



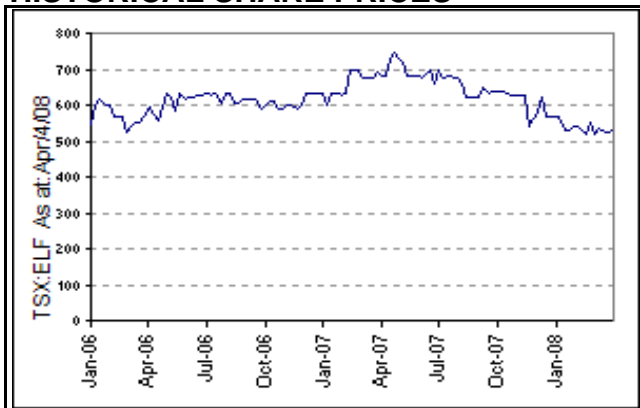
**THE COMPANY**

E-L Financial Corporation Limited is a holding company controlled by the Honourable Henry (Hal) Jackman, former Lieutenant Governor of Ontario. The main holdings of E-L Financial include a 100% interest in the Dominion of Canada General Insurance Company, a property and casualty underwriter, and an 80% interest in the Empire Life Insurance Company, a life and health underwriter. The Company also owns an investment portfolio that holds positions in publicly traded debt and equity securities and positions in closed-end investment funds.

**FINANCIAL DATA**

	2005	2006	2007
Earnings per Share (\$)	86.68	109.97	60.29
Price to Earnings (times)	6.1	4.8	8.8
Dividend (\$)	0.50	0.50	0.50
Dividend Yield (%)	0.09	0.09	0.09
Book Value (\$)	450.00	545.00	622.00
Price to Book (times)	1.18	0.97	0.85

**HISTORICAL SHARE PRICES**



**WHY ABC FUNDS BOUGHT E-L FINANCIAL**

Since its inception in 1969, E-L Financial has grown total assets from approximately \$162 million to almost \$6.4 billion. Structured as a holding company, E-L Financial has controlling positions in the Dominion of Canada General Insurance Company and the Empire Life Insurance Company. The Company's objective is long-term wealth creation through managerial input and representation on the Board of Directors. Further, a portion of total net income is generated from an investment portfolio, held directly and indirectly through closed-end investment fund corporations. We believe that upon closer inspection, the market currently undervalues the sum of these parts.

In existence since 1887, The Dominion of Canada General Insurance Company is one of Canada's oldest and largest property and casualty insurance underwriters. Dominion provides automobile, personal property and commercial policies that are distributed solely through a network of independent brokers. In 2001, gross premiums written totaled \$661 million compared to \$629 million in 2000, an increase of 5.1%. A critical measure of operating performance for a property and casualty underwriter is the combined ratio (total expenses divided by premium income). This ratio declined to 106.4% from 109.9% in 2000, implying that although the underwriting business is not profitable (which is not unusual) the situation is improving. More importantly, the segment is profitable once investment gains are included. Net income for fiscal 2001 was \$36.5 million compared to \$32.7 million in fiscal 2000 and return on average equity improved to 10.2% from 10.1%, for the respective periods.

The Empire Life Insurance Company, which recently amalgamated with its Concordia Life Insurance subsidiary, provides life insurance, investment products, employee benefit plans and other financial services. Of the four major segments, only the employee benefits line showed improvement in 2001. Unfortunately, weak capital markets and a deteriorating expense ratio (commissions plus operating expenses plus premium taxes divided by premium income) had a detrimental impact on the results for the year. Ultimately, Empire's net contribution to E-L Financial declined to \$29.6 million in 2001 from \$32.1 million in 2000. On a more positive note, Empire Life's balance sheet is solid and capitalized well above the Minimum Continuing Capital and Surplus Requirements.

Finally, the portfolio of investment assets generated \$11.4 million in 2001 or approximately 15% of E-L Financial's total net income. The portfolio is carried at market value on the balance sheet and the difference between cost and market value is recorded as unrealized appreciation of investments. If the portfolio holdings of Dominion and Empire are included, investment gains make up a significant portion of E-L Financial's earnings. In 2001, net income before investment gains totaled \$37.8 million or \$9.85 per share, but when realized and unrealized investment gains were included, net income totaled \$77.5 million or \$20.17 per share. At approximately \$285 per share, E-L Financial is currently trading at just over 14 times earnings.

We believe that the most appropriate way to value E-L Financial should be based on the Company's book value or net asset value. Current book value is approximately \$325 per share and contains almost no goodwill. However, if Dominion and Empire are valued using multiples consistent with other publicly traded insurance companies and the investment portfolio is valued at current market prices, E-L Financial has a net asset value upwards of \$400 per share. Based on the 12% discount to book value and the significant discount to NAV, we believe that E-L Financial is undervalued both on an absolute and a relative basis.

## WHY ABC FUNDS BOUGHT E-L FINANCIAL (CONT'D)

One of the main reasons for the valuation discount is the fact that not a single investment analyst covers the Company. Further, E-L Financial has made little effort to make itself accessible to the average investor. As Duncan Jackman, son of Hal Jackman, begins to take a more active role in the Company's operations, we expect that positive steps will be taken to realize significant shareholder value. Several possible short-term initiatives include a share split, a small dividend increase or a share buyback. Eventually, we expect that the valuation discount will narrow, as investors become more comfortable with the future direction of the Company.

ABC Funds  
May 15, 2002

### UPDATES

Since our original comment on E-L Financial, the Company has reported financial results for the first nine months of fiscal 2002. Over the course of this period, revenue increased 7% to \$995.6 million from \$932.1 million. On a segmented basis, portfolio investments accounted for 2%, general insurance accounted for 56% and life insurance accounted for 42% of total revenue, which was essentially unchanged from 2001.

Again for the first nine months of the year, net earnings declined slightly to \$25.3 million or \$6.59 per share in 2002 from \$25.8 million or \$6.71 per share in 2001. If we include investment gains in the net earnings calculation, ELF earned \$44.7 million or \$11.64 per share compared to \$47.2 million or \$12.29 per share. On a segmented basis, 46.6% of net income in 2002 was attributable to general insurance operations compared to 40.8% in 2001. Further, 28.5% of net income in 2002 was attributable to life insurance operations compared to 39.3% in the previous year.

Thus far in 2002, the Company's operations generated cash of \$57.1 million after consuming \$62.8 million in 2001. ELF used the cash flow to add to the Company's considerable investment portfolio. As at September 30, ELF's investments totaled \$591 million and the Company's insurance subsidiaries' portfolios totaled almost \$3.3 billion.

Besides E-L Financial's quarterly earnings releases, there have been no new significant developments. The Company continues to pay a small dividend and management maintains its low profile. We believe that ELF remains undervalued, currently trading at only 70% of its book value of \$329 per share. A catalyst, such as a dividend increase or a share buyback, would rekindle the interest of current and prospective shareholders.

ABC Funds  
January 24, 2003

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The Honourable Henry N.R. Jackman has resigned as Chairman and President of E-L Financial. Not surprising, the Board of Directors has elected Duncan Jackman as the new Chairman and President. However, we don't expect any sudden or significant changes anytime soon. Although the reins have been officially handed over, Duncan Jackman will most likely quietly assume his new duties for the time being.

In addition to the succession announcement, E-L Financial recently released operating and financial results for fiscal 2002. Net operating income (before investment gains) declined to \$7.09 per share from \$9.77 in the comparable period last year. Including investments gains, earnings per share fell to \$13.41 in 2002 from \$20.10 in 2001. Unfortunately, gains in the Portfolio Investment segment were offset by declines in both the General Insurance and Life Insurance segments.

Although the audited financial statements have not yet been published, some rough calculations demonstrate a significant valuation discount. For example, take E-L Financial's 2001 book value of \$326 per share and add 2002 earnings of \$13.41, less \$0.50 in dividends. Based on this simple math, E-L Financial is currently trading at 0.6 times its 2002 book value of approximately \$339 per share. As a comparison, Great-West Lifeco recently paid \$44.50 per share for Canada Life. The purchase price implied a price to book multiple of approximately 1.9 times, which is also consistent with the average multiple across the life insurance sector. Further, E-L Financial's net asset value, calculated using the "sum-of-the-parts" method, is significantly higher than book value. We can fine-tune these calculations once the audited financial statements are published, but suffice it to say, E-L Financial trades at a large discount relative to its peers.

The discussion above explains why we are less interested in the Company's potential to generate income than the opportunity to unlock shareholder value through various other means. Duncan Jackman's promotion is just the first step in this process. As we have discussed before, acquisitions, mergers or spin-offs are possible. Dividend increases and share buybacks are also feasible. Although major initiatives are unlikely in the immediate future, positive developments should materialize once Duncan Jackman settles in. This investment is definitely one for the long haul.

ABC Funds  
April 4, 2003

## UPDATES (cont'd)

E-L Financial's stock has had a nice run over the past twelve months, increasing from a low of \$220 to reach a high of \$350 in February. The insurance industry has experienced good pricing power over the past year and this has fueled the run in both life and property and casualty insurance stocks. In 2003 the Company reported net operating income (before investment gains) of \$11.17 per share compared to \$6.08 per share in 2002. Including investment gains, ELF reported earnings of \$12.20 compared to \$12.40 the previous period. We believe that the reduced reliance on investment gains indicate that 2003 earnings are of higher quality. We estimate that book value, after the payment of the small \$0.50 per share dividend, has grown to approximately \$350 per share.

Examining segmented data, we see that general insurance revenue increased 25% to reach \$962.9 million and life insurance revenue increased approximately 15% to reach \$668.9 million. Net income for the general insurance segment declined 8.5% to \$20.3 million. Earnings for this division were negatively impacted when ELF realized a loss on investments of \$13.3 million for the year. Excluding this loss, general insurance earnings would have totaled \$33.6 million, implying a growth rate of 52%. This demonstrates a unique aspect of the insurance industry; investment gains and losses are part of the normal course of business but the timing decision lies with management. Net earnings in the life insurance division showed a 21.4% increase to reach \$14.1 million for the year.

Although the Company has yet to announce any major initiatives, the market has at least begun to notice this undervalued stock. Now that the discount to book value has closed, we expect that the discount to NAV will continue to narrow. We believe that ELF's net asset value could fall within a range of \$450 to \$500 per share but it is difficult to be more precise in our estimate. Should Empire Life be put up for sale, a bidding war for one of last free-standing life insurers could result in a significant premium to book value. As long as insurance pricing remains firm and the stock market holds its gains, ELF should continue to perform well.

ABC Funds

April 4, 2004

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As we reported in our last comment, ELF earned \$12.20 per share including investment gains in 2003 compared to \$12.40 the previous year. Just before the annual general meeting on April 29, the Company released its first quarter results for fiscal 2004. ELF earned \$3.82 per share compared to \$2.89 per share for the comparable period last year, an increase of 32%. Including investment gains, ELF earned \$6.24 per share compared to \$4.41 per share, an increase of 41%. The bulk of the increase in operating earnings came from the General Insurance division, as net income increased 74% to \$13.9 million from \$8.0 million last year. We believe that these results bode well for the full 2004 fiscal year.

Along with the first quarter earnings, ELF announced the declaration of a special dividend of \$24 per share payable to shareholders of record on May 13, 2004. The dividend is payable \$7.20 in cash and \$16.80 in stock (1 common share for every 21.42857 common shares held based on a value of \$360 per common share). The special dividend will allow ELF to recover a \$30.7 million refundable dividend tax credit. While this special dividend might have been largely tax driven, we appreciate being able to put some cash back in our pocket. Although it is too early to tell, it is possible that ELF management may be on a new, more aggressive tact of value creation for shareholders. While no longer dirt cheap, we still believe that ELF has some room to appreciate towards its net asset value of approximately \$450 to \$500.

ABC Funds

April 30, 2004

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We have just received our copy of E-L Financial's 2004 annual report and the details indicate a very profitable year for the insurance underwriter. Net income, excluding investment gains grew an impressive 121% from \$42.9 million to \$94.8 million. The results are even more remarkable when the investment gains are included. Net income including gains grew from \$46.9 million in 2003 to \$129.9 million in 2004, an increase of almost 180%. This equates to earnings per share of \$31.91 in 2004 compared to \$11.66 in fiscal 2003. At current price levels the stock trades below 12 times earnings and only 0.95 times the Company's book value of \$394 per share.

On a segmented basis, we can see that ELF's general insurance operations really drove the results. Net income for this segment increased from \$20 million in 2003 to \$84 million in 2004 on the back of improved underwriting results and solid investment gains. The segment's combined ratio (a measure of underwriting profitability or total expenses divided by net premiums earned) dropped below 100.0 to 97.0 in fiscal 2004. The swing to profitability was driven by rate increases and a reduction in claims frequency. On the life insurance segment side of the business, net income doubled from \$14 million to \$28 million. Better results for wealth management and individual insurance product lines and a large jump in capital and surplus from a rising equity market led to the year over year improvement.

## UPDATES (cont'd)

In terms of relative valuation, ELF trades at a discount to its book value despite the fact that other Canadian insurers are trading at approximately twice this metric. We don't believe ELF will reach this type of multiple due to the illiquid nature of the Company, but we certainly don't think the stock should trade below book value. Although the chances are low, the sale of either the Dominion of Canada General Insurance Company or the Empire Life Insurance Company at a price more reflective of current market multiples would energize this stock. In the meantime, management is creating shareholder value through profitable underwriting and successful investing.

April 15, 2005

ABC Funds

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E-L Financial has been quite a sleeper pick for the ABC Funds in 2005; it has appreciated almost 55% year to date without any fanfare. The share price was driven by solid financial results as all three segments performed well. It is important to note that due to an accounting change, portfolio investments are now reported at fair market value with changes in market value recognized in income in the period in which the change occurs. Although future earnings may appear to be more volatile, the new earnings number will more closely reflect the economic value created or lost through portfolio investments in each particular quarter.

For the first nine months of the year, total net income grew to \$49.79 per share from \$32.56 per share, an increase of 53%. On a segmented basis, the results are equally impressive. Income from corporate investments increased 65% to \$95.0 million from \$57.7 million. Profits from the general insurance division increased 46% to \$80.5 million from \$55.1 million. Finally, earnings from the life insurance division increased 58% to \$28.6 million from \$18.1 million. Book value now totals approximately \$440, so the stock trades at a 20% premium to book. However, we believe that the Company's net asset value is substantially higher than book value, perhaps as high as \$600 to \$650 per share. Patient investors should continue to benefit as the Company quietly goes about its business and creates additional shareholder value.

December 23, 2005

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After attending E-L Financial's annual general meeting of shareholders, we can provide an update on the recently completed fiscal year. In 2005 total premiums reached \$1.6 billion up 4% from \$1.543 billion in 2004. Net income totaled \$130.4 million or \$37.59 per share compared to \$91.4 million or \$26.99 per share. Including gains from the substantial corporate investment portfolio, net earnings were \$86.68 per share in 2005 compared to \$62.67 per share in 2004.

On a segmented basis, the Dominion of Canada General Insurance Company, ELF's property and casualty division, reported solid results. Net income for 2005 was \$139.2 million compared to \$83.7 million a year ago. The results were driven by a lower combined ratio of 90.8% versus 97.0% in 2004 as the hard market (a period of premium rate increases and low claims frequency) continued in 2005. Additionally, strong equity markets led to the realization of \$25 million of gains over the course of the year. All told, the division reported an excellent return on average equity of 25.2%. However, management indicated that the market was beginning to soften, with average premiums declining and claims frequency rising.

ELF's life insurance division, the Empire Life Insurance Company, reported lower net income of \$30.6 million compared to \$35.1 million in 2004. The results were negatively impacted by reserve strengthening to reflect lower interest rates and other changes in actuarial assumptions. On a more positive note, total assets under administration grew 15% in 2005 to reach \$5.8 billion. Segregated fund assets were up 29% due to good equity returns and cash inflows. General fund assets rose 5% due to growth in the life insurance product line.

Now that ELF trades at approximately 1.3 times its book value of \$450 per share, it is important to revisit the valuation. We believe that a sum of the parts valuation is the most appropriate way to value the Company. Property and casualty companies with a good return on equity currently trade at almost twice book value. Life insurance companies also tend to trade at a similar multiple. We are comfortable valuing ELF's investment portfolio at fair market value as reported in the financial statements. Using this methodology, ELF still trades at a discount to its net asset value of \$650 to \$700 per share. Therefore, we are willing to continue to hold the stock unless we see signs of a dramatic softening in the property and casualty market.

ABC Funds

May 5, 2006

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As the shares of E-L Financial grind higher, we have updated our models after the release of the Company's 2006 financial results. Total premiums written increased to \$1.629 billion from \$1.601 billion in 2005. Total revenues increased to \$2.321 billion from \$2.201 billion the previous year. More impressively, net income (including investment gains) increased 26.8% from \$293.7 million or \$86.68 per share to \$372.5 million or \$109.97 per share. Excluding investment gains, net income increased

## UPDATES (cont'd)

8% to \$141.1 million or \$40.44 per share from \$130.4 million or \$37.59 per share the previous year.

ELF's General Insurance division reported net income from underwriting of \$104 million compared to \$119 million as the property and casualty markets softened in 2006. A softer market is generally characterized by declining earned premiums due to pricing and rising claim costs. These trends are expected to continue in 2007. However, the division was swung onside by gains on sales of investments of \$46 million compared to \$20 million the year previously. Bottom line, the General Insurance division earned \$150 million in 2006, compared to \$139 million in 2005, an increase of 7.9%.

Life Insurance showed a tremendous improvement in 2006. Net income was \$20 million compared to nil in 2005. Including the amortization of investment gains and losses, the Life Insurance division reported net income of \$46 million compared to \$24 million in 2005, an increase of over 90%. The Company pointed to lower reserve strengthening and improved claims frequency and severity. The Capital and Surplus Wealth Management segment improved year over year due to the strong performance of the equity markets.

At the corporate level, ELF's investment portfolio reported net income of \$177 million compared to \$131 million, an increase of 35%. Although the gain on sale of investments increased to \$14 million from \$10 million in 2005, the bulk of the gains came from the change in unrealized appreciation of portfolio investments account. The portfolio gained \$97 million in 2006 compared to \$65 million a year ago. Interestingly, on October 17, the Company raised \$100 million from the sale of 4.75% First Preference Shares, which was then invested in equities. ELF has a sizeable amount of money, approximately \$520 million, invested in related vehicles, such as closed-end funds. Additionally, management disclosed that \$210 million is invested with third party investment managers.

We value insurance companies based on the relationship between price to book value and return on equity. Intuitively this makes sense; a company that can generate a higher return on each dollar of equity should trade at a greater premium to the book value of this equity. Based on our work, we believe that ELF should trade approximately 1.5 to 1.6 times its book value. Adjusted for the First Preference shares, we believe that book value is around \$545 per share. This gives us a theoretical value in the range of approximately \$820 to \$875 per share. Even with the recent share price strength, we therefore believe that the shares represent decent value.

### ABC Funds

April 27, 2007

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E-L Financial has not been immune to the recent credit crisis and lack of confidence in financial institutions. The shares have declined from a high of \$750 reached in April 2007 to \$530 today, a drop of approximately 30%. Thankfully, E-L Financial avoided being caught up in the ABCP mess and "anticipates no direct impact from these investments on its future financial condition".

Despite the absence of ABCP on the Company's books, the financial results were negatively impacted by the difficult insurance and investment environment in 2007. Total written premiums were essentially flat year over year at \$1.63 billion. However, total revenues dipped from \$2.32 billion in 2006 to \$2.16 billion in 2007. A more dramatic decline occurred at the net income level, which declined from \$372.5 million or \$109.97 per share to \$210.7 million or \$60.29 per share.

The decline in net income from E-L Financial's corporate investment segment had the largest impact on the financial results. The Company recorded a loss of \$20 million in 2007 on United Corporation Limited (TSX:UNC), a publicly listed closed-end investment company, compared to a gain of \$57 million in 2006. Incidentally, shares of UNC declined just over 11% after several years of strong performance. Additionally, new accounting regulations prevented the Company from reporting the change in unrealized appreciation of portfolio investments in consolidated statements of income, compared to a gain of \$97 million in 2006. All told, net income from the corporate investment segment declined from \$177 million in 2006 to \$22 million in 2007.

E-L Financial's Dominion of Canada General Insurance Company demonstrated decent investment performance offset by a softening of the insurance market. Net income for 2007 was \$144.6 million compared to \$149.5 million a year earlier. Return on average equity was still an impressive 18.9% versus 22.3%. Dominion reported investment gains of \$99.5 million compared to \$45.6 million the previous year. Underwriting deteriorated in 2007, with a combined ratio (total expenses divided by net premiums earned) of 102.9% compared to 93.5% in 2006 as claims severity and frequency increased. We expect this trend to continue in 2008, where gains in the investment portfolio will offset a more difficult underwriting environment.

The Empire Life Insurance Company division reported net income of \$54.7 million in 2007 compared to \$57.5 million in 2006. Adjusting for minority interests, Empire contributed to \$43.6 million to E-L Financial's bottom line in 2007 compared to \$45.8 million in 2006. Again, weakness in its three product lines (wealth management, employee benefits and individual insurance)

## **UPDATES (cont'd)**

were partially offset by increased investment income and reduced income taxes.

With the decline in year over year net income, related to both softening insurance markets and changes in accounting regulations, it is not surprising that the shares have come under some pressure. However, with book value of \$622 (adjusted for two series of preferred shares) and net earnings of \$60.29 per basic share, we believe that the shares are oversold. At current price levels the shares are trading at 0.85 times book value and below 9 times trailing earnings. As fears in the credit market abate, investors will eventually return to high quality financial names. Investors just need to be patient in the current environment.

ABC Funds  
April 4, 2008