canada life™

The Canada Life Assurance Company

Management's discussion and analysis

First-quarter results

For the period ended March 31, 2021

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS - QUARTERLY HIGHLIGHTS

FOR THE PERIOD ENDED MARCH 31, 2021

DATED: MAY 5, 2021

This Interim Management's Discussion and Analysis - Quarterly Highlights (MD&A - Quarterly Highlights) for the three months ended March 31, 2021 provides material updates to the business operations, liquidity and capital resources of Canada Life since December 31, 2020. This Interim MD&A - Quarterly Highlights has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. This Interim MD&A - Quarterly Highlights should be read in conjunction with the Company's condensed consolidated interim unaudited financial statements for the periods ended March 31, 2021. Also refer to the consolidated annual audited financial statements of Canada Life for the year ended December 31, 2020 and the notes thereto, available under the Company's profile at www.sedar.com. The condensed consolidated interim unaudited financial statements of the Company, which are the basis for data presented in this Interim MD&A - Quarterly Highlights, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A may contain forward-looking information. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "will", "may", "expects", "anticipates", "intends", "plans", "believes", "estimates", "objective", "target", "potential" and other similar expressions or negative versions thereof. These statements include, without limitation, statements about the Company's operations, business, financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, anticipated global economic conditions and possible future actions by the Company, including statements made with respect to the expected cost (including deferred consideration), benefits, timing of integration activities and revenue and expense synergies of acquisitions and divestitures, expected capital management activities and use of capital, estimates of risk sensitivities affecting capital adequacy ratios, expected dividend levels, expected cost reductions and savings, expected expenditures or investments (including but not limited to investment in technology infrastructure and digital capabilities), the impact of regulatory developments on the Company's business strategy and growth objectives, the expected impact of the current pandemic health event resulting from the novel coronavirus ("COVID-19") and related economic and market impacts on the Company's business operations, financial results and financial condition.

Forward-looking statements are based on expectations, forecasts, estimates, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance, mutual fund and retirement solutions industries. They are not guarantees of future performance, and the reader is cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Whether or not actual results differ from forward-looking information may depend on numerous factors, developments and assumptions, including, without limitation, the severity, magnitude and impact of the novel coronavirus (COVID-19) pandemic (including the effects of the COVID-19 pandemic and the effects of governments' and other businesses' responses to the COVID-19 pandemic on the economy and the Company's financial results, financial condition and operations), the duration of COVID-19 impacts and the availability and adoption of vaccines, assumptions around sales, fee rates, asset breakdowns, lapses, plan contributions, redemptions and market returns, customer behaviour (including customer response to new products), the Company's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, reinsurance arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets (including continued access to equity and debt markets), industry sector and individual debt issuers' financial conditions (including developments and volatility arising from the COVID-19 pandemic, particularly in certain industries that may comprise part of the Company's investment portfolio), business competition, impairments of goodwill and other intangible assets, the Company's ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, the Company's ability to complete strategic transactions and integrate acquisitions, unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements, levels of administrative and operational efficiencies, changes in trade organizations, and other general economic, political and market factors in North America and internationally.

The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in the Canada Life's 2020 Annual MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", which, along with other filings, is available for review at www.sedar.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking information.

Other than as specifically required by applicable law, the Company does not intend to update any forward-looking information whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES
This Interim MD&A - Quarterly Highlights contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "constant currency basis", "impact of currency movement", "premiums and deposits", "sales", "assets under management" and "assets under administration". Non-IFRS financial measures are used to provide management and investors with additional measures of performance to help assess results where no comparable IFRS measure exists. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies. Refer to the "Non-IFRS Financial Measures" section in this MD&A for the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS as well as additional details on each measure.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information
(in Canadian $ millions)

	As at or for the three months ended		
	March 31 2021	Dec. 31 2020	March 31 2020
Earnings			
Participating account[1]	**$ 25**	$ 1	$ 10
Common shareholder[2]	**652**	772	399
Total net earnings	**677**	773	409
Total premiums and deposits[3][4]	**$ 24,006**	$ 20,727	$ 22,857
Fee and other income	**824**	815	776
Net policyholder benefits, dividends and experience refunds	**10,128**	9,300	8,282
Total assets per financial statements	**$ 392,842**	$ 396,290	$ 353,918
Proprietary mutual funds and institutional assets[3]	**73,307**	74,045	67,077
Total assets under management[3]	**466,149**	470,335	420,995
Other assets under administration[3]	**29,727**	29,425	66,468
Total assets under administration[3]	**$ 495,876**	$ 499,760	$ 487,463
Participating account surplus	**$ 2,856**	$ 2,858	$ 2,833
Non-controlling interests	**24**	25	23
Shareholders' equity	**20,420**	20,174	20,069
Total equity	**$ 23,300**	$ 23,057	$ 22,925
LICAT Ratio[5]	**123 %**	129 %	133 %

(1) The fourth quarter of 2020 results for the participating account include restructuring costs of $18 million related to strategic initiatives in the Canada business unit.
(2) The fourth quarter of 2020 results include a net gain of $143 million related to the sale of GLC Asset Management Group Ltd, as well as restructuring cost of $34 million related to strategic initiatives in the Canadian line of business.
(3) This metric is a non-IFRS measure. Refer to "Non-IFRS Financial Measures" section of this document for additional details.
(4) Comparative figures have been reclassified to reflect presentation adjustments.
(5) The Life Insurance Capital Adequacy Test (LICAT) Ratio is detailed within the "Capital Management and Adequacy" section.

COVID-19 PANDEMIC IMPACTS

The COVID-19 pandemic continues to cause material disruption to businesses globally, resulting in continued economic pressures. While several vaccines for COVID-19 have been approved, the availability and uncertainty around the effectiveness of vaccines and the emergence of COVID-19 variants that could be more contagious have created further economic uncertainty. Governments in some regions in which the Company operates have instituted tighter lockdown restrictions that have caused further economic uncertainty. However, governments and central banks continue to provide significant monetary and fiscal interventions designed to stabilize economic conditions.

The Company's financial outlook for the remainder of 2021 will depend in part on the duration and intensity of the COVID-19 pandemic impacts and the availability and adoption of vaccines. The impact of the pandemic on mortality, longevity, disability and other claims experience in future periods remains uncertain, however, net impacts have not been material. The Company continues to manage risks of changes to mortality and longevity rates by issuing a diversified range of insurance and annuity products along with using reinsurance and capital market solutions.

The Company’s well-diversified businesses, combined with business strength, resilience and experience, puts the Company in a strong position to manage the current environment and leverage opportunities for the future. Canada Life's strategies are equally resilient and flexible, positioning the Company to manage through the recovery and continue to identify and pursue opportunities, including organic growth and acquisition activities, while supporting customers and employees in a new environment.

2021 DEVELOPMENTS

- Subsequent to the first quarter of 2021, the Company lifted the deferral period for redemptions and transfers from Irish Life's pensions Irish property fund as well as the suspension on redemptions and transfers out of its Canadian real estate investment funds. These measures were originally put in place in March 2020 due to economic conditions caused by the COVID-19 pandemic which lead to valuation uncertainty in the real estate industry. This follows the removal of third party appraisal uncertainty clauses in the Irish property market and confidence returning over the valuation of underlying properties as a result of increased market activity. The deferral period remains in place for Irish Life’s smaller Irish property fund. Processes remain in place to facilitate hardship, death claims and certain other withdrawals as required for this fund.
- During the first quarter of 2021, the Company launched new products and services to improve customer experience and help customers meet their financial and wellness objectives:
    - Canada Life announced that My Term, a new customizable product that allows the Company's customers to choose the coverage option that works best for them, would be launching in April 2021. With term length options between five and 50 years, a yearly renewable term structure and conversion options, Canada Life My Term is among the most adaptable in the industry.
    - Canada Life began providing HumanisRx’s MedCheckUp program to Canada Life customers who are receiving disability benefits and have complex or unique medication needs. Canada Life is the first national insurer to offer medication reviews for disability.
- On March 18, 2021, the Company announced it had entered into a longevity reinsurance agreement with an insurance company in the Netherlands. The agreement covers approximately €4.7 billion of pension liabilities and approximately 104,500 in-payment and deferred policies. In exchange for ongoing premium payments, Canada Life will pay the actual benefit obligations incurred by the insurance company.
- In the first quarter of 2021, the Company entered into a long-term reinsurance agreement with a life insurance company in Japan. The agreement covers a block of in-force whole life policies. In exchange for a single up-front premium payment, Canada Life will pay the actual benefit obligations incurred by the insurance company.
- On April 26, 2021, the Company introduced an advisor platform named Advisor Solutions. In doing so, Canada Life is evolving the way the Company partners with advisors who do business with the Company directly. Through this platform, Canada Life will offer support based on the needs and characteristics of advisors’ individual practices.
- The Company offers property catastrophe coverage to reinsurance companies. Current preliminary estimates of industry losses arising from catastrophe events in Texas and other southern U.S. states in the first quarter of 2021 are still developing. As a retrocessionaire, any precautionary claim notifications are unlikely to be received for some period of time and, as a result, no provision was recorded in the first quarter of 2021. The Company will continue to monitor events and update any estimates as required, however, material losses are not expected.
- The recent Group Protection industry survey 'Group Watch 2021' from Swiss Re confirmed Canada Life U.K. as the leading provider by in-force premium, policies and lives insured. The survey highlights Canada Life’s growth in the U.K. in 2020, during the pandemic supported by the extension of digital services for customers. On March 1, 2021, access to Canada Life U.K.’s 'WeCare' was extended to cover Group Income Protection customers as well as for smaller employers via the CLASS portal. 'WeCare' provides an extensive range of virtual services to support the improvement of the physical, mental and financial well-being of employees.

- In the first quarter of 2021, Canada Life U.K.'s Retirement Account product received a 5 (out of 5) star rating from Defaqto, an independent service that evaluates the features and benefits of financial products for consumers.

NET EARNINGS

Net earnings - common shareholders

	For the three months ended		
	March 31 2021	Dec. 31 2020	March 31 2020
Attributable to participating account			
Net earnings before policyholder dividends[1]	**$ 377**	$ 343	$ 365
Policyholder dividends	**352**	342	355
Total attributable to participating account	**$ 25**	$ 1	$ 10
Common shareholder			
Canada	**$ 283**	$ 181	$ 161
Europe	**211**	285	122
Capital and Risk Solutions	**156**	181	100
Corporate[2]	**2**	125	16
Total common shareholder[2]	**$ 652**	$ 772	$ 399
Total net earnings[1][2]	**$ 677**	$ 773	$ 409

(1) The fourth quarter of 2020 results for the participating account include restructuring costs of $18 million related to strategic initiatives in the Canada business unit.
(2) The fourth quarter of 2020 results include a net gain of $143 million related to the sale of GLC Asset Management Group Ltd, as well as restructuring cost of $34 million related to strategic initiatives in the Canadian line of business.

For the three months ended March 31, 2021, total net earnings were $677 million compared to $409 million a year ago.

Net earnings attributable to the participating account
For the three months ended March 31, 2021, net earnings attributable to the participating account, after paying policyholder dividends of $352 million in the first quarter of 2021 and $355 million in the same quarter last year, were $25 million compared to $10 million a year ago.

Net earnings attributable to the common shareholder
For the three months ended March 31, 2021, net earnings attributable to the common shareholder (net earnings) were $652 million up from $399 million a year ago. The increase was primarily due to the impact of higher equity market levels in most jurisdictions which resulted in more favourable contributions from actuarial assumption changes and other management actions and lower unfavourable market-related impacts on liabilities. Net earnings in the first quarter of 2020 reflected the impacts of significant market declines and volatility driven by the onset of the COVID-19 pandemic. In addition, net earnings in the first quarter of 2021 increased as a result of business growth in the Capital and Risk Solutions business unit, favourable morbidity experience in the Europe and Canada business units as well as annuitant experience in Europe.

MARKET IMPACTS

Market-Related Impacts
In the regions where the Company operates, average equity market levels for the three months ended March 31, 2021 were higher in the U.S., Canada and broader Europe and lower in the United Kingdom (U.K.) compared to the same period in 2020. Markets ended the quarter at higher levels compared to December 31, 2020.

Comparing the first quarter of 2021 to the first quarter of 2020, average equity market levels were up by 26% in the U.S. (as measured by S&P 500), up 13% in Canada (as measured by S&P TSX), up 8% in broader Europe (as measured by EURO STOXX 50) and down 3% in the U.K. (as measured by FTSE 100). The major equity indices finished the first quarter of 2021 up by 7% in Canada, 6% in the U.S., 4% in the U.K. and 10% in broader Europe compared to December 31, 2020.

In countries where the Company operates, interest rates increased while credit spreads remained consistent during the quarter.

Market-related impacts on liabilities negatively impacted net earnings by $22 million in the first quarter of 2021 (negative impact of $137 million in the first quarter of 2020), primarily due to updated cash flow projections for real estate which support insurance contract liabilities. In the first quarter of 2020, negative market-related impacts were $137 million reflecting the unfavourable impacts of a decline in equity markets and interest rates in-period, driven by the COVID-19 pandemic, which impacted the value of segregated fund and variable annuity guarantees, including related hedging ineffectiveness, as well as the valuation of insurance contract liabilities which are supported by equities and real estate.

In order to mitigate the Company's exposure to interest rate fluctuations, the Company follows disciplined processes for matching asset and liability cash flows. As a result, the impact of changing interest rates is mostly mitigated in the current period, including the impact of changes in fair values of bonds backing insurance contract liabilities recorded through profit or loss which was mostly offset by a corresponding change in the insurance contract liabilities.

For a further description of the Company's sensitivity to equity market and interest rate fluctuations, refer to "Financial Instruments Risk Management", note 5 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2021.

Foreign Currency

The average currency translation rate for the first quarter of 2021 decreased for the U.S. dollar and increased for the euro and the British pound compared to the first quarter of 2020. The overall impact of currency movement on the Company's net earnings for the three months ended March 31, 2021 was an increase of $4 million compared to translation rates a year ago.

From December 31, 2020 to March 31, 2021, the market rates at the end of the reporting period used to translate U.S. dollar, euro and British pound assets and liabilities to the Canadian dollar decreased. The movements in end-of-period market rates resulted in a post-tax unrealized foreign exchange loss from the translation of foreign operations, including related hedging activities, of $277 million in-quarter recorded in other comprehensive income.

Throughout this document, a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis" and "impact of currency movement". These non-IFRS measures have been calculated using the average or period-end rates, as appropriate, in effect at the date of the comparative period. These non-IFRS measures provide useful information as they facilitate the comparability of results between periods. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Translation rates for the reporting period and comparative periods are detailed in the "Translation of Foreign Currency" section.

Credit Markets

As a result of the COVID-19 pandemic, many areas of the credit markets exhibited extreme volatility in March of 2020 with spreads widening in investment grade and high yield markets. However, since March 2020, credit spreads narrowed significantly. Some downgrades have been seen across industries from the rating agencies, particularly to issuers in sectors most affected by economic shutdowns or perceived deterioration in future business models. The Company experienced a lower impact from downgrades during the first quarter of 2021 compared to the first quarter of 2020. Depending on the length of the shutdowns and recovery of the economy there could be a larger impact from downgrades in future periods.

In the first quarter of 2021, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholder's net earnings by $1 million ($2 million net negative impact in the first quarter of 2020). Net charges on impaired investments reflect net allowances for credit losses included in net investment income and the associated release of actuarial provisions for future credit losses, as applicable. Changes in credit ratings in the Company's fixed income portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholder's net earnings by $4 million ($17 million net negative impact in the first quarter of 2020), primarily due to downgrades of various corporate bond holdings.

ACTUARIAL ASSUMPTION CHANGES AND MANAGEMENT ACTIONS

During the first quarter of 2021, actuarial assumption changes and management actions resulted in a positive net earnings impact of $5 million compared to a negative impact of $49 million for the same quarter last year.

In Europe, net earnings were positively impacted by $18 million, primarily due to updated economic assumptions. In Canada, net earnings were negatively impacted by $13 million primarily due to valuation model refinements.

INCOME TAXES

The Company's effective income tax rate is generally lower than the statutory income tax rate of 26.50% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

In the first quarter of 2021, the Company had an overall effective income tax rate of 8.6%, which is up from negative 4.9% in the first quarter of 2020. The increase in the effective income tax rate for the first quarter of 2021 was primarily due to a favourable tax item in the first quarter of 2020 in the U.K., driven by market movements, which contributed a 9.0 point decrease but had a negligible impact in the first quarter of 2021. In addition, the increase in the effective income tax rate in the first quarter of 2021 is also due to a change in the jurisdictional mix of earnings.

The effective income tax rate for the shareholder account for the first quarter of 2021 was 11.5% compared to negative 2.0% for the first quarter of 2020.

Refer to note 12 in the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2021 for further details.

PREMIUMS AND DEPOSITS AND SALES

Premiums and deposits[1]	**For the three months ended**		
	March 31 2021	Dec. 31 2020	March 31 2020
Canada[2]	**$ 7,675**	$ 7,017	$ 7,000
Europe	**8,523**	7,926	10,901
Capital and Risk Solutions[3]	**7,447**	5,319	4,584
Corporate	**361**	465	372
Total premiums and deposits[1][2]	**$ 24,006**	$ 20,727	$ 22,857

Sales[1][3]	**For the three months ended**		
	March 31 2021	Dec. 31 2020	March 31 2020
Canada	**$ 4,733**	$ 3,729	$ 3,632
Europe	**7,314**	6,904	10,109
Total sales[1][3]	**$ 12,047**	$ 10,633	$ 13,741

(1) This metric is a non-IFRS measure. Refer to "Non-IFRS Financial Measures" section of this document for additional details.
(2) Comparative figures have been reclassified to reflect presentation adjustments.
(3) Sales is not a relevant measure for the Capital and Risk Solutions business unit due to the nature of operations.

Premiums and deposits
Premiums and deposits for the first quarter of 2021 increased by $1.1 billion to $24.0 billion compared to the same quarter last year. The increase was primarily due to new reinsurance agreements and higher volumes relating to existing business in the Capital and Risk Solutions business unit as well as an increase in segregated fund deposits in Canada. The reinsurance agreement entered into in Japan contributed $1.4 billion to the increase in the Capital and Risk Solutions business unit. The increase was partially offset by lower fund management sales in Europe.

Sales
Sales for the first quarter of 2021 decreased by $1.7 billion to $12.0 billion compared to the same quarter last year, primarily due to lower fund management sales and lower pension sales in the Europe business unit, partially offset by higher large case group wealth and insurance sales as well as higher individual wealth mutual fund sales in the Canada business unit.

FEE AND OTHER INCOME
In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, as well as administrative services only (ASO) contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income	**For the three months ended**		
	March 31 2021	Dec. 31 2020	March 31 2020
Canada	**$ 454**	$ 446	$ 425
Europe	**353**	351	333
Capital and Risk Solutions	**2**	3	3
Corporate	**15**	15	15
Total fee and other income	**$ 824**	$ 815	$ 776

Fee and other income for the first quarter of 2021 of $824 million increased by $48 million compared to the same quarter last year, primarily due to higher fee income as a result of higher average assets under administration, primarily driven by higher average equity market levels, as well as the impact of currency movement in Europe.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration[(1)]

	March 31 2021	December 31 2020
Assets		
Invested assets	$ **143,120**	$ 146,154
Goodwill and intangible assets	**8,604**	8,636
Other assets	**24,252**	25,450
Investments on account of segregated fund policyholders	**216,866**	216,050
Total assets	**392,842**	396,290
Proprietary mutual funds and institutional assets[(1)]	**73,307**	74,045
Total assets under management[(1)]	**466,149**	470,335
Other assets under administration[(1)]	**29,727**	29,425
Total assets under administration[(1)]	$ **495,876**	$ 499,760

(1) This metric is a non-IFRS measure. Refer to "Non-IFRS Financial Measures" section of this document for additional details.

Total assets under administration at March 31, 2021 decreased by $3.9 billion to $495.9 billion compared to December 31, 2020, primarily due to the impact of currency movement, partially offset by the impact of equity market movement.

INVESTED ASSETS

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. Within the framework of the Company's policies, the Company implements strategies and reviews and adjusts them on an ongoing basis considering liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Single Family Residential Mortgages

Region	March 31, 2021		December 31, 2020	
Ontario	**$ 1,096**	**54 %**	$ 1,106	54 %
Quebec	**395**	**19**	405	20
Alberta	**107**	**5**	110	5
Saskatchewan	**99**	**5**	99	5
Newfoundland	**89**	**4**	91	4
British Columbia	**82**	**4**	87	4
New Brunswick	**59**	**3**	57	3
Nova Scotia	**52**	**3**	53	3
Manitoba	**52**	**3**	51	2
Other	**4**	**—**	4	—
Total	**$ 2,035**	**100 %**	$ 2,063	100 %

During the three months ended March 31, 2021, single family mortgage originations, including renewals, were $160 million, of which 22% were insured (24% at December 31, 2020). Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfill their mortgage obligations. Loans that are insured are subject to the requirements of the mortgage default insurance provider. For new originations of non-insured residential mortgages, the Company's investment policies limit the amortization period to a maximum of 25 years and the loan-to-value ratio to a maximum of 80% of the purchase price or current appraised value of the property. The weighted average remaining amortization period for the single family residential mortgage portfolio was 21 years as at March 31, 2021 (21 years as at December 31, 2020).

LIABILITIES

Total liabilities

	March 31 2021	December 31 2020
Insurance and investment contract liabilities	**$ 141,665**	$ 146,004
Preferred shares	**1,000**	1,000
Other general fund liabilities	**10,011**	10,179
Investment and insurance contracts on account of segregated fund policyholders	**216,866**	216,050
Total	**$ 369,542**	$ 373,233

Total liabilities decreased by $3.7 billion to $369.5 billion at March 31, 2021 from December 31, 2020.

Investment and insurance contracts on account of segregated fund policyholders increased by $0.8 billion, primarily due to the combined impact of market value gains and investment income of $5.4 billion and net deposits of $0.1 billion, partially offset by the impact of currency movement of $4.8 billion. Insurance and investment contract liabilities decreased by $4.3 billion, primarily due to fair value adjustments and the impact of currency movement, partially offset by the impact of new business. Other general fund liabilities decreased by $0.2 billion, primarily due to a decrease in other liabilities of $0.3 billion, partially offset by an increase in accounts payable of $0.1 billion.

EQUITY
The Company is a wholly-owned subsidiary of Lifeco. The Company's share capital consists of common shares and preferred shares issued by the Company. At March 31, 2021, there were 2,407,384 common shares of the Company issued and outstanding with a stated value of $7,884 million (2,407,384 and $7,884 million as at December 31, 2020).

Participating account surplus and shareholders' equity
As at March 31, 2021, the Company's total participating account surplus and shareholders' equity was $23.3 billion, compared to $23.1 billion at December 31, 2020. The increase was primarily due to net earnings of $0.7 billion, partially offset by a decrease in accumulated surplus of $0.4 billion due to dividends paid on common shares.

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY
The Company's liquidity requirements are largely self-funded, with short-term obligations being met by internal funds and maintaining levels of liquid investments adequate to meet anticipated liquidity needs. At March 31, 2021, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of $4.6 billion ($5.4 billion at December 31, 2020) and other liquid assets and marketable securities of $78.7 billion ($80.9 billion at December 31, 2020). In addition, the Company maintains committed lines of credit with Canadian chartered banks for unanticipated liquidity needs, if required.

The Company does not have a formal common shareholder dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital and availability of cash resources.

The Company's ability to pay dividends and, in part, its ability to deploy capital is dependent upon the Company receiving dividends from its subsidiaries. The Company's subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company. Regulators in Canada and the U.K., where some of the Company's regulated subsidiaries operate, have maintained the guidance they provided in 2020 on the payment of dividends and other shareholder distributions during the ongoing pandemic. In Ireland, the Central Bank of Ireland (CBI) updated its previous guidance to cap dividends by significant insurance firms during the first three quarters of 2021. Irish Life Assurance plc is a significant insurance firm for this purpose but the Company's other regulated operating Irish subsidiaries are not.

CASH FLOWS

Cash flows

	For the three months ended March 31	
	2021	2020
Cash flows relating to the following activities:		
Operations	**$ 2,215**	$ 675
Financing	**(419)**	(569)
Investment	**(1,745)**	(183)
	51	(77)
Effects of changes in exchange rates on cash and cash equivalents	**(46)**	112
Increase in cash and cash equivalents in the period	**5**	35
Cash and cash equivalents, beginning of period	**3,105**	3,236
Cash and cash equivalents, end of period	**$ 3,110**	$ 3,271

The principal source of funds for the Company on a consolidated basis is cash provided by operating activities, including premium income, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Cash flows related to financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the first quarter of 2021, cash and cash equivalents increased by $5 million from December 31, 2020. Cash flows provided by operations during the first quarter of 2021 were $2,215 million, an increase of $1,540 million compared to the first quarter of 2020, primarily due to the impact of a new reinsurance agreement. Cash flows used in financing of $419 million were used for the payment of dividends on common shares. For the three months ended March 31, 2021, cash flows were used by the Company to acquire an additional $1,745 million of investment assets.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations have not changed materially from December 31, 2020.

CAPITAL MANAGEMENT AND ADEQUACY

The Company’s practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. Other foreign operations and foreign subsidiaries are required to comply with local capital or solvency requirements in their respective jurisdictions.

In Canada, OSFI has established a regulatory capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test (LICAT).

The LICAT Ratio compares the regulatory capital resources of a company to its required capital. The required capital is calibrated so that a life insurer can both withstand severe stress events and support the continuity of existing business. The LICAT guideline uses a risk-based approach for measuring specific life insurer risks and for aggregating the results to calculate the amount of a life insurer’s capital requirements.

OSFI has established a Supervisory Target Total Ratio of 100%, and a Supervisory Minimum Total Ratio of 90%. The internal target range of the LICAT Ratio for Lifeco's major Canadian operating subsidiary is 110% to 120% (on a consolidated basis).

The LICAT ratio at March 31, 2021 for Canada Life was 123% (129% at December 31, 2020). The six point decrease in the LICAT Ratio from December 31, 2020 is primarily due to the rising risk free interest rates in the quarter. The continued phasing in of the impact of the LICAT interest rate scenario shift in North America during 2020 contributed a one point decrease to the ratio this quarter. The growth in capital requirements from new business and investment activities was partly offset by in-period net earnings.

The following provides a summary of the LICAT information and ratios for Canada Life:

LICAT Ratio	**March 31 2021**	Dec. 31 2020
Tier 1 Capital	**$ 11,750**	$ 11,593
Tier 2 Capital	**4,174**	4,568
Total Available Capital	**15,924**	16,161
Surplus Allowance & Eligible Deposits	**13,378**	14,226
Total Capital Resources	**$ 29,302**	$ 30,387
Required Capital	**$ 23,909**	$ 23,607
Total Ratio (OSFI Supervisory Target = 100%)(1)	**123 %**	129 %

(1) Total Ratio (%) = (Total Capital Resources / Required Capital)

LICAT Sensitivities

Caution Related to Sensitivities

This section includes estimates of sensitivities for certain risks. Actual results can differ significantly from these estimates for a variety of reasons including:

- Assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;
- Actual experience differing from the assumptions;
- Changes in business mix, effective income tax rates and other market factors;
- Interactions among these factors and assumptions when more than one changes; and
- The general limitations of the Company's internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on the Canada Life consolidated LICAT Ratio will be as indicated.

Publicly Traded Common Stocks

The following table sets out the estimated immediate impact to Canada Life's consolidated LICAT Ratio of certain instantaneous changes in publicly traded common stock values as at March 31, 2021. These sensitivity estimates assume instantaneous shocks, followed by a return to historical average growth levels for broader equity markets. The sensitivity estimates relate to publicly traded common stocks and do not cover other non-fixed income assets. These estimates are illustrative as actual equity exposures may vary due to active management of the public stock portfolios.

Immediate change in publicly traded common stock values	**March 31, 2021**			
	20% increase	**10% increase**	**10% decrease**	**20% decrease**
Potential increase (decrease) on LICAT Ratio	1 point	1 point	0 points	0 points

Interest Rates
Sensitivity to interest rates is dependent on many factors and may result in non-linear impacts to the LICAT Ratio. Canada Life's consolidated LICAT Ratio will generally increase in an environment of declining interest rates and vice-versa. Lower interest rates will increase the value of the Company's surplus assets and other regulatory capital resources. These sensitivity estimates are illustrative. Actual movement in credit spreads or government treasury rates may produce different movements in Canada Life's consolidated LICAT Ratio. These sensitivities do not include a change in the ultimate interest rates outlined in Actuarial Standards.

Immediate parallel shift in yield curve	March 31, 2021	
	50 bps increase	50 bps decrease
Potential increase (decrease) on LICAT Ratio	(2 points)	3 points

LICAT sensitivities are rounded to the nearest point. Impact of a LICAT interest rate risk scenario shift is not included in the sensitivity estimates.

LICAT Interest Rate Scenario Shift
The LICAT interest rate requirements are based on the results of the most adverse of four scenarios. The determination of the most adverse scenario is dependent on government treasury rates and credit spreads, as well as the position of the Company's assets and liabilities. A change in the level and term structure of interest rates used can cause a shift in the interest rate scenario applied in the LICAT calculation. This results in a discontinuity where capital requirements can change materially. OSFI prescribes a smoothing calculation to address potential volatility in the interest rate requirement for participating insurance products. The smoothing calculation averages the participating interest rate risk requirements over the trailing six quarters, thereby reducing unwarranted volatility.

During the third quarter of 2020, the Company experienced a shift to a different most adverse interest rate scenario in North America. The Company previously communicated that a shift to a different adverse scenario was estimated to decrease the Company's consolidated LICAT Ratio by approximately 5.5 points. This impact is spread over a six quarter period resulting in less than a 1 point decrease in the current quarter ratio with the remaining decrease of approximately 3 points being reflected over the next 3 quarters, if the Company remains on the current scenario.

OSFI Regulatory Capital Initiatives
OSFI issued an Advisory effective for January 1, 2021, which confirmed the interest rate risk smoothing calculation on participating insurance, and provided clarification of available capital for certain participating insurance blocks. The available capital clarification impacted the March 31, 2021 LICAT Ratio by less than 1 point. The Advisory will remain in effect until January 1, 2023, when it will be subsequently incorporated into the LICAT guideline.

The Company will continue to work with OSFI, the Canadian Institute of Actuaries, and other industry participants, as the LICAT guideline further evolves to allow for adaptations relating to the IFRS 17 accounting standard and developments relating to Segregated Fund Guarantee Risk requirements.

The International Accounting Standards Board (IASB) has issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* with an effective date of January 1, 2023. IFRS 17 includes new requirements for the recognition, measurement, presentation and disclosure of insurance contracts the Company issues and reinsurance contracts it holds. The new standard is expected to have a significant impact for insurers related to the timing of earnings recognition and on the presentation and disclosure of results. Adoption of the standard is expected to lead to further review and possible amendments to the OSFI LICAT Guideline. Refer to the "Accounting Policies - International Financial Reporting Standards" section of the Company's 2020 Annual MD&A for further details.

RISK MANAGEMENT AND CONTROL PRACTICES

The Company's Enterprise Risk Management (ERM) Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to risk and potential losses. The Company's Risk Function is responsible for establishing and maintaining the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company's operations. The Board of Directors is ultimately responsible for the Company's risk governance and associated risk policies. These include the ERM Policy, which establishes the guiding principles of risk management, and the RAF, which reflects the levels and types of risk that the Company is willing to accept to achieve its business objectives. During the first quarter of 2021, there were no significant changes to the Company's risk management and control practices, including the risks (financial, operational, regulatory and other risks) related to the COVID-19 pandemic. Refer to the Company's 2020 Annual MD&A for a detailed description of the Company's risk management and control practices.

ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

There were IFRS changes in 2021 which did not have a significant impact on the Company. As well, due to the evolving nature of IFRS, there are changes to standards that could impact the Company in future reporting periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

The Company adopted the *Interest Rate Benchmark Reform – Phase 2* amendments to IFRS for IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts* and IFRS 16, *Leases,* effective January 1, 2021. The adoption of these amendments did not have a significant impact on the Company's consolidated financial statements.

In February 2021, the IASB published *Disclosure of Accounting Policies*, amendments to IAS 1, *Presentation of Financial Statements*. The amendments clarify how an entity determines whether accounting policy information is material. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company is evaluating the impact for the adoption of these amendments.

In February 2021, the IASB published *Definition of Accounting Estimates*, amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarify the difference between an accounting policy and an accounting estimate. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company is evaluating the impact for the adoption of these amendments.

For a further description of accounting policies, including future accounting standard changes, refer to note 2 of the Company's annual consolidated financial statements for the period ended December 31, 2020.

There have been no other significant changes to the future accounting policies that could impact the Company, in addition to the disclosure in the December 31, 2020 Annual MD&A.

OTHER INFORMATION

NON-IFRS FINANCIAL MEASURES

The Company uses several non-IFRS measures to measure overall performance of the Company and to assess each of its business units. A financial measure is considered a non-IFRS measure for Canadian securities law purposes if it is presented other than in accordance with generally accepted accounting principles used for the Company's consolidated financial statements. The consolidated financial statements of the Company have been prepared in compliance with IFRS as issued by the IASB. Non-IFRS measures do not have a standardized meaning under IFRS and may not be comparable to similar financial measures presented by other issuers.

Premiums and deposits
Total premiums and deposits include premiums on risk-based insurance and annuity products net of ceded reinsurance (as defined under IFRS), premium equivalents on self-funded group insurance ASO contracts, deposits on individual and group segregated fund products as well as deposits on proprietary mutual funds and institutional accounts. This measure provides an indicator of top-line growth.

Premiums and deposits[1]	For the three months ended		
	March 31 2021	Dec. 31 2020	March 31 2020
Amounts reported in the financial statements			
Net premium income (Life insurance, guaranteed annuities and insured health products)	**$ 11,948**	$ 10,809	$ 8,994
Policyholder deposits (segregated funds)	**6,155**	5,139	5,857
Premiums and deposits reported in the financial statements	**18,103**	15,948	14,851
Self-funded premium equivalents (ASO contracts)	**859**	846	812
Proprietary mutual funds and institutional deposits	**5,044**	3,933	7,194
Total premiums and deposits[1]	**$ 24,006**	$ 20,727	$ 22,857

(1) Comparative figures have been reclassified to reflect presentation adjustments.

Assets under management (AUM) and assets under administration (AUA)
Assets under management and assets under administration are non-IFRS measures that provide an indicator of the size and volume of the Company's overall business.

Assets under management include internally and externally managed funds where the Company has oversight of the investment policies. Services provided in respect of assets under management include the selection of investments, the provision of investment advice and discretionary portfolio management on behalf of clients.

Other assets under administration includes assets where the Company only provides administration services for which the Company earns fees and other income. These assets are beneficially owned by the clients and the Company does not direct the investing activities. Services provided relating to assets under administration include recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

Total assets under administration includes total assets per financial statements, proprietary mutual funds and institutional net assets and other assets under administration.

Assets under administration	**March 31 2021**	Dec. 31 2020	March 31 2020
Total assets per financial statements	**$ 392,842**	$ 396,290	$ 353,918
Proprietary mutual funds and institutional assets	**73,307**	74,045	67,077
Total assets under management	**466,149**	470,335	420,995
Other assets under administration	**29,727**	29,425	66,468
Total assets under administration	**$ 495,876**	$ 499,760	$ 487,463

Sales

Sales is a non-IFRS measure for which there is no comparable measure in IFRS and is an indicator of new business growth. Sales are measured according to product type:

- For risk-based insurance and annuity products, sales include 100% of single premium and annualized premiums expected in the first twelve months of the plan.
- Group insurance and ASO sales reflect annualized premiums and premium equivalents for new policies and new benefits covered or expansion of coverage on existing policies.
- For individual wealth management products, sales include deposits on segregated fund products, proprietary mutual funds and institutional accounts as well as deposits on non-proprietary mutual funds.
- For group wealth management products, sales include assets transferred from previous plan providers and the expected annual contributions from the new plan.

Impact of currency movement

Items impacting the Company's Consolidated Statements of Earnings, such as income and benefits and expenses and net earnings, are translated into Canadian dollars at an average rate for the period. For items impacting the Company's Consolidated Balance Sheets, such as assets and liabilities, period end rates are used for currency translation purposes.

Throughout this document a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis" and "impact of currency movement". These measures highlight the impact of changes in currency translation rates on Canadian dollar equivalent IFRS results and have been calculated using the average or period end rates, as appropriate, in effect at the date of the comparative period. This measure provides useful information as it facilitates the comparability of results between periods.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions have not changed materially from December 31, 2020.

TRANSLATION OF FOREIGN CURRENCY

Through its operating subsidiaries, the Company conducts business in multiple currencies. The four primary currencies are the Canadian dollar, U.S. dollar, British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the reporting period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency					
Period ended	**Mar. 31 2021**	Dec. 31 2020	Sept. 30 2020	June 30 2020	Mar. 31 2020
United States dollar					
Balance sheet	**$ 1.26**	$ 1.27	$ 1.33	$ 1.36	$ 1.40
Income and expenses	**$ 1.27**	$ 1.30	$ 1.33	$ 1.39	$ 1.34
British pound					
Balance sheet	**$ 1.73**	$ 1.74	$ 1.72	$ 1.68	$ 1.74
Income and expenses	**$ 1.75**	$ 1.72	$ 1.72	$ 1.72	$ 1.72
Euro					
Balance sheet	**$ 1.47**	$ 1.55	$ 1.56	$ 1.52	$ 1.55
Income and expenses	**$ 1.53**	$ 1.55	$ 1.56	$ 1.53	$ 1.48

Additional information relating to Canada Life, including Canada Life's most recent consolidated financial statements and CEO/CFO certification, are available at www.sedar.com.

Insurance | Investments | Advice

canadalife.com

The Canada Life Assurance Company
100 Osborne Street North
Winnipeg Manitoba Canada R3C 1V3

A MEMBER OF THE POWER CORPORATION GROUP OF COMPANIES®

99-51460B 01/21