subject to OSFI approval, could be redeemed by Empire Life in 2018 and 2021 respectively but otherwise matures in 2023 and 2026 respectively (please see note 16 – Subordinated Debt of the Annual Financial Statements) and to ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

Empire's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

Empire's liquidity risk management program is monitored by management and by the Board through regular reporting to the Investment Committee and the Board. Empire monitors its cash flow obligations and meets its liquidity needs by holding high quality marketable investments that may be easily sold, if necessary, and by maintaining a portion of investments in cash and short term investments.

Empire maintains a liquidity policy requiring an assessment of its liquidity risk and specific procedures so that liquidity needs are met. Compliance with the policy is monitored by the Asset

Management Committee and exposures and breaches are reported to the Investment Committee of the Board.

Based on the Company's historical cash flows and current financial performance, management believes that the cash flows from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

Empire is able to fund its short-term cash outflows by generating positive cash inflows from operations (in most years) and from investment income earned on its investment portfolio. The Asset Management Committee monitors the matched position of Empire's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match, to the extent possible, the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Empire maintains a portion of its investments in short-term investments and cash equivalents to meet its short-term funding requirements. As of December 31, 2016, 6.2% (2015 3.4%) of cash and investments were held in these shorter duration investments.

Empire Life's cash flow from operations, cash and cash equivalents, and short-term investments are disclosed in its Annual Financial Statements. The maturity profile of Empire Life's financial assets and financial liabilities are disclosed in note 22 to the Annual Financial Statements.

Credit Risk

Credit risk is the possibility of loss from amounts either owed by financial counterparties, such as debtors, reinsurers and other financial institutions, or in connection with issuers of securities held in an asset portfolio. Empire Life is subject to credit risk that arises from debtors or counterparties who are unable to meet their obligations under debt or derivative instruments. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, short-term investments and mortgages, and amounts recoverable from reinsurers under reinsurance agreements.

Empire Life is exposed to counterparty risk if a counterparty fails to pay amounts owed to Empire Life or otherwise perform its obligations with respect to Empire's hedging programs. Counterparty risk increases during economic downturns because the probability of default increases for most counterparties. If any of these counterparties default, Empire Life may not be able to recover the amounts due from that counterparty. Empire Life's hedging strategies continue to evolve and its counterparty risk will change as it employs these strategies.

Empire Life manages this risk by applying its investment guidelines and its product design and pricing risk management policy established by the Investment Committee and Risk and Capital Committee of the Board, respectively. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee on the credit risk to which the portfolio is exposed. The reinsurance risk management policy (along with supporting material in the product design and pricing risk management policy) establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. Empire enters into reinsurance agreements only with reinsurance companies that have a credit rating of "A-" or better.

Credit risk analysis includes the consideration of credit spreads. From an investment perspective, when buying credit the Company is guided by two principles; first, that there is a high likelihood of return of principal and second, that there is an acceptable return on investment. The Company looks to obtain a risk/reward balance that aligns with its objectives and risk philosophy. When determining insurance contract liabilities, credit spreads and changes in credit spreads are reflected implicitly in the interest rate assumption.

More information in connection with the credit risk to which Empire Life is exposed is contained in note 22 of the Annual Financial Statements.

Hedging Risk

Empire Life's hedging strategies will not fully reduce the market risks related to the product guarantees and fees being hedged, hedging costs may increase, and its hedging strategies themselves expose Empire Life to additional risks. Empire Life's hedging strategy is not designed to completely offset all risks associated with the guarantees embedded in products. The profit (loss) on the hedge instruments will not completely offset the underlying losses (gains) related to the guarantee liabilities hedged for many potential reasons including:

- policyholder behaviour and mortality experience are not hedged;
- provisions for adverse deviation in the policy liabilities are not hedged;
- a portion of interest rate risk is not hedged;
- credit spreads widen and actions are not taken to adjust accordingly;
- performance of the underlying funds hedged may differ from the performance of the corresponding hedge instruments;
- correlations between interest rates and equity markets could lead to unfavourable material impacts;
- unfavourable hedge rebalancing costs may be incurred during periods of high volatility from equity markets, bond markets and/or interest rates. The impact is magnified when these impacts occur concurrently; and
- not all other risks are hedged.

Empire aims to partially protect itself from possible future MCCR ratio declines that might result from adverse stock market price changes. The program presently employs put options and short positions through the use of futures on key equity indices. Improper use of these instruments could have an adverse impact on earnings.

Empire Life manages this risk by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed, with total credit exposure limited to \$100 million.

Empire also has a hedging policy to support general fund hedging programs. The policy outlines objectives, risk limits and authority associated with its hedging activities. Management monitors its hedging activities on a regular basis and reports, at least quarterly, to the Risk and Capital Committee of the Board on the status of the hedging program.

Insurance Risks

Insurance risk is the risk that actual experience related to claims, benefit payments, expenses, cost of embedded product options and cost of guarantees associated with insurance risks, does not emerge as expected. Empire Life is exposed to various insurance risks as a result of the

business it writes, including: mortality, policyholder behaviour (termination or lapse), expenses, morbidity, longevity, product design and pricing, underwriting and claims, and reinsurance risks. Empire regularly evaluates its exposure to foreseeable risks through stress testing techniques including Dynamic Capital Adequacy Testing.

The principal risk that Empire Life faces under insurance contracts is the risk that experience on claims, policy lapses and operating expenses will not emerge as expected. To the extent that emerging experience is more favourable than assumed in the valuation, income will emerge. If emerging experience is less favourable, losses will result. In particular, Empire Life makes assumptions with respect to mortality, longevity, expenses, inflation, taxes, morbidity and persistency (lapse rates). If any of these assumptions are incorrect, Empire Life's operations and results may be negatively affected.

The computation of insurance liabilities and related reinsurance recoverable requires "best estimate" assumptions covering the remaining life of the policies. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market trends, and other published information. These assumptions are made for mortality, morbidity, investment returns, persistency (lapse rates), expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is calculated separately for each variable and included in policy liabilities. These margins are intended to allow for possible deterioration in experience and to provide greater confidence that policy liabilities are adequate to pay future benefits. The effect of these margins is to increase policy liabilities over the best estimate assumptions.

The margins for adverse deviation used by the Company are within the target range established by the Canadian Institute of Actuaries. A correspondingly larger margin is included in the insurance contract liabilities if an assumption is susceptible to change or if there is more uncertainty about the best estimate assumption. Each margin is reviewed annually for continued appropriateness.

Policy liability assumptions are reviewed and updated at least annually by Empire's Appointed Actuary. The impact of changes in those assumptions is reflected in earnings in the year of the change. Details related to the changes in assumptions are also discussed with the Audit Committee of Empire Life's Board. The methods for arriving at the most important of these assumptions are outlined below. Measures of Empire Life's estimated net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities are disclosed in note 23 of the Annual Financial Statements. For participating business, it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

Mortality

Empire Life carries out annual internal studies of its own mortality experience. The valuation mortality assumptions are based on a combination of this experience and recent Canadian Institute of Actuaries ("CIA") industry experience. An increase in the rate of mortality will lead to a larger number of claims (and claims could occur sooner than anticipated), which for life insurance, will increase expenditures and reduce profits for the shareholders. A decrease in the rate of mortality (or longevity) will lead to extended benefit payments that, for the annuity business, will increase expenditures and reduce profits for shareholders.

Policyholder Behaviour (Termination or Lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of Empire Life's own annual internal termination studies and recent Canadian Institute of Actuaries industry experience. Separate policy termination assumptions are used for permanent cash-value business, renewable term insurance, term insurance to age 100, and universal life insurance. In setting policy termination rates for renewable term insurance, it is assumed that extra lapses will occur at each renewal point, and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

An increase in policy termination rates or reduction in persistency rates early in the life of the policy would tend to reduce profits for shareholders. An increase in policy termination rates later in the life of the policy would tend to increase profits for shareholders if the product is lapse supported (such as term insurance to age 100), but decrease shareholder profits for other types of policies.

For further details, please see note 23 of the Annual Financial Statements.

Expenses

Policy liabilities provide for the future expense of administering policies in force, renewal commissions, general expenses, and taxes. Expenses associated with policy acquisition and issue are specifically excluded. The future expense assumption includes an assumption for inflation and is derived from internal cost studies and includes an assumption for inflation.

An increase in the level of expenses would result in an increase in expenditure, thereby reducing profits for shareholders.

Morbidity

Empire Life carries out annual internal studies of its own morbidity experience where morbidity refers to both the rates of accident or sickness and the rates of recovery from the accident or sickness. The valuation assumptions are based on a combination of internal experience and recent Canadian Institute of Actuaries industry experience.

For individual critical illness business, the incidence rates (or rates of accident or sickness) are the key assumptions related to morbidity. An increase in incidence rates would result in an increase in the number of claims, which increases expenditures and reduces shareholders' profits. For group long-term disability business, the termination rates (or rates of recovery) are the key assumptions related to morbidity. A decrease in termination rates would result in disability claims persisting longer, which increases expenditures.

For further details, please see note 23 of the Annual Financial Statements.

Product Design and Pricing Risk

Empire Life is subject to the risk of financial loss resulting from transacting insurance business where the costs and liabilities assumed in respect of a product exceed the expectations reflected in the pricing of the product. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through dividends and experience rating refunds, or through the fact that Empire Life can adjust the premiums or future benefits if experience turns out to be different than expected.

For other types of contracts, Empire Life assumes the entire risk, and must carry out a full valuation of the commitments in this regard.

Empire manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described as follows below. Empire has established policy liabilities in accordance with standards set forth by the Canadian Institute of Actuaries. Experience studies (both Company specific and industry level) are factored into ongoing valuation, renewal and new business processes so that policy liabilities, as well as product design and pricing, take into account emerging experience. Empire has established an active capital management process that includes a capital management policy and capital management levels that exceed regulatory minimums. As prescribed by regulatory authorities, the Appointed Actuary conducts Dynamic Capital Adequacy Testing and reports annually to the Audit Committee of the Board on the Company's financial condition, outlining the impact on capital levels should future experience be adverse. Empire has also developed a product design and pricing risk management policy for each of its major product lines. This policy, which is established by management and approved by the Risk and Capital Committee of the Board, defines the Company's product design and pricing risk management philosophy. The policy sets out product design and pricing approval authorities, product concentration limits, and required product development and monitoring processes and controls.

Underwriting and Claims Risk

Empire Life is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Many of Empire's individual insurance and group disability products provide benefits over the policyholder's lifetime. Actual claims experience may differ from the mortality and morbidity assumptions used to calculate the related premiums. Catastrophic events such as earthquakes, acts of terrorism or an influenza pandemic in Canada could result in adverse claims experience.

In addition to the risk management controls described above under Product Design and Pricing Risk, Empire also manages underwriting and claims risk through its underwriting and liability risk management policy for each of its major product lines. This policy is established by management and approved by the Risk and Capital Committee of the Board. Together, these policies define Empire's underwriting and claims management philosophy. These policies also set out product line insurance risk tolerances, underwriting criteria, underwriting and liability concentration limits, claims approval requirements, underwriting and claims processes and controls, approval authorities and limits, and ongoing risk monitoring requirements. Empire uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines and the Risk and Capital Committee of the Board approves changes to these retention limits. See Reinsurance Risk below for further discussion on the use of reinsurance.

Reinsurance Risk

Empire Life is subject to the risk of financial loss due to inadequate reinsurance coverage or a default of a reinsurer. Amounts reinsured per life vary according to the type of protection and the product. Empire Life also maintains a catastrophe reinsurance program, which provides protection in the event that multiple insured lives perish in a common accident or catastrophic event. Although Empire relies on reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience, reinsurance does not release it from its primary commitments to its policyholders, and it is exposed to the credit risk associated with the amounts ceded to reinsurers. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and availability, which can also affect earnings.

The reinsurance risk management policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. Management reports annually to the Risk and Capital Committee of the Board on reinsurance activities. Most of Empire's individual life reinsurance (with the exception of its renewable term products) is on an excess basis (with a \$500,000 retention limit), meaning Empire retains 100% of the risk up to \$500,000 in face amount. With Empire's renewable term products, however, all amounts over \$100,000 are reinsured at an 80% level, meaning that Empire retains only 20% of the risk on coverage over \$100,000, to a maximum retention of \$500,000. In addition, Empire retains a maximum of \$100,000 on individual accidental death policies. Retention amounts are lower for group business but are in addition to those noted for individual business. As a result of this reinsurance strategy, Empire utilizes lower than average levels of reinsurance, compared to Canadian competitors, and absorbs the resultant negative impact on short-term earnings due to additional sales strain. Empire does not have any assumed reinsurance business nor does it reinsure segregated fund products issued by other insurance companies. Empire does not reinsure its own segregated fund guaranteed products except for a reinsurance agreement to cede a portion of Empire Life's segregated fund death benefit exposure. All Empire Life segregated fund customers with death benefit guarantees of at least \$2 million are included in this agreement.

Operational Risks

Operational risk relates to the uncertainty arising from larger than expected losses or damages as a result of inadequate or failed internal processes, people or systems, or from external events. Operational risk is naturally present in all of Empire's business activities and encompasses a broad range of risks, including legal disputes, regulatory compliance failures, technology failures, business interruption, information security and privacy breaches, human resources management failures, processing errors, modelling errors, theft and fraud, and damage to physical assets.

Significant operational risks are monitored and reported to senior management and to the committees of the Board. Enterprise-wide risk management policies, guidelines and controls have been established for all significant operational risks. Empire has in place a comprehensive insurance program, including appropriate levels of self-insurance, to provide protection against certain operational losses. A business continuity program, including the availability of offsite system recovery facilities, is in place to minimize the impact in the event of a major disruption (including the onset of a pandemic in Canada) so that key business functions can continue and normal operations can resume efficiently. Enterprise-wide security policies and procedures that comply with applicable law and industry standards are in place to manage physical and technology security. Empire has in place an enterprise-wide Code of Business Conduct and all employees are required to attest to compliance with the code on an annual basis.

Legal and Regulatory Risks

Empire Life is governed by the ICA and supervised by OSFI. Empire Life is also subject to various requirements imposed by legislation and regulation in each of the provinces and territories of Canada applicable to insurance companies and companies providing other financial services. This regulatory oversight is vested with broad administrative powers with respect to, among other things, dividend payments, capital adequacy and risk-based capital requirements, assets and reserve valuation requirements, permitted investments and the sale and marketing of insurance contracts. Material changes in the regulatory framework could have an adverse effect on Empire

Life. Failure to comply with regulatory requirements or public expectations could adversely impact Empire Life's reputation and ability to conduct business.

Empire Life's corporate compliance department, headed by the Chief Compliance Officer, oversees the regulatory compliance framework. This framework promotes risk-based management of compliance and regulatory risk and includes company-wide policies, operating guidelines, programs to promote awareness of laws and regulations impacting Empire Life, ongoing monitoring of emerging legal issues and regulatory changes and employee education programs that include anti-money laundering and anti-terrorist financing, privacy and information security risk management as well as reporting breaches and Empire Life's code of conduct. The framework is supported by a network of business unit compliance officers as well as the corporate legal services department. The Chief Compliance Officer reports regularly to the Conduct Review Committee of the Board on the state of compliance, key compliance risks and emerging regulatory trends.

Empire Life is subject to litigation from time to time and currently has a number of outstanding lawsuits. There can be no assurance that the present or any future litigation will not have a material adverse effect on Empire Life. Litigation risk is actively managed by the Company's legal department with regular reporting to its Audit Committee.

OSFI is developing a methodology for evaluating standalone capital adequacy for Canadian operating life insurance companies, such as Empire Life. In addition, OSFI is developing a refresh of the regulatory capital framework, including required capital for segregated fund guarantees, in Canada intended for implementation in 2018.

Empire is also subject to other regulatory and professional standards developments that could impact its net income attributable to shareholders. The International Accounting Standards Board issued exposure drafts of new accounting standards for insurance contracts in June 2013. As drafted, the standard creates material volatility on Empire Life's financial results and capital position and could result in a lower discount rate used for the determination of actuarial liabilities, thereby increasing Empire Life's actuarial liabilities and reducing Empire Life's net income attributed to shareholders. The final standards are not expected to be effective until at least 2019 and it is not known if changes will be made to regulatory capital to adjust for the unwarranted volatility.

Model Risks

Empire uses models to support many business functions including investment analysis, product development and pricing, valuation of policy liabilities, planning, asset/liability management, capital management, project management and risk management. The risk of inappropriate use or interpretation of Empire's models or their output, or the use of deficient models, data or assumptions, could result in financial losses or inappropriate decision-making.

The fair value for certain of Empire Life's investments that are not actively traded is determined using models and other valuation techniques. These values therefore incorporate considerable judgment and involve making estimates including those related to the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts. Furthermore, significant market disruption could result in rapidly widening credit spreads and illiquidity, volatile markets and, for some instruments, significantly reduced trading activity. It has been and may continue to be difficult to value certain of Empire Life's securities if trading is less active and/or market data is harder to observe. Consequently, valuations may include inputs

and assumptions that are less observable or require greater estimation, thereby resulting in values that may differ materially from the values at which the investments may be ultimately sold. Further, rapidly changing credit and equity market conditions could materially affect the valuation of securities as reported within Empire Life's consolidated financial statements, and the period-to-period changes in value could vary significantly. Decreases in value that become recognizable in future periods could have a material adverse effect on Empire's results of operations and financial condition.

Ability to Attract Employees

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If Empire Life is unable to retain and attract qualified employees and executives, the results of its operations and financial condition, including its competitive position, could be adversely affected.

To compete for employees within the broader financial services marketplace, Empire must provide competitive salaries, development opportunities and positive working conditions. Management reports regularly to the Human Resources Committee of the Board on succession planning and employee development programs as well as compensation practices and programs, all of which are designed to attract, motivate and retain high-performing and high-potential employees.

Third Party Risk

Empire obtains many different types of services from a number of third party service providers and has outsourced some business functions and processes to third parties. Empire's business may be adversely affected if these third parties fail to deliver services in compliance with contractual or other service arrangements.

Technology, Information Security and Business Continuity Risk

Empire Life relies on technology in virtually all aspects of its business and operations, including the creation and support of new products and services, and the nature of life insurance business necessitates a substantial investment in technology. Operational integrity, data integrity and security of information and systems infrastructure are all relied upon for normal business operations. Disruption to operations due to system failure, information security breaches, privacy breaches, cyber-attacks, human errors, natural disasters, or the loss of certain software licensing agreements, could have a material adverse effect on Empire Life.

Reliance on Key Personnel

Empire Life's success depends in large measure on the continued contributions of certain of Empire's executive officers and other key management and personnel, certain of whom would be difficult to replace. The unexpected loss of the services of key personnel could have a material adverse effect on Empire Life.

Senior management and the Human Resources Committee of the Board have established regular review of succession planning issues for the Company. The human resources department has established a learning and development function, one of the responsibilities of which is to identify talented and key employees and provide appropriate learning and development opportunities to develop new leaders and retain key resources.

Pension Risks

Risks related to the defined benefit component of Empire Life's pension plan ("Plan") includes asset volatility, changes in bond yield and life expectancy, each of which could adversely affect Empire Life's financial condition, as follows:

Asset Volatility - The defined benefit Plan obligations are calculated using a discount rate set with reference to corporate bond yields; if Plan assets underperform this yield, this will create a deficit.

Changes in Bond Yields - A decrease in corporate bond yields will increase defined benefit Plan obligations, although this will be partially offset by an increase in the value of the Plan's bond holdings.

Life Expectancy - The majority of the Plan's defined benefit obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plan's liabilities.

Risks With Respect to Risk Management Policies

Empire Life has devoted significant resources to develop its risk management policies, procedures and strategies and expects to continue to do so in the future. Nonetheless, its policies, procedures and strategies may not be comprehensive. Many of Empire's methods for measuring and managing risk and exposures are based upon the use of observed historical market behaviour or statistics based on historical models. As a result, these methods may not fully predict future exposures, which may be significantly greater than Empire Life's historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated.

Business and Strategic Risk

Business and strategic risk relates to the uncertainty in future earnings and capital related to the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, manage distribution or adapt to changes in business environment, such as the competitive landscape, regulatory and tax changes, or changes in accounting and actuarial standards. Empire regularly reviews and adapts its business strategies and plans in consideration of changes in the external business, economic, political and regulatory environments in which it operates. Empire Life's financial performance is dependent upon its ability to implement and execute business strategies and plans for growth.

Empire Life's business strategies and plans are designed to align with risk appetite, capital position and financial performance objectives. Empire periodically reassesses its risk appetite taking into consideration the economic, regulatory and competitive environments in which it operates. The current environment requires Empire to adapt rapidly to new opportunities and challenges and to refine its strategies accordingly. If Empire fails to revise its strategies on a timely basis or adapt to the changing environment, it may not be able to achieve its growth objectives.

Empire Life's business strategies and plans are dependent on the successful execution of organizational and strategic initiatives designed to support the growth of its business. The ability to effectively manage these changes and prioritize initiatives directly affects Empire's ability to execute these strategies. Identifying and implementing the right set of initiatives is critical to achieving Empire's business plan targets. Failure to implement these initiatives could also lead to cost structure challenges.

Successful execution of Empire Life's business strategies and plans depends on a number of factors, including its ability to (i) generate sufficient earnings to maintain an adequate level of capital, (ii) generate sustained investment performance, (iii) meet regulatory requirements, (iv) manage risk exposures effectively, (v) attract and retain customers and distributors, (vi) have the right set of products, and (vii) reduce operating expenses while maintaining the ability to hire, retain and motivate key personnel. There is no certainty that Empire Life will be successful in implementing its business strategies or that these strategies will achieve its objectives. If Empire Life's business strategies are not successful or are not executed effectively, Empire may not be able to achieve its growth objectives or react to market opportunities, which may have an adverse impact on business and financial results.

Key business risks are described in more detail below.

Risks With Respect to Financial Strength

Ratings with respect to financial strength are an important factor in establishing the competitive position of insurance companies. Ratings are influential in maintaining public confidence in Empire Life and its ability to market its products. Rating organizations continually review the financial performance and condition of insurers, including Empire. Downgrades or negative outlooks with respect to Empire's ratings could, among other things, increase surrender levels, adversely affect relationships with investment dealers, banks, agents, wholesalers and other distributors of Empire Life products and services, negatively impact persistency, adversely affect Empire's ability to market its products, and materially and adversely affect Empire's liquidity and, in some cases its business, financial condition and operating results. In addition, negative changes in Empire's credit ratings could increase its cost of borrowing and have an adverse effect on its operating results.

Empire has established an active capital management process that includes a capital management policy and capital management levels that exceed regulatory minimums. Empire Life's capital management program and investment risk management processes (both described above) actively monitor critical factors that could impact Empire Life's financial strength rating. See "Ratings of Securities" in this AIF for further details.

Capital Adequacy Risk

Empire Life is exposed to the risk that insufficient capital or access to capital will threaten its capacity to grow, execute the business model and generate future financial returns. To the extent that the funds generated by its operations are insufficient to fund future operations, Empire may need to raise additional funds through equity or debt financings. Any equity or debt financing, if available at all, may be on terms that are not favourable to Empire.

As set out above, Empire has established an active capital management process that includes a Capital Management Policy, capital management levels that exceed regulatory minimums, and Dynamic Capital Adequacy Testing that takes into account, along with other risks, the potential effect of adverse investment-risk scenarios (including adverse market conditions and adverse interest rates) on Empire's capital position and liquidity. Management and the Board regularly review Empire's capital position relative to regulatory requirements, and the allocation of capital relative to its business strategies. Empire uses stochastic models to monitor and manage risk associated with segregated fund guarantees, and establishes policy liabilities in accordance with standards set forth by the Canadian Institute of Actuaries. Product development and pricing policies and practices also require consideration of the impact on capital adequacy in the design, development and pricing of the products.

Empire Life is regulated by OSFI and is subject to OSFI's MCCSR. The supervisory target ratio for MCCSR is set at 150%. There can be no guarantee that Empire Life's MCCSR ratio can be maintained at or above target levels.

On September 12, 2016, OSFI released its final version of 2018 guideline - Life Insurance Capital Adequacy Test. This new Guideline, effective January 1, 2018, will establish a new regulatory capital framework for life insurance companies, which will replace the current MCCSR Guideline. This new Guideline was developed in consultation with the Life Insurance industry and OSFI does not expect that it will have a material impact on the capital required by the industry as a whole, in comparison to MCCSR. Empire life is assessing the ultimate impact of the new framework and will provide further information once the assessment is complete and the impact is known.

Risks With Respect to Competition

Empire Life is subject to competition from other businesses and, as a mid-sized life insurance company, is sensitive to pricing and strategic actions that can be employed by the three largest carriers who now have in excess of 60% of all major industry segments. Empire's products compete not only with those offered by a large number of other insurers, but in many cases also with those offered by non-insurance financial services companies, such as banks, investment dealers and mutual funds, many of which have greater financial resources, offer alternative products or more competitive pricing and, with respect to some other insurers, have higher credit and claims paying ratings than Empire Life. These large competitors have economies of scale that allow them to offer lower prices than smaller competitors. Increased competition or competitive practices could materially adversely impact Empire Life's ability to conduct its business.

Empire Life manages this risk by establishing and maintaining strong relationships with its independent distribution channels and by delivering competitive products that provide a credible alternative to the products offered by the largest carriers. Empire strives to maintain a personal touch in business relationships with both distributors and customers, and focuses on products and markets in which it can compete credibly with larger players. Empire also formally reviews its competitive position in its annual strategic planning process and focuses on operational excellence and efficiency to remain competitive.

Risks With Respect to Distribution Channels

Empire Life distributes its products through a variety of distribution channels and competes with other financial institutions to attract and retain these intermediaries and agents on the basis of products, compensation, support services and financial position. Empire's sales and operating results and financial strength ratings could be materially adversely affected if it is unsuccessful in attracting and retaining these intermediaries and agents.

Empire Life places a high priority on providing excellent advisor support, quality products, and competitive pricing and compensation to maintain strong distribution relationships.

Risks With Respect to Changes to Applicable Income Tax Legislation

Empire Life's results are subject to fluctuations as a result of the level of income, premium, capital and other taxes levied by tax authorities in those jurisdictions in which it conducts business. There can be no assurance as to what, if any, future tax legislation in any jurisdiction in which Empire operates might be enacted or, if enacted, whether any legislation would contain provisions with possible adverse effects on the sale of Empire's life insurance and wealth products.

Through participating in industry groups and through regular communication with regulators, Empire Life becomes aware of relevant future tax changes with sufficient lead time to enable it to eliminate or minimize the potential adverse impacts of such changes.

Risk to Reputation

Empire Life may be subject to the risk that some actions, including those taken by independent advisors or other third parties with whom it does business, may lead to damage to Empire's reputation and hence damage to its future business prospects. If any of these representatives or business partners fails to adequately perform its responsibilities, or monitor its own risk, these failures could affect our business reputation and operations. While we seek to maintain adequate internal risk management policies and procedures and protect against performance failures, events may occur that could cause us to lose customers or suffer legal or regulatory sanctions, which could have a material adverse effect on our reputation, our business, and our results of operations.

Empire Life manages these risks by requiring adherence to a Code of Business Conduct for all employees. Empire Life's corporate communications function monitors media reporting on the Company and its activities. Empire Life screens and monitors its contracted independent advisors for suitability and its independent advisors are required to adhere to Empire Life's Distribution Partner Code of Conduct and related guidelines. Management monitors activities that could give rise to reputation risk and reports significant risks to Empire Life's senior management and the Board.

Risks With Respect to Intellectual Property

Empire Life relies on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect its intellectual property. Although it uses a broad range of measures to protect its intellectual property rights, third parties may infringe or misappropriate its intellectual property. Empire Life may have to litigate to enforce and protect its copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of its intellectual property assets could have a material adverse effect on its business and its ability to compete. Empire also may be subject to costly litigation in the event that another party alleges its operations or activities infringe upon its intellectual property rights. Third parties may have, or may eventually be issued, patents that could be infringed by its products, methods, processes or services. Any party that holds such a patent could make a claim of infringement against Empire. Empire Life may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If Empire Life were found to have infringed a third-party patent or other intellectual property rights, it could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to its customers or using and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on Empire's business, results of operations and financial condition.

United

United is a closed-end investment corporation with an investment portfolio comprising global investments. The majority of the investment portfolio is managed by two external investment managers with global investment mandates, Jarislowsky Fraser Limited ("Jarislowsky") and

ValueInvest Asset Management S.A. (“ValueInvest”). United announced that effective January 13, 2014, it had allocated its externally managed assets evenly between Jarislowsky and ValueInvest. The remaining investment in the portfolio, Algoma, is a long-term investment of United.

United faces risks associated with maintaining a global equity portfolio that are similar to the risks relating to E-L Corporate. The value of United’s investment portfolio is subject to general market and economic conditions, the liquidity of its investments, and changes in the values of foreign currencies relative to the Canadian dollar.

Reliance on E-L Financial for administrative services

E-L Financial provides back office services for United, including the preparation of financial statements and disclosure documents. The Administrative Services Agreement is terminable at the option of either party on 30 days’ notice. The termination of the contract by E-L Financial could have an adverse effect on United if the services cannot be easily replaced by another party.

Conflicts of interest

United has a direct investment in a related party, Algoma, a publicly-traded shipping company. United’s investment in Algoma does not present a conflict of interest for United, as it operates as a discrete entity with a separate Board of Directors, the majority of whom are independent. The Administrative Services Agreement with E-L Financial provides United access to administrative services at a reasonable cost, and it does not view that relationship as presenting a conflict of interest.

Reliance on Jarislowsky Fraser Limited and ValueInvest Asset Management

Jarislowsky Fraser Limited (“JFL”) and ValueInvest Asset Management (“ValueInvest”) are the investment managers of United’s global equity portfolio. As at December 31, 2016 approximately 46% of United’s investments are managed by JFL and 51% are managed by ValueInvest. The contribution of certain of their professionals is important to the performance of United’s global portfolio and the loss of these professionals could have an adverse impact on the United.

Market risk

The value of United’s Common Shares is dependent on the value of the securities in which it invests. The value of these 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 it invests. Changes in foreign currency exchange rates will also affect the value of investments of non-Canadian dollar securities.

Foreign investment risk

United’s global securities will include investments in securities denominated in a currency other than Canadian dollars, which is the reporting currency for United. United invests in securities issued by corporations in countries other than in Canada. Investing in foreign securities can be beneficial by providing investment opportunities and portfolio diversification, but there are risks associated with foreign investments, including:

- companies outside of Canada may be subject to different regulations, standards, reporting practices and disclosure requirements than those which apply in Canada;

- the legal systems of some foreign countries may not adequately protect investor rights;
- political, social or economic instability may affect the value of foreign securities; and,
- foreign governments may make significant changes to tax policies which could affect the value of foreign securities.

Foreign currency risk

The investments of United denominated in other than Canadian dollars expose United to foreign currency risk. Foreign currency risk is the risk that the value of an investment denominated in foreign currency will fluctuate because of changes in exchange rates and create an adverse effect on earnings and net equity value when measured in Canadian dollars.

Liquidity risk

Liquidity risk has two aspects. First, in the case of United, it is the possibility that it will not be able to convert an investment to cash, which may be due to the size of the holding or the limited market for the investment. Second, in the case of the investor, the volume of United's Common Shares traded on the TSX has historically been low. There is a risk that shareholders may not be able to sell United's Common Shares on a timely basis.

Discount risk

United's share price usually trades at a discount relative to its net equity value per share. The share price is established by markets which reflect the demand and the supply for the Common Shares. As a result, United's shareholders may experience a return that is different from the net asset value return of the Company.

Securities lending risk

From time to time United participates in securities lending. Securities lending could expose the lender to the risk of counterparty failure. RBC Investor Services Trust ("RBC IS"), United's custodian, acts as lending agent. United's agreement with RBC IS provides that RBC IS, as agent for United, lends the United's securities to borrowing counterparties in exchange for a fee to be paid by these borrowers. RBC IS is responsible to return the borrowed securities to United when required, and RBC IS indemnifies United in the event of borrower default. United has recourse to the Royal Bank of Canada in the event of a failure to indemnify by RBC IS.

Dividends

E-L Financial has paid quarterly dividends of \$0.125 per Series A Preference Share in January, April, July and October of each of the three most recently completed financial years. E-L Financial paid quarterly dividends of \$0.125 per Common Share in January, April, July and October of each of 2014 and 2015 and in January 2016; and \$1.25 per Common Share in April, July and October of 2016. From time to time, based on financial results and to achieve certain tax benefits, the Board of Directors of E-L Financial may declare a special dividend on the Common Shares.

Series B Preference Shares were issued on September 28, 2004 and converted into First Preference Shares, Series 1 on November 30, 2004. Quarterly dividends on the First Preference Shares, Series 1, if declared, are payable on the 17th day of January, April, July and October in each year at a rate of \$0.33125 per share.

First Preference Shares, Series 2 were issued on October 17, 2006. Quarterly dividends on the First Preference Shares, Series 2, if declared, are payable on the 17th day of January, April, July and October in each year at a rate of \$0.296875 per share.

First Preference Shares, Series 3 were issued on April 2, 2012. Quarterly dividends on the First Preference Shares, Series 3, if declared, are payable on the 17th day of January, April, July and October in each year at a rate of \$0.34375 per share.

Quarterly dividends on all series of First Preference Shares have been declared and paid since these shares were issued.

The following chart shows the dividends paid to E-L Financial by Empire and United, based on its 99.2% ownership of Empire (2015 – 99.2%; 2014 – 80.5%) and its 51.8% ownership of United.

Dividends Received
(millions of dollars)

Subsidiary	2014	2015	2016
Empire	\$27.3	--	--
United	\$ 9.7	\$11.3	\$13.4

Dividends are declared by the Board of Directors of Empire after consideration of regulatory solvency requirements, capital ratios, and growth opportunities. The dividend policy of United is to distribute annual net investment income, after payment of Preferred Share dividends, in the form of Common Share dividends. The distributions are composed of \$0.20 quarterly dividends together with an additional dividend representing the balance of net investment income for the previous fiscal year. This additional dividend is paid in the first quarter following the fiscal year end. United’s dividend policy is established by its Board of Directors at its discretion and is subject to change.

Description of Capital Structure

The authorized classes of share capital at December 31, 2016 are as follows:

- 402,733 Preference Shares, issuable in series;
- Unlimited First Preference Shares, issuable in series; and
- Unlimited Common Shares.

There are issued and outstanding 258 Series A Preference Shares, 4,000,000 First Preference Shares, Series 1, 4,000,000 First Preference Shares, Series 2, 4,000,000 First Preference Shares, Series 3 and 4,019,409 Common Shares in the capital stock of the Company. The Series A Preference Shares and the Common Shares are the only voting shares in the Company.

The Series A Preference Shares are convertible in perpetuity into Common Shares on a share for share basis and are entitled, when and if declared, to a non-cumulative dividend of \$0.50 per share per annum.

The Series A Preference Shares and Common Shares are each entitled to one vote per share.

The First Preference Shares, Series 1 are entitled to fixed non-cumulative preferential cash

dividends if, as and when declared by the Board, at a rate equal to \$1.325 per share per annum. After October 17, 2013, the Company may redeem for cash the First Preference Shares, Series 1 in whole or in part, at the Company's option, for \$25.00 together with all declared and unpaid dividends.

After October 17, 2009, the Company may convert all or any part of the outstanding First Preference Shares, Series 1 into that number of Common Shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of \$1.00 and 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

The First Preference Shares, Series 1 are non-voting unless there has been a specified default in the payment of dividends.

The First Preference Shares, Series 2 are entitled to fixed non-cumulative preferential cash dividends, if, as and when declared by the Board, at a rate equal to \$1.1875 per share per annum. The Company may redeem for cash the First Preference Shares, Series 2 in whole or in part, at the Company's option for \$25.00 together with all declared and unpaid dividends.

After October 17, 2011, the Company may convert all or any part of the outstanding First Preference Shares, Series 2 into that number of Common Shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of \$1.00 and 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

The First Preference Shares, Series 2 are non-voting unless there has been a specified default in the payment of dividends.

The First Preference Shares, Series 3 are entitled to fixed non-cumulative preferential cash dividends, if, as and when declared by the Board, at a rate equal to \$1.3750 per share per annum. On and after April 17, 2017, the Company may redeem for cash the First Preference Shares, Series 1 in whole or in part, at the Company's option, for: \$26.00 per share if redeemed thereafter and prior to April 17, 2018, \$25.75 per share if redeemed thereafter and prior to April 17, 2019, \$25.50 if redeemed thereafter and prior to April 17, 2020, \$25.25 if redeemed thereafter and prior to April 17, 2021 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

On and after April 17, 2017, the Company may convert all or any part of the outstanding First Preference Shares, Series 1 into that number of Common Shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of \$1.00 and 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

The First Preference Shares, Series 3 are non-voting unless there has been a specified default in the payment of dividends.

Ratings of Securities

E-L Financial and Empire each engage a credit rating organization and pay reasonable fees for rating their securities.

E-L Financial

The following ratings have been assigned by the Standard & Poor's rating agency. The rating granted by a rating agency is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

First Preference Shares, Series 1	P-2 (High) Canadian national scale BBB+ global scale
First Preference Shares, Series 2	P-2 (High) Canadian national scale BBB+ global scale
First Preference Shares, Series 3	P-2 (High) Canadian national scale BBB+ global scale

Standard & Poor's ("S&P") long-term credit ratings are based on the likelihood of payment, the obligor's capacity and willingness to meet its financial commitment on an obligation in accordance with the terms of an obligation, as well as the protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights. The ratings reflect the level of default of payment risk. S&P adds a plus sign (+) or minus sign (-) to its categories between AA and CCC to show the relative standing of the securities within a major rating category.

An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments. The P-2 (High) preferred share rating corresponds to the S&P's global long-term issue credit rating of BBB+.

Empire

Empire engages credit rating organizations and pays reasonable fees for rating its securities.

Empire's subordinated debentures and preferred shares are rated by DBRS Limited ("DBRS") and A.M. Best Company, Inc ("A.M. Best"). On May 27, 2016, DBRS confirmed its ratings of Empire Life including its issuer rating of "A" (sixth highest of 20 categories), its subordinated debt rating of "A (low)" (seventh highest of 20 categories), its financial strength rating of "A" (sixth highest of 22 categories) and its Preferred Share rating of Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life's smaller scale, full suite of products, participation in niche markets that reward company strengths and improved and consistent levels of profitability and fixed charge coverage. On December 16, 2016, Empire issued \$200 million principal amount of unsecured subordinated debentures due December 16, 2026 by way of private placement in Canada. On December 15, 2016, DBRS assigned a subordinated debt rating of "A (low)" with a stable trend to these debentures.

On May 27, 2016, A.M. Best confirmed its ratings of Empire Life including its issuer rating of "a" (sixth highest of 21 categories), its subordinated debt rating of "bbb+" (eighth highest of 21

categories), its financial strength rating of “A (Excellent)” (third highest of 16 categories) and its Preferred Share rating of “bbb” (ninth highest of 21 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's favourable risk-adjusted capital position, continued earnings growth and sustainable market presence in Canada with multiple lines of business. On December 16, 2016 A.M. Best assigned a subordinated debt rating of “bbb+” with a stable trend to Empire’s December 16, 2016 subordinated debenture issue.

A security credit rating or a stability rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the credit rating organization.

Market for Securities

The Common Shares, First Preference Shares, Series 1, First Preference Shares, Series 2 and First Preference Shares, Series 3 are listed on the TSX under the symbols ELF, ELF.PR.F, ELF.PR.G and ELF.PR.H respectively. The 258 Series A Preference Shares are not listed on any exchange.

Common Shares, First Preference Shares, Series 1, Series 2 and Series 3 Price Ranges and Volume Traded on the TSX

Month, 2016	Class	Hi	Low	Volume
January	First Pref, 1	\$ 23.04	\$ 21.27	44,938
	First Pref, 2	21.49	19.79	21,400
	First Pref, 3	23.60	22.00	33,954
	Common	696.00	640.00	13,175
February	First Pref, 1	22.73	21.76	23,021
	First Pref, 2	20.82	19.87	33,127
	First Pref, 3	23.14	22.51	63,834
	Common	670.00	635.01	5,137
March	First Pref, 1	22.64	21.87	27,742
	First Pref, 2	20.30	19.83	62,688
	First Pref, 3	23.38	22.60	73,687
	Common	678.00	630.00	7,845
April	First Pref, 1	23.10	22.50	39,449
	First Pref, 2	20.83	20.10	37,906
	First Pref, 3	24.12	23.21	60,704
	Common	715.00	678.43	5,123
May	First Pref, 1	23.79	23.05	16,685
	First Pref, 2	21.44	20.70	67,839
	First Pref, 3	24.40	23.97	20,432
	Common	720.00	679.90	3,317
June	First Pref, 1	24.18	23.58	35,425
	First Pref, 2	21.89	21.30	37,355
	First Pref, 3	24.89	24.30	60,818
	Common	701.02	681.00	46,171
July	First Pref, 1	24.75	23.86	40,546
	First Pref, 2	22.34	21.73	35,898
	First Pref, 3	25.64	24.71	31,860
	Common	690.00	670.10	2,849
August	First Pref, 1	25.34	24.62	31,417
	First Pref, 2	23.22	22.39	41,694
	First Pref, 3	25.74	25.18	39,354
	Common	703.00	655.00	18,027
September	First Pref, 1	25.13	24.56	65,140
	First Pref, 2	23.12	22.70	24,175
	First Pref, 3	25.39	25.01	36,725
	Common	700.00	675.01	28,912
October	First Pref, 1	25.09	24.86	47,880
	First Pref, 2	23.09	22.53	44,141
	First Pref, 3	25.25	24.97	44,637
	Common	710.00	685.00	2,192
November	First Pref, 1	25.11	24.48	91,761
	First Pref, 2	23.22	22.01	47,929
	First Pref, 3	25.32	24.65	47,171
	Common	765.00	687.00	10,367
December	First Pref, 1	24.42	23.90	40,807
	First Pref, 2	22.51	21.40	64,728
	First Pref, 3	24.86	24.51	62,259
	Common	731.25	703.00	15,834

Directors and Executive Officers

Name and Residence ^{(1) (2)}	Present Principal Occupation ⁽³⁾	Director Since ⁽⁴⁾
J. Christopher Barron ⁽⁵⁾	Corporate Director	May 1, 2003
James F. Billett ⁽⁵⁾	President J.F. Billett Holdings Ltd.	May 7, 2008
Michael J. Cooper	President and Chief Responsible Officer DREAM Unlimited Corporation	May 13, 2014
William J. Corcoran	Corporate Director	July 25, 1997
Duncan N.R. Jackman	Chairman, President and CEO E-L Financial Corporation Limited	April 25, 1997
The Hon. Henry N.R. Jackman ⁽⁶⁾	Honorary Chairman The Empire Life Insurance Company	January 24, 1997
R.B. Matthews	Chairman Longview Asset Management Ltd.	May 5, 2011
Clive P. Rowe	Partner Oskie Capital	May 13, 2014
Mark M. Taylor	Corporate Director	May 1, 2003
Scott F. Ewert	Vice-President and CFO E-L Financial Corporation Limited	n/a
Richard B. Carty	Vice-President, General Counsel and Corporate Secretary E-L Financial Corporation Limited	n/a
Susan C. Clifford	Treasurer E-L Financial Corporation Limited	n/a

- (1) All Directors and Executive Officers reside in Ontario, Canada with the exception of Mr. C.P. Rowe who is resident in New York, U.S.A.
- (2) None of the Directors or Executive Officers holds Series A Preference Shares. The total number of Common Shares of E-L Financial beneficially owned, or controlled or directed, directly or indirectly, or over which control or direction is exercised, by all Directors and Executive Officers as a group is 10,773 (.27%).
- (3) Other than as described herein, all directors and executive officers have been in their present principal occupation for the last five years. Mr. Taylor retired in March 2015 as Executive Vice-President and Chief Financial Officer of E-L Financial. Mr. Ewert, prior to joining E-L Financial in January 2015, was a Partner at PricewaterhouseCoopers LLP where he held various roles since joining in September 1999.
- (4) The terms of office of all Directors expire at the time of the Annual Meeting of the Shareholders. Each Director has served continuously from the year indicated. Mr. J.C. Barron previously served as a Director from 1993 to 2002. The Hon. H.N.R. Jackman previously served as a Director from 1968 to 1991.
- (5) In 2016 members of the Audit Committee were Mr. J.C. Barron, Mr. J.F. Billett (Chairman), Mr. M.J. Cooper (January to May) and Mr. R.B. Matthews (June to December). For more information on members of the Audit Committee see Audit Committee Information commencing on page 35.
- (6) Companies, in which The Hon. H.N.R. Jackman has an indirect interest, control, in the aggregate, 2,902,109 or 72.2% of the outstanding Common Shares of E-L Financial. Although The Hon. H.N.R. Jackman is associated with some of these companies, he does not control any of them and, accordingly, does not have beneficial ownership of the Common Shares of E-L Financial held by them.

Legal Proceedings

In connection with its operations, Empire is from time to time named as defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, neither E-L Financial nor Empire believe that they will incur any material loss or expense in connection with such actions.

Interest of Management and Others in Material Transactions

No director or executive officer of E-L Financial, nor any person who has direct or indirect beneficial ownership of, or who exercises control or direction over more than 10% of any class of outstanding voting securities or any associate or affiliate of such persons, has entered into any transaction with E-L Financial that has materially affected or will materially effect E-L Financial.

Transfer Agent and Registrar

The transfer agent and registrar for the Common Shares, Series A Preference Shares, First Preference Shares, Series 1, First Preference Shares, Series 2 and First Preference Shares, Series 3 is Computershare Investor Services Inc., 8th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1.

Interests of Experts

PricewaterhouseCoopers LLP is the external auditor for E-L Financial, Empire and United, and it has advised that they are independent with respect to the Company within the meaning of its Rules of Professional Conduct.

Mr. Leonard Pressey, F.S.A., F.C.I.A., is the Appointed Actuary for Empire. Among other duties, the Appointed Actuary values the policy liabilities of the insurer on an annual basis in accordance with accepted actuarial practices and provides an opinion as to whether the amount of policy liabilities makes appropriate provisions for all obligations to policyholders and whether the valuation of liabilities is fairly presented in the financial statements of the insurer. Mr. Pressey has no direct or indirect interest in the securities or property of E-L Financial or Empire.

Audit Committee Information

The Audit Committee mandate is attached to this AIF as Appendix A.

Composition of the Audit Committee

As of December 31, 2016, E-L Financial's Audit Committee consisted of James F. Billett (Chairman), J. Christopher Barron and R.B. Matthews. Each of these individuals is "independent", and "financially literate", as those terms are defined in relevant Canadian securities legislation. The following is the education and experience of each Audit Committee member that is relevant to his or her skills at: (a) understanding accounting principles used by the Company to prepare its financial statements; (b) assessing the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (c) preparing, auditing, analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or actively supervising one or more persons engaged in such activities; and (d) understanding of internal controls and procedures for financial reporting.

Relevant Education and Experience

- James F. Billett (Chairman) – Mr. Billett has a Bachelor of Commerce degree from the University of Toronto (1967) and obtained the Chartered Accountant designation in 1970. In 2005 Mr. Billett retired from PricewaterhouseCoopers LLP following a 38 year career with the firm during which time he worked in a variety of senior positions. Most recently at PricewaterhouseCoopers LLP Mr. Billett's expertise was in estate and tax planning and risk management, with a variety of clients ranging from individuals to investment and brokerage companies. Mr. Billett has been a director of Canadian General Investments, Limited since 2005. Mr. Billett is Chairman of the Audit Committee at Canadian General Investments, Limited and is a member of its independent directors' and review committees. Mr. Billett continues to provide professional financial, estate and tax planning advice through J.F. Billett Holdings Ltd. Mr. Billett has been a member of the Board of E-L Financial and on its Audit Committee since 2007, and the Chairman of the Audit Committee in May 2012.
- J. Christopher Barron – Mr. Barron retired as Chairman of Scotia Cassels Investment Counsel Limited in February 2007. Previously in his career, Mr. Barron held positions of Chairman and Chief Executive Officer of The National Trust Company and Chairman and Treasurer of the Toronto Stock Exchange. Mr. Barron has served as a member of the Boards and Audit Committees of Economic Investment Trust Limited, United Corporations Limited and Cassels Blaikie Investment Management, and as a member of the Board and Chairman of the Audit committee of The National Trust Company. Mr. Barron had been a member of the Board of Directors for each of The Dominion and Empire from 1993 to 2001. Mr. Barron had served as a director of E-L Financial from 1993 to 2002, and then rejoined the Board in May 2003 at which time he was appointed a member and Chairman of E-L Financial's Audit Committee. Mr. Barron retired as Chairman of E-L Financial's Audit Committee in July 2004.
- R.B. Matthews – Mr. Matthews has been a director of the Company since 2010 and a member of the Audit Committee since 2016. Mr. Matthews currently serves as Chairman of Longview Asset Management Ltd. Longview operates an investment management business which has many of the same financial and accounting issues, relating to investing in publicly traded securities, that arise in connection with the business of E-L Financial. Mr. Matthews obtained a B.A. (Honours) from the University of Toronto, an M.A. in Jurisprudence from Oxford University and an L.L.B. from Dalhousie University in 1972. He was called to the Bar in Ontario in 1974. Prior to establishing Longview in 2011, Mr. Matthews was the co-founder and Chairman of Manitou Investment Management Ltd. from 1998 to 2011. Prior to 1998, Mr. Matthews was a partner of McCarthy Tétrault LLP for a period of 12 years.

Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures (the "Policies") for the pre-approval of services performed by the external auditor. The objective of the Policies is to maintain the independence of the external auditor. The Policies state that the Audit Committee shall approve: audit services and audit-related, tax and other non-audit services, provided by the external auditor.

The Policies also enumerate pre-approved services including specific audit, audit-related, tax and other non-audit services that are consistent with the independence requirements of Multilateral

Instrument 52-110, *Audit Committees*, Canadian independence standards for auditors and other applicable legal requirements. The Policies are applicable to E-L Financial and its subsidiaries. The Audit Committee shall review and approve the Policies on at least an annual basis. The Policies do not delegate any of the Audit Committee's responsibilities to management of E-L Financial.

External Auditor Service Fees

The fees paid to PricewaterhouseCoopers LLP in the last two years are summarized in the following table:

(chart and notes following in thousands of dollars)

	Audit Fees	Audit-Related Fees	Tax Fees	All Other Fees	Total
Empire					
2015	\$1,326	\$10	\$0	\$39	\$1,375
2016	\$1,524	\$11	\$0	\$14	\$1,549
E-L Financial					
2015	\$191	\$0	\$4	\$0	\$195
2016	\$196	\$0	\$39	\$0	\$235
United					
2015	\$50	\$0	\$0	\$0	\$50
2016	\$51	\$0	\$4	\$0	\$55

Fees do not include Goods and Services Tax, Harmonized Sales Tax or Canadian Public Accountability Board fees.

- Audit services generally relate to annual audit of the consolidated financial statements, other regulatory-required auditor attest services relating to internal controls and services associated with the annual report, and other documents filed with securities or regulatory bodies or other documents issued in connection with securities offerings.
- Audit-related services include audits of pension plan financial statements, accounting consultations and other services related to the financial statements, but not considered part of the audit.
- Tax services outside of the audit scope represent consultations for tax compliance, tax advice, capital market transactions, insurance, capital tax and assistance with the preparation of corporate tax returns.
- Other non-audit services may include translation services and benchmarking financial reporting practices.

Additional Information

Additional information relating to E-L Financial may be found on SEDAR. Further information, including directors' and officers' remuneration and indebtedness and the principal holders of E-L Financial securities, is disclosed in the E-L Financial Management Information Circular for its annual meeting of shareholders. Additional financial information is provided in the interim and annual financial statements and Management's Discussion & Analysis ("MD&A") of E-L Financial for the year ended December 31, 2016. In addition to SEDAR, copies of the Management Information Circular and the interim and annual financial statements and MD&A are available upon written request to the Secretary at the head office of E-L Financial.

Appendix A

E-L FINANCIAL CORPORATION LIMITED

MANDATE OF THE AUDIT COMMITTEE

AUTHORITY

Primary responsibility for the Company's financial reporting, accounting and financial reporting systems and internal controls is vested in senior management and is overseen by the Board of Directors. The Audit Committee is a standing committee of the Board established to assist the Board in fulfilling its responsibilities in this regard.

The Audit Committee shall have unrestricted access to the external auditors, Company personnel and documents, and shall be provided with the resources necessary to carry out its responsibilities, including the authority to conduct or authorize investigations into any matters within its scope of authority and to obtain advice and assistance in the conduct of investigations from independent counsel, accountants or other professional advisors at the Company's expense.

STRUCTURE AND OPERATION

1. The Audit Committee shall be appointed by the Board of Directors.
2. The Audit Committee shall consist of at least three directors.
3. All members of the Audit Committee must be independent and financially literate within the meaning of the Canadian Securities Administrators Multilateral Instrument 52-110.
4. Members of the Audit Committee shall be appointed by the Board of Directors to serve one-year terms. The Chair and members may serve any number of consecutive terms.
5. Members of the Audit Committee shall meet at least four times per year and may call additional meetings at their discretion and may call a meeting of the Board of Directors to consider any matter of concern to the Audit Committee. The external auditor shall receive a notice of all meetings and is entitled to attend and be heard. Quorum for a meeting of the Audit Committee is a majority of members. Decisions of the Audit Committee shall be determined by a majority vote.
6. The Audit Committee shall annually review its mandate and the Committee's effectiveness in fulfilling its responsibilities as set out in its mandate.

RESPONSIBILITIES OF THE COMMITTEE

The Audit Committee shall:

Financial Statements and Other Financial Information

1. Review and recommend for approval by the Board the following:

- a. Annual Consolidated and Corporate (unconsolidated) Financial Statements, and Interim Consolidated Financial Statements, of the Company;
- b. Annual Report;
- c. Annual and Interim Management's Discussion and Analysis;
- d. Press releases disclosing financial results;
- e. Annual Information Form;
- f. Management Information Circular; and
- g. Such other documents, statements or filings which may be required by applicable law to be reviewed by the Audit Committee, or which the Board of Directors may, by resolution, determine shall be so reviewed.

This review shall include discussing with management matters such as the selection of accounting policies, accounting judgments, accruals and estimates.

2. Be advised by management regarding and, where considered appropriate, review the processes that make possible the certification by the CEO and CFO of information to be included in the annual and interim filings of the Company.
3. Be satisfied that there are adequate procedures in place for assessing the reliability of the Company's public disclosure of financial information extracted or derived from the financial statements.

External Auditors

1. Have responsibility for the oversight of the external auditors, who report directly to the Audit Committee.
2. Recommend to the Board of Directors:
 - a. the external auditor to be nominated for the purpose of preparing or issuing an Auditor's Report or performing other audit, review or attest services for the Company; and
 - b. the compensation of the external auditor.
3. Review the planning and results of the external audit, including:
 - a. the auditor's engagement letter;
 - b. the reasonableness of the estimated audit fees;
 - c. the audit plan;

- d. the form of the audit report;
 - e. the post-audit letter of recommendations to management together with management's response;
 - f. any other audit-related engagements;
 - g. assessing the auditor's performance; and
 - h. meeting privately with the auditors to discuss pertinent matters.
4. Pre-approve all non-audit engagements and services to be provided to the Company or its subsidiaries by the external auditors in accordance with the Policy and Procedure for Approval of Audit and Non-audit Services by the External Auditors.

Financial Reporting and Accounting Systems and Controls

1. Be satisfied that there is an appropriate control framework and that internal controls are operating effectively.
2. Obtain reasonable assurances from discussions with and/or reports from management, and reports from external and internal auditors, that the Company's internal controls are reliable and are operating effectively.
3. Review control weaknesses identified by the external auditors, together with management's response.
4. Review the appointments and dismissal of key financial executives.
5. Approve procedures for processing complaints regarding accounting, internal accounting controls or auditing matters, including confidential, anonymous submissions from employees, and review annual reports from the General Counsel summarizing all concerns opened, investigated and resolved since the previous report; and
6. As appropriate review compliance with and approve any changes to the following policies:
 - a. Corporate Disclosure Policy;
 - b. Extracted Financial Information Policy and Procedures;
 - c. Policy and Procedure for Approval of Audit and Non-audit Services by the External Auditors; and
 - d. Policy regarding the Hiring of Partners and Employees of Current and Former External Auditors and the Company.

REPORTING

The Audit Committee shall report to the Board following each meeting of the Audit Committee.