



The Canada Life
Assurance Company

Management's discussion and analysis

For the year ended December 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2020

DATED: February 10, 2021

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, financial performance and cash flows of The Canada Life Assurance Company (Canada Life or the Company) for the three and twelve months ended December 31, 2020 and includes a comparison to the corresponding periods in 2019, to the three months ended September 30, 2020 and to the Company's financial condition as at December 31, 2019. This MD&A provides an overall discussion, followed by analysis of the performance of the Company's business units.

BUSINESS OF CANADA LIFE

Canada Life is a diversified international financial services company offering protection and wealth management products to individuals and groups, principally in Canada, the United Kingdom (U.K.), the Isle of Man, the United States (U.S.), Ireland and Germany. The Company also provides reinsurance products and operates primarily in the U.S., Barbados, Bermuda and Ireland.

On January 1, 2020, the Company's parent company completed the amalgamation of its three Canadian life insurance companies, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc. The companies have been amalgamated into a single life insurance company, The Canada Life Assurance Company.

The Company's reportable operating segments are the participating and shareholder operations of the Company. Effective January 1, 2020, the business units within these segments are Canada, Europe, Capital and Risk Solutions and Corporate. As a result of strategic operational changes, the Company divided its Europe/Reinsurance business unit into two separate business units – Europe and Capital and Risk Solutions. Reinsurance, which had previously been reported as part of the Europe/Reinsurance business unit, is reported in the Capital and Risk Solutions business unit. The realignment resulted in a change to comparative figures within these business units. The Company's other business unit – Corporate – is unchanged. Business activities and transactions that are not associated with the specific business units are attributed to Corporate.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Canada Life, which are the basis for data presented in this report, 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. This MD&A should be read in conjunction with the Company's annual consolidated financial statements for the period ended December 31, 2020.

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, 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 the governments' and other businesses' responses to the COVID-19 pandemic on the economy and the Company's financial results, financial condition and operations), 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 and plan lapse rates, participant net contribution, 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), the United Kingdom's exit ("Brexit") from the European Union, 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 this 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 MD&A 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", "pre-tax operating margin", "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			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Earnings					
Participating account ⁽⁵⁾	\$ 1	\$ 22	\$ (30)	\$ 67	\$ 10
Common shareholder ⁽¹⁾	772	792	706	2,807	2,692
Total net earnings	773	814	676	2,874	2,702
Total premiums and deposits⁽²⁾⁽⁴⁾	\$ 20,727	\$ 17,018	\$ 20,102	\$ 80,094	\$ 81,897
Fee and other income	815	789	837	3,133	3,324
Net policyholder benefits, dividends and experience refunds	9,300	8,113	9,221	34,774	33,420
Total assets per financial statements	\$ 396,290	\$ 381,491	\$ 370,664		
Proprietary mutual funds and institutional assets ⁽²⁾	74,045	72,349	71,342		
Total assets under management⁽²⁾	470,335	453,840	442,006		
Other assets under administration ⁽²⁾	29,425	28,169	65,856		
Total assets under administration⁽²⁾	\$ 499,760	\$ 482,009	\$ 507,862		
Total liabilities	\$ 373,233	\$ 358,583	\$ 347,303		
Participating account surplus	\$ 2,858	\$ 2,858	\$ 2,745		
Non-controlling interests	25	24	21		
Shareholders' equity	20,174	20,026	20,595		
Total equity	\$ 23,057	\$ 22,908	\$ 23,361		
LICAT Ratio⁽³⁾	129 %	131 %	135 %		

⁽¹⁾ 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. The third quarter of 2020 results include a net gain of \$94 million post-tax related to the sale of Irish Progressive Services International Limited (IPSI). The fourth quarter of 2019 results include a net gain on Scottish Friendly transaction of \$8 million. The 2019 year-to-date results include a net charge of \$65 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

⁽²⁾ This metric is a non-IFRS measure. Refer to "Non-IFRS Financial Measures" section of this document for additional details.

⁽³⁾ The Life Insurance Capital Adequacy Test (LICAT) Ratio is detailed within the "Capital Management and Adequacy" section.

⁽⁴⁾ Comparative figures have been reclassified to reflect presentation adjustments.

⁽⁵⁾ 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.

CANADA LIFE 2020 HIGHLIGHTS

Financial Performance

- The Company maintained its strong capital position as evidenced by a Life Insurance Capital Adequacy Test (LICAT) ratio at December 31, 2020 at 129%, which exceeded the Office of the Superintendent of Financial Institutions' (OSFI) Supervisory Target Total Ratio of 100%, and Supervisory Minimum Total Ratio of 90%.

- For the twelve months ended December 31, 2020, net earnings attributable to common shareholders (net earnings) were \$2,807 million, compared to \$2,692 million for the previous year, primarily reflecting the net positive impact from a number of strategic initiatives undertaken during the year. In 2020, Canada Life's net earnings include a net gain of \$94 million related to the sale of Irish Progressive Services International Limited (IPSI), a net gain of \$143 million related to the sale of GLC Asset Management Group Ltd. (GLC) as well as restructuring costs related to strategic initiatives in Canada. In 2019, net earnings were impacted by a net charge of \$65 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business and a gain of \$8 million related to the completion of the sale of a heritage block of policies to Scottish Friendly.

Strategic Highlights

- Following the amalgamation of its three Canadian life insurance companies, which was effective January 1, 2020, the Canada business unit has focused on leveraging the Canada Life brand, launching new digital platforms for both Group and Individual customers as well as continued focus on operational efficiencies and core strategies.
- On December 31, 2020 Great-West Lifeco Inc. (Lifeco), the Company's parent company, completed the sale of GLC to Mackenzie Financial Corporation (Mackenzie), an affiliate of the Company. GLC was a wholly-owned subsidiary of Canada Life whose principal activity was the provision of investment management services to Canada Life. The Company recorded a net gain on disposal of \$143 million after-tax, net of restructuring costs of \$16 million after-tax. This transaction provides the Company with access to greater scale and more investment capabilities. As a result of this transaction, the Company also established its own mutual fund manager, Canada Life Investment Management Ltd. (CLIML), which assumed fund management responsibilities for the Canada Life Mutual Funds, offered by Quadrus Investment Services Ltd., a subsidiary of Canada Life, and other Canada Life branded investment funds offered in Canada.

Also in the fourth quarter of 2020, two initiatives impacting the Canada business unit operations were announced. The Company announced changes to its Canadian distribution strategy and vision for advisor based distribution, and IGM Financial, an affiliate of the Company, notified the Company of its intent to terminate its long-term technology infrastructure related sharing agreement with the Company in the first quarter of 2021. These initiatives, together with the sale of GLC will result in staff reductions, exit costs for certain facilities lease agreements and decommissioning activities related to technology and other assets. As a result, the Company has recorded a restructuring provision of \$92 million, which includes the restructuring costs associated with the GLC disposition (\$68 million in the shareholder account and \$24 million in the participating account). The after-tax impact of the restructuring provision on net earnings is \$68 million (\$50 million in the shareholder account, or \$34 million excluding the GLC disposition related restructuring expenses, and \$18 million in the participating account). Changes relating to these initiatives are expected to be fully implemented by the end of 2022.

- In Europe, the Company has substantially completed the multi-year U.K. restructuring program which began in 2018 following the acquisition of Retirement Advantage. The program is enhancing the efficiency of the U.K. business operating model across all product lines and includes the modernization of its technology platforms, thereby underpinning sustainable earnings growth and supporting strategic expansion. The technology modernization is accompanied by complementary enhancement of investment, finance and risk capabilities.

As Irish Life continues to focus on its core business, effective August 4, 2020, Irish Life completed the sale of IPSI, a wholly-owned subsidiary, whose principal activity is the provision of outsourced administration services for life assurance companies. The net gain resulting from the transaction was \$94 million. In addition, Irish Life continued to build its distribution and wealth management capability through a number of acquisitions. While these business will largely remain autonomous, they have been grouped into a new division ("Intermediary Business") which will serve 3 core markets – the public sector, employee benefit consulting and wealth management. Individually these transactions are not expected to have a material

impact on the Company's financial position but collectively they expand Irish Life's reach into these 3 strategically important markets.

The U.K. and the European Union (EU) agreed on a comprehensive trade agreement in December 2020 effective January 1, 2021 to replace the transitional arrangements that were in place since the U.K. left the EU on January 31, 2020. The Company's European businesses will continue to trade as normal within their respective domestic markets.

- During 2020, in Capital and Risk Solutions, the Reinsurance line of business completed three major long-term longevity reinsurance agreements with over \$15 billion of in-force liabilities combined. Over 92,000 in-payment and deferred pensioners will be reinsured by Canada Life Reinsurance under these agreements. These transactions highlight the Company's strength as a partner for reinsurance longevity transactions globally.

The Reinsurance line of business also established a new subsidiary in Bermuda to help improve its efficiency for certain types of reinsurance transactions.

COVID-19 Pandemic Impacts

Beginning in January 2020, the outbreak of a virus known as COVID-19 and ensuing global pandemic resulted in travel and border restrictions, self-imposed quarantine periods and physical distancing, supply chain disruptions, reduced consumer demand and significant market uncertainty. This has caused material disruption to businesses globally, resulting in an economic slowdown. In the first quarter of 2020, global financial markets experienced material and rapid declines and significant volatility; however, during the remainder of 2020, the markets experienced recoveries. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. In addition, the Company has provided support to communities through financial donations across the geographic regions in which the Company operates.

While equity and fixed income markets have improved since March 31, 2020, interest rates remain low and COVID-19 challenges have begun to manifest through investment credit rating downgrades and real estate value declines, although modest in 2020. The Company experienced modest downgrades in the year, however, depending on the length of the shutdowns and recovery of the economy there could be a larger impact from downgrades in future periods. The Company's asset liability management strategy is designed to mitigate interest rate risk; however, while the Company has limited sensitivity to fluctuations in interest rates, a prolonged period of low interest rates may adversely impact the profitability of certain products the Company provides, and repricing actions have been, and will continue to be, undertaken as necessary.

Premium and investment related deferrals were limited, partially as a result of continued government support in many jurisdictions. The Company expects to see continued reduced sales opportunities for certain products given client and prospect concerns about the breadth and severity of the pandemic and its longer-term effect on businesses. Sales teams and financial advisors have been adapting to the new remote environment and are adjusting processes going forward. While the Company experienced lower sales in certain areas of its business, customer retention remained high. If lower sales persist it could adversely impact asset, premiums and fee income levels.

In March 2020, the Company announced a temporary suspension of contributions to and redemptions and transfers from its real estate segregated funds in Canada and Europe as the economic conditions caused by the COVID-19 situation led to valuation uncertainty in the real estate industry. Management determined the need to temporarily suspend withdrawals and transfers-out from the funds in order to protect the long term interest of the unitholders.

Valuation certainty is selectively returning to certain sectors and geographies of the real estate market. In the fourth quarter of 2020, the temporary suspension was lifted from the Company's U.K. real estate fund and certain Irish property funds as the material valuation uncertainty clauses that had been in effect across those funds' main asset

classes were lifted by the independent third party appraisers. The Company's Irish Property Modules fund continues to operate with a 6 month redemption deferral. As of January 11, 2021, Canada has partially lifted the suspension, allowing contributions and transfers into the fund. As well, requests for redemptions and transfers out of the fund are being accepted for a limited period and will be processed, subject to available liquidity, on pre-specified dates; however, redemptions and transfers out of the fund otherwise remain suspended.

Outlook for 2021

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

- Canada Life is continuing to focus on its core strategies: delivering financial security and wellness through the workplace, providing advice-centered wealth management, delivering strong investment and asset management and leveraging risk and capital management expertise. The Company will invest strategically - both organically and through acquisitions - to drive growth and productivity, while maintaining strong risk and expense discipline, to deliver sustainable long-term value to its customers and shareholders.

In 2021, the Company will remain focused on future regulatory changes, including preparing for the implementation of accounting changes related to IFRS 17, *Insurance Contracts*, which is effective on January 1, 2023. The Company will continue to invest in updating processes and systems throughout the implementation period.

- In Canada, the Company will continue to invest in innovative technologies, focus on strategies to enhance growth and its competitive position and identify ways to further streamline its products, marketing, operations and structure as it delivers its products. Specifically, in its Group line of business, Canada Life will continue to invest in innovative member service tools and coverage solutions, allowing for greater personalization of experience and to support its customers financial security and wellness in the workplace. In its Individual line of business, Canada Life will continue the roll-out of market-leading solutions and digital tools that improve the client and advisor experience and provide personalized wealth solutions.
- The Company intends to invest in additional system functionality and digital capability in the U.K. in both the group and individual marketplace. In Ireland, deepening and broadening the market leading retail, corporate and investment management businesses, including products to support customers' financial security and wellness, will continue to be the focus. In Germany, the Company plans to continue to expand its presence in the pension and protection markets by focusing on the introduction of innovative products and services whilst enhancing its systems capabilities.
- In Capital and Risk Solutions, through its leading market positions, the Reinsurance line of business will strategically focus on expanding into other key markets. Building on its diversified multi-niche base, Capital and Risk Solutions will deploy its capital to meet clients' evolving needs.
- The Company's financial outlook for 2021 will depend in part on the duration and intensity of the COVID-19 pandemic impacts and the availability and adoption of vaccines. Service continuity plans will continue to be in operation across the Company as the majority of employees continue to work remotely to provide service to customers and maintain operations and technology functions. The impact of the pandemic on mortality and disability and other claims experience in future periods is uncertain. Mitigating these uncertain impacts is the Company's well-diversified businesses. This diversity, 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.

NET EARNINGS

Net earnings - common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Attributable to participating account					
Net earnings before policyholder dividends ⁽³⁾	\$ 343	\$ 340	\$ 302	\$ 1,429	\$ 1,371
Policyholder dividends	342	318	332	1,362	1,361
Total attributable to participating account	\$ 1	\$ 22	\$ (30)	\$ 67	\$ 10
Common shareholder					
Canada	\$ 181	\$ 255	\$ 206	\$ 990	\$ 1,085
Europe ⁽¹⁾	285	347	373	1,039	1,135
Capital and Risk Solutions	181	168	109	638	392
Corporate ⁽²⁾	125	22	18	140	80
Total common shareholder⁽¹⁾⁽²⁾	\$ 772	\$ 792	\$ 706	\$ 2,807	\$ 2,692
Total net earnings⁽¹⁾⁽²⁾	\$ 773	\$ 814	\$ 676	\$ 2,874	\$ 2,702

⁽¹⁾ The third quarter of 2020 results include a net gain of \$94 million post-tax related to the sale of Irish Progressive Services International Limited (IPSI). The fourth quarter of 2019 results include net gain on Scottish Friendly transaction of \$8 million.

⁽²⁾ The fourth quarter of 2020 results include a net gain of \$143 million related to the sale of GLC as well as restructuring costs of \$34 million related to strategic initiatives in the Canadian line of business. The 2019 year-to-date results include a net charge of \$65 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

⁽³⁾ 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.

The information in the table above is a summary of results for net earnings of the Company. Additional commentary regarding net earnings is included in the "Segmented Operating Results" section.

For the three months ended December 31, 2020, total net earnings was \$773 million compared to \$676 million a year ago. Included in the fourth quarter of 2020 was a net gain of \$143 million related to the sale of GLC as well as restructuring costs of \$52 million related to strategic initiatives in Canada (\$34 million in the common shareholder segment within the Corporate business unit and \$18 million relating to the participating account segment). Total net earnings for the fourth quarter of 2019 included a net gain on the Scottish Friendly transaction of \$8 million.

For the twelve months ended December 31, 2020, total net earnings were \$2,874 million compared to \$2,702 million a year ago. Included in the twelve months ended December 31, 2020 were the net gain on the sale of GLC and the restructuring costs discussed for the in-quarter results as well as a net gain of \$94 million related to the sale of IPSI. Total net earnings for the twelve months ended December 31, 2019 included a net charge of \$65 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life Company (Protective Life) as well as the net gain on the Scottish Friendly transaction discussed for the in-quarter results.

Net earnings attributable to the participating account

For the three months ended December 31, 2020, the net earnings attributable to the participating account were \$1 million compared to a net loss of \$30 million a year ago. Included in the fourth quarter of 2020 were restructuring costs of \$18 million related to strategic initiatives in the Canadian business unit.

For the twelve months ended December 31, 2020, net earnings attributable to the participating account were \$67 million compared to \$10 million for the same period in 2019.

Net earnings attributable to the common shareholder

For the three months ended December 31, 2020, net earnings attributable to the common shareholder (net earnings) were \$772 million, compared to \$706 million a year ago. Included in net earnings for the fourth quarter of 2020 was a net gain of \$143 million related to the sale of GLC as well as restructuring costs of \$34 million related to strategic initiatives in Canada (both items recorded in the Corporate business unit). Included in the fourth quarter of 2019 results was the net gain on the Scottish Friendly transaction of \$8 million. Excluding these items, net earnings of \$663 million for the fourth quarter of 2020 decreased compared to net earnings of \$698 million, primarily due to the positive impact of the resolution of an outstanding issue with a foreign tax authority in the fourth quarter of 2019, which did not recur, and unfavourable group mortality in the Europe business unit. The decrease was mostly offset by favourable morbidity and mortality experience in the Canada business unit.

For the twelve months ended December 31, 2020, net earnings were \$2,807 million compared to \$2,692 million for the same period in 2019. Included in net earnings for the twelve months ended of December 31, 2020 was a net gain related to the sale of GLC as well as restructuring costs discussed for the in-quarter results as well as a net gain of \$94 million related to the sale of IPSI. Included in the twelve months ended December 31, 2019 results was the net gain on the Scottish Friendly transaction discussed for the in-quarter results as well as a net charge of \$65 million related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life. Excluding these items, net earnings for the twelve months ended December 31, 2020 of \$2,604 million decreased compared to net earnings of \$2,749 million for the twelve months ended December 31, 2019, primarily due to the resolution of an outstanding issue with a foreign tax authority in 2019 discussed for the in-quarter results.

MARKET IMPACTS

Market-Related Impacts

In the regions where the Company operates, average equity market levels in the fourth quarter of 2020 were higher in the U.S., remained consistent in Canada and were lower in the U.K. and broader Europe compared to the same period in 2019; however, markets ended the quarter higher for the U.S., Canada, the U.K. and broader Europe compared to September 30, 2020. For the twelve months ended December 31, 2020, average equity market levels were higher in the U.S. and lower in Canada, the U.K. and broader Europe compared to the same period in 2019.

Comparing the fourth quarter of 2020 to the fourth quarter of 2019, average equity market levels were up by less than 1% in Canada (as measured by S&P TSX), up 15% in the U.S. (as measured by S&P 500), down 15% in the U.K. (as measured by FTSE 100) and down 6% in broader Europe (as measured by Eurostoxx 50). The major equity indices finished the fourth quarter of 2020 up 8% in Canada, up 12% in the U.S., up 10% in the U.K. and up 11% in broader Europe, compared to September 30, 2020.

In countries where the Company operates, government treasury rates for the most part decreased, while credit spreads for the most part narrowed during 2020.

Market-related impacts on liabilities negatively impacted net earnings by \$30 million in the fourth quarter of 2020 (negative impact of \$13 million in the fourth quarter of 2019), primarily related to an unfavourable impact of changes to certain tax estimates driven by equity market recovery in the fourth quarter of 2020 as well as the valuation of insurance contract liabilities which are supported by equities and real estate driven by lower markets earlier in the year.

For the twelve months ended December 31, 2020, market-related impacts on liabilities negatively impacted net earnings by \$108 million (negative impact of \$89 million year-to-date in 2019). While equity markets rebounded during the second to fourth quarters of 2020, the year-to-date negative impact reflects the significant decline and volatility in equity markets and interest rates in the first quarter of 2020 which impacted the value of segregated fund and variable annuity guarantees, including related hedging ineffectiveness and was only partially recovered during the remainder of the year.

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 8 to the Company's annual consolidated financial statements for the period ended December 31, 2020.

Foreign Currency

The average currency translation rate for the fourth quarter of 2020 decreased for the U.S. dollar and increased for the British pound and the euro compared to the fourth quarter of 2019. The overall impact of currency movement on the Company's net earnings for the three month period ended December 31, 2020 was an increase of \$13 million (\$44 million year-to-date) compared to translation rates a year ago.

From September 30, 2020 to December 31, 2020, the market rate at the end of the reporting period used to translate U.S. dollar and euro assets and liabilities to the Canadian dollar decreased, while the British pound increased. The movements in end-of-period market rates resulted in unrealized foreign exchange loss from the translation of foreign operations, including related hedging activities, of \$36 million in-quarter (\$239 million net unrealized gains year-to-date) 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

Credit markets impact on common shareholder's net earnings (after-tax)

	For the three months ended December 31, 2020			For the twelve months ended December 31, 2020		
	Impairment (charges) / recoveries	Changes in provisions for future credit losses ⁽¹⁾	Total	Impairment (charges) / recoveries	Changes in provisions for future credit losses ⁽¹⁾	Total
Canada	\$ —	\$ (2)	\$ (2)	\$ —	\$ (7)	\$ (7)
Europe	(3)	1	(2)	(8)	(45)	(53)
Capital and Risk Solutions	—	(1)	(1)	—	(9)	(9)
Total	\$ (3)	\$ (2)	\$ (5)	\$ (8)	\$ (61)	\$ (69)
	For the three months ended December 31, 2019			For the twelve months ended December 31, 2019		
Total	\$ —	\$ (9)	\$ (9)	\$ (20)	\$ 3	\$ (17)

⁽¹⁾ Impact of changes in credit ratings in the Company's fixed income portfolio on provisions for future credit losses in insurance contract liabilities.

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. Since March 2020, credit spreads narrowed significantly and some downgrades were 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 higher impact from downgrades during 2020 compared to 2019. 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 fourth quarter of 2020, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholder's net earnings by \$3 million (nil impact in the fourth quarter of 2019). 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 \$2 million for the quarter (\$9 million net negative impact in the fourth quarter of 2019).

For the twelve months ended December 31, 2020, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholder's net earnings by \$8 million (\$20 million net charge in 2019). 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. Charges for the twelve months ended December 31, 2020 were primarily driven by impairment charges on mortgage loans in the U.K. 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 \$61 million year-to-date (\$3 million net positive impact in 2019), primarily due to downgrades of bonds and mortgages in the U.K.

ACTUARIAL ASSUMPTION CHANGES AND MANAGEMENT ACTIONS

During the fourth quarter of 2020, actuarial assumption changes and other management actions, excluding the gain on sale of GLC, resulted in a negative net earnings impact of \$22 million compared to a negative impact of \$102 million for the same quarter last year and a positive impact of \$20 million for the previous quarter.

In Canada, net earnings were negatively impacted by \$147 million, primarily due to updated policyholder behaviour, and economic and asset related assumptions, partially offset by updated life mortality assumptions. In Europe, net earnings were positively impacted by \$78 million, primarily due to updated annuitant mortality assumptions, partially offset by updated economic and asset related assumptions. In Capital and Risk Solutions, net earnings were positively impacted by \$47 million, primarily due to updated economic and annuitant mortality assumptions, partially offset by updated expense assumptions. In the U.S., net earnings were not impacted.

Excluding the net gain on sale of IPSI of \$94 million and the gain on sale of GLC, assumption changes and other management actions for the twelve months ended December 31, 2020 positively impacted net earnings by \$70 million. For the same period in 2019, excluding the impact of management actions and actuarial assumption changes relating to the Scottish Friendly transaction, management actions and actuarial assumption changes resulted in a positive net earnings impact of \$158 million.

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 fourth quarter of 2020, the Company had an effective income tax rate of 0.5%, which is up from negative 10.3% in the fourth quarter of 2019. In the fourth quarter of 2020, non-taxable gains on the sale of the shares of GLC decreased the effective income tax rate by 5.4 points. In the fourth quarter of 2019, the Company resolved an outstanding issue with a foreign tax authority, which reduced the effective income tax rate by 16.5 points. Excluding the impact of these items, the effective income tax rate for the fourth quarter of 2020 was 5.9% compared to 6.2% in the fourth quarter of 2019.

The Company had an effective income tax rate of 1.4% for the twelve months ended December 31, 2020, compared to 3.8% for the same period last year. Non-taxable gains on the sale of the shares of GLC and IPSI decreased the effective tax rate by 2.2 points in 2020. Excluding the impact of the GLC and IPSI non-taxable gains in 2020 and the tax issue resolved in 2019 discussed for the in-quarter results, the Company's effective income tax rate was 3.6% for the twelve months ended December 31, 2020 compared to 7.4% for the same period last year. The decrease in the effective income tax rate for the twelve months ended December 31, 2020 was primarily due to higher non-taxable investment income.

Refer to note 26 in the Company's December 31, 2020 annual consolidated financial statements for further details.

PREMIUMS AND DEPOSITS AND SALES

Premiums and deposits⁽¹⁾

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Canada ⁽⁴⁾	\$ 7,017	\$ 6,161	\$ 7,229	\$ 25,838	\$ 27,346
Europe ⁽⁴⁾	7,926	6,216	8,028	33,257	35,758
Capital and Risk Solutions ⁽⁴⁾	5,319	4,476	4,433	19,328	17,375
Corporate ⁽²⁾	465	165	412	1,671	1,418
Total premiums and deposits⁽¹⁾⁽⁴⁾	\$ 20,727	\$ 17,018	\$ 20,102	\$ 80,094	\$ 81,897

Sales⁽¹⁾⁽³⁾

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Canada	\$ 3,729	\$ 2,520	\$ 3,609	\$ 12,271	\$ 13,249
Europe	6,904	5,415	6,670	29,632	32,382
Total sales⁽¹⁾⁽³⁾	\$ 10,633	\$ 7,935	\$ 10,279	\$ 41,903	\$ 45,631

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

⁽²⁾ For the twelve months ended December 31, 2019, premiums and deposits exclude the initial ceded premium of \$701 million related to the sale, via indemnity reinsurance, of the of the U.S. individual life insurance and annuity business to Protective Life.

⁽³⁾ Sales is not a relevant measure for the Capital and Risk Solutions business unit due to the nature of operations.

⁽⁴⁾ Comparative figures have been reclassified to reflect presentation adjustments.

The information in the table above is a summary of results for the Company's total premiums and deposits and sales. Additional commentary regarding premiums and deposits and sales is included in the "Segmented Operating Results" section.

NET INVESTMENT INCOME

Net investment income

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Investment income earned (net of investment properties expenses)	\$ 1,104	\$ 1,123	\$ 1,087	\$ 4,490	\$ 4,528
Net allowances for credit losses on loans and receivables	(6)	(1)	(2)	(16)	(50)
Net realized gains	200	106	81	425	146
Regular investment income	1,298	1,228	1,166	4,899	4,624
Investment expenses	(32)	(29)	(39)	(140)	(150)
Regular net investment income	1,266	1,199	1,127	4,759	4,474
Changes in fair value through profit or loss	1,829	663	(1,710)	4,839	5,672
Net investment income	\$ 3,095	\$ 1,862	\$ (583)	\$ 9,598	\$ 10,146

Net investment income in the fourth quarter of 2020, which includes changes in fair value through profit or loss, increased by \$3,678 million compared to the same quarter last year. The changes in fair value in the fourth quarter of 2020 were an increase of \$1,829 million compared to a decrease of \$1,710 million for the fourth quarter of 2019. In the fourth quarter of 2020, the net increase to fair values was primarily due to a decline in bond yields across all geographies and an increase in Canadian equity markets. In the fourth quarter of 2019, the net decrease to fair values was primarily due to an increase in bond yields across all geographies.

Regular net investment income in the fourth quarter of 2020 of \$1,266 million, which excludes changes in fair value through profit or loss, increased by \$139 million compared to the fourth quarter of 2019. The increase was primarily due to higher net realized gains related to the sale of GLC. Net realized gains include gains on available-for-sale securities of \$12 million for the fourth quarter of 2020, compared to \$22 million for the same quarter last year.

For the twelve months ended December 31, 2020, net investment income decreased by \$548 million compared to the same period last year. The changes in fair value for the twelve month period in 2020 were an increase of \$4,839 million compared to an increase of \$5,672 million during the same period in 2019. The changes in fair value were primarily due to a smaller decline in U.K. bond yields and a smaller increase in Canadian equity markets in 2020 compared to 2019.

Regular net investment income for the twelve months ended December 31, 2020 of \$4,759 million increased by \$285 million compared to the same period last year. The increase was primarily due to higher net realized gains related to the gains on sales of GLC and IPSI. Net realized gains include gains on available-for-sale securities of \$126 million for the twelve months ended December 31, 2020, compared to \$66 million for the same period last year.

Net investment income in the fourth quarter of 2020 increased by \$1,233 million compared to the previous quarter, primarily due to net increases in fair values of \$1,829 million in the fourth quarter of 2020 compared to \$663 million in the previous quarter. The changes in fair value were primarily due to a larger decline in U.K. bond yields in the fourth quarter of 2020, compared to the third quarter of 2020, and a larger increase in Canadian equity markets in the fourth quarter of 2020, compared to the third quarter of 2020.

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.

	For the three months ended			For the twelve months ended	
	Dec. 31	Sept. 30	Dec. 31	Dec. 31	Dec. 31
	2020	2020	2019	2020	2019
Canada	\$ 446	\$ 430	\$ 443	\$ 1,697	\$ 1,706
Europe	351	342	377	1,366	1,539
Capital and Risk Solutions	3	3	2	11	9
Corporate	15	14	15	59	70
Total fee and other income	\$ 815	\$ 789	\$ 837	\$ 3,133	\$ 3,324

The information in the table above is a summary of gross fee and other income for the Company. Additional commentary regarding fee and other income is included in the "Segmented Operating Results" section.

Net Policyholder Benefits, Dividends and Experience Refunds

Net policyholder benefits, dividends and experience refunds include life and health claims, policy surrenders, maturities, annuity payments, segregated fund guarantee payments, policyholder dividends and experience refund payments. The amounts do not include benefit payments for segregated funds or mutual funds.

For the three months ended December 31, 2020, net policyholder benefits, dividends and experience refunds were \$9.3 billion, comparable to the same period in 2019, driven by higher net policyholder benefits. The increase in benefit payments was primarily due to new reinsurance agreements and volume changes relating to existing business in the Capital and Risk Solutions business unit, mostly offset by lower surrender benefits in the Europe business unit as a result of the sale of a heritage block of individual policies to Scottish Friendly in the fourth quarter of 2019.

For the twelve months ended December 31, 2020, net policyholder benefits, dividends and experience refunds were \$34.8 billion, an increase of \$1.4 billion from the same period in 2019 driven by higher net policyholder benefits. The increase in benefit payments was primarily due to new reinsurance agreements and volume changes relating to existing business in the Capital and Risk Solutions business unit as well as higher surrender benefits.

OTHER BENEFITS AND EXPENSES

Other benefits and expenses

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Operating and administrative expenses	\$ 796	\$ 735	\$ 747	\$ 3,011	\$ 2,913
Commissions	560	450	538	2,000	1,977
Premium taxes	120	116	125	464	481
Amortization of finite life intangible assets	43	38	37	155	139
Financing charges	29	28	12	113	50
Restructuring expenses	92	—	—	92	—
Total	\$ 1,640	\$ 1,367	\$ 1,459	\$ 5,835	\$ 5,560

Other benefits and expenses for the fourth quarter of 2020 of \$1,640 million increased by \$181 million compared to the fourth quarter of 2019, primarily due to restructuring expenses related to the Canada business unit as well as higher operating and administrative expenses driven by business growth in Capital and Risk Solutions.

For the twelve months ended December 31, 2020, other benefits and expenses increased by \$275 million to \$5,835 million compared to the same period last year. The increase was primarily due to the same reasons discussed for the in-quarter results as well as higher financing costs driven by the issuance of preferred shares to Lifeco, the Company's parent company, on January 1, 2020.

CONSOLIDATED FINANCIAL POSITION

ASSETS

	December 31	
	2020	2019
Assets under administration⁽¹⁾		
Assets		
Invested assets	\$ 146,154	\$ 138,395
Goodwill and intangible assets	8,636	8,369
Other assets	25,450	24,311
Investments on account of segregated fund policyholders	216,050	199,589
Total assets	396,290	370,664
Proprietary mutual funds and institutional assets ⁽¹⁾	74,045	71,342
Total assets under management⁽¹⁾	470,335	442,006
Other assets under administration ⁽¹⁾	29,425	65,856
Total assets under administration⁽¹⁾	\$ 499,760	\$ 507,862

⁽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 December 31, 2020 decreased by \$8.1 billion to \$499.8 billion compared to December 31, 2019, primarily due to the sale of IPSI in the Europe business unit, partially offset by market movement and currency movement. IPSI's assets as of December 31, 2019 were approximately \$44 billion and were primarily included in other assets under administration.

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.

Invested asset distribution

	December 31, 2020		December 31, 2019	
Bonds				
Government & related	\$ 45,174	31 %	\$ 43,628	32 %
Corporate & other	55,434	38	51,513	37
Sub-total bonds	100,608	69	95,141	69
Mortgages	22,263	15	20,716	15
Stocks	10,464	7	10,035	7
Investment properties	6,267	4	5,884	4
Sub-total portfolio investments	139,602	95	131,776	95
Cash and cash equivalents	3,105	2	3,236	2
Loans to policyholders	3,447	3	3,383	3
Total invested assets	\$ 146,154	100 %	\$ 138,395	100 %

At December 31, 2020, total invested assets were \$146.2 billion, an increase of \$7.8 billion from December 31, 2019. The increase in invested assets was primarily due to an increase in bond fair values due to a decline in bond yields across all geographies and originations of commercial mortgages and equity release mortgages.

Bond portfolio – It is the Company's policy to acquire primarily investment grade bonds subject to prudent and well-defined investment policies. Modest investments in below investment grade rated securities may occur while not changing the overall discipline and conservative approach to the investment strategy. The total bond portfolio, including short-term investments, was \$100.6 billion or 69% of invested assets at December 31, 2020 compared to \$95.1 billion or 69% at December 31, 2019. The increase in the bond portfolio was primarily related to an increase in fair values due to a decline in bond yields across all geographies during the year. The overall quality of the bond portfolio remained high, with 99.7% of the portfolio rated investment grade and 81% rated A or higher. Bond credit ratings reflect bond rating agency activity up to December 31, 2020. Management continues to closely monitor bond rating agency activity and general market conditions as the pandemic continues.

Bond portfolio quality

	December 31, 2020		December 31, 2019	
	\$	%	\$	%
AAA	15,615	16 %	15,899	17 %
AA	31,513	31	30,826	32
A	34,141	34	31,199	33
BBB	18,997	19	16,924	18
BB or lower	342	—	293	—
Total	\$ 100,608	100 %	\$ 95,141	100 %

At December 31, 2020, non-investment grade bonds were \$0.3 billion or 0.3% of the bond portfolio compared to \$0.3 billion or 0.3% of the bond portfolio at December 31, 2019.

Mortgage portfolio – It is the Company's practice to acquire high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including specific diversification requirements for non-insured mortgages. Equity release mortgages are originated in the Europe business unit following well-defined lending criteria and held in both the Canada and Europe business units. Equity release mortgages are loans provided to people who want to continue living in their homes while accessing some of the underlying equity value in their homes. Loans are typically repaid when the borrower dies or moves into long-term care.

Mortgage portfolio

Mortgage loans by type	December 31, 2020			December 31, 2019	
	Insured	Non-insured	Total	Total	
Single family residential	\$ 530	\$ 1,533	\$ 2,063	\$ 2,069	10 %
Multi-family residential	3,255	2,007	5,262	5,431	26
Equity release	—	2,020	2,020	1,314	6
Commercial	236	12,682	12,918	11,902	58
Total	\$ 4,021	\$ 18,242	\$ 22,263	\$ 20,716	100 %

The total mortgage portfolio was \$22.3 billion or 15% of invested assets at December 31, 2020, compared to \$20.7 billion or 15% of invested assets at December 31, 2019. The increase in the total mortgage portfolio was primarily due to originations of commercial mortgages and equity release mortgages. Total insured loans were \$4.0 billion or 18% of the mortgage portfolio. The equity release mortgages had a weighted average loan-to-value of 26% (26% at December 31, 2019).

The current market environment has led to a small number of mortgage deferral requests during the year. Management is closely monitoring and evaluating these requests which are currently not material but may impact the Company's performance going forward.

Commercial mortgages

	December 31, 2020					December 31, 2019				
	Canada	Europe	Capital and Risk Solutions	Corporate	Total	Canada	Europe	Capital and Risk Solutions	Corporate	Total
Retail & shopping centres	\$ 3,799	\$ 1,116	\$ 3	\$ 48	\$ 4,966	\$ 3,668	\$ 1,242	\$ 3	\$ 51	\$ 4,964
Office buildings	2,252	1,369	19	36	3,676	2,011	1,253	20	36	3,320
Industrial	2,516	774	1	109	3,400	1,816	777	2	113	2,708
Other	316	542	—	18	876	376	515	—	19	910
Total	\$ 8,883	\$ 3,801	\$ 23	\$ 211	\$12,918	\$ 7,871	\$ 3,787	\$ 25	\$ 219	\$11,902

Single family residential mortgages

Region	December 31, 2020		December 31, 2019	
	\$	%	\$	%
Ontario	1,106	54 %	1,073	52 %
Quebec	405	20	432	21
Alberta	110	5	118	6
Saskatchewan	99	5	90	4
Newfoundland	91	4	98	5
British Columbia	87	4	94	4
New Brunswick	57	3	53	3
Nova Scotia	53	3	58	3
Manitoba	51	2	48	2
Other	4	—	5	—
Total	\$ 2,063	100 %	\$ 2,069	100 %

During the twelve months ended December 31, 2020, single family mortgage originations, including renewals, were \$601 million, of which 24% were insured (28% at December 31, 2019). 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 December 31, 2020 (21 years as at December 31, 2019).

Equity portfolio – The total equity portfolio was \$16.7 billion or 11% of invested assets at December 31, 2020 compared to \$15.9 billion or 11% of invested assets at December 31, 2019. The equity portfolio consists of publicly traded stocks, privately held stocks and investment properties. The increase in publicly traded stocks of \$0.4 billion and the increase in privately held stocks of \$0.1 billion were primarily due to purchases. The increase in investment properties of \$0.4 billion was mainly the result of property acquisitions. During the year, economic conditions caused by the COVID-19 pandemic impacted the global property market and made it difficult to value the properties with the same degree of certainty as usual. As of the fourth quarter of 2020, valuation certainty is selectively returning to certain sectors and geographies of the real estate market.

Equity portfolio

	December 31, 2020		December 31, 2019	
Equity portfolio by type				
Publicly traded stocks	\$ 9,967	60 %	\$ 9,598	60 %
Privately held stocks	497	3	437	3
Sub-total	10,464	63	10,035	63
Investment properties	6,267	37	5,884	37
Total	\$ 16,731	100 %	\$ 15,919	100 %

Investment properties⁽¹⁾

	December 31, 2020				December 31, 2019			
	Canada	Europe	Corporate	Total	Canada	Europe	Corporate	Total
Office buildings	\$ 1,328	\$ 637	\$ —	\$ 1,965	\$ 1,523	\$ 664	\$ —	\$ 2,187
Industrial	861	812	—	1,673	519	773	—	1,292
Retail	198	814	—	1,012	215	945	—	1,160
Other	1,239	375	3	1,617	873	369	3	1,245
Total	\$ 3,626	\$ 2,638	\$ 3	\$ 6,267	\$ 3,130	\$ 2,751	\$ 3	\$ 5,884

⁽¹⁾ The Capital and Risk Solutions business unit does not hold any investment properties.

Impaired investments – Impaired investments include bonds in default, mortgages in default or in the process of foreclosure, investment properties acquired by foreclosure and other assets where management no longer has reasonable assurance that all contractual cash flows will be received.

Impaired investments

	December 31, 2020				December 31, 2019			
	Gross amount	Impairment recovery	Impairment provision	Carrying amount	Gross amount	Impairment recovery	Impairment provision	Carrying amount
Fair value through profit or loss	\$ 12	\$ —	\$ (4)	\$ 8	\$ 5	\$ —	\$ —	\$ 5
Available-for-sale	2	—	—	2	2	—	—	2
Loans and receivables	80	—	(57)	23	80	—	(51)	29
Total	\$ 94	\$ —	\$ (61)	\$ 33	\$ 87	\$ —	\$ (51)	\$ 36

The gross amount of impaired investments totaled \$94 million or 0.1% of invested assets at December 31, 2020 compared to \$87 million or 0.1% at December 31, 2019, a net increase of \$7 million. The increase in impaired investments was primarily due to the impairment of corporate bonds in the U.K.

The impairment provision at December 31, 2020 was \$61 million, compared to \$51 million at December 31, 2019. The increase was primarily due to impairment charges on U.K. mortgages during the year. While the fair values have improved on certain impaired assets, these assets remain impaired based on other impairment factors as described in the "Summary of Critical Accounting Estimates" section of this document and in note 2 of the Company's December 31, 2020 annual consolidated financial statements.

Provision for future credit losses

As a component of insurance contract liabilities, the total actuarial provision for future credit losses is determined consistent with the Canadian Institute of Actuaries' Standards of Practice and includes provisions for adverse deviation. The provisions reflect the current credit ratings and potential future rating migration. No provision is held for government or government related debt rated A+ or higher where the issuer is monetarily sovereign.

At December 31, 2020, the total actuarial provision for future credit losses in insurance contract liabilities was \$2,554 million compared to \$2,423 million at December 31, 2019, an increase of \$131 million. The increase was primarily due to ratings changes and normal business activity.

The aggregate of impairment provisions of \$61 million (\$51 million at December 31, 2019) and actuarial provisions for future credit losses in insurance contract liabilities of \$2,554 million (\$2,423 million at December 31, 2019) represents 2.0% of bond and mortgage assets, including funds held by ceding insurers, at December 31, 2020 (2.0% at December 31, 2019).

Oil and Gas Sector Related Exposures

Holdings of Bonds, Mortgages and Investment Properties in the Oil and Gas Sector⁽¹⁾

	December 31, 2020					December 31, 2019
	Canada	Europe	Capital and Risk Solutions	Corporate	Total	Total
Bonds ⁽¹⁾⁽²⁾⁽³⁾	\$ 2,453	\$ 734	\$ 505	\$ 94	\$ 3,786	\$ 3,431
Mortgages ⁽⁴⁾	1,808	37	—	47	1,892	2,054
Investment properties	447	—	—	—	447	456
Total	\$ 4,708	\$ 771	\$ 505	\$ 141	\$ 6,125	\$ 5,941

⁽¹⁾ Oil and gas sector bond holdings are a sub-category of certain industry sectors presented in note 8(a)(ii) in the Company's December 31, 2020 annual consolidated financial statements.

⁽²⁾ Amortized cost of these bonds is \$3,406 million at December 31, 2020 and \$3,177 million at December 31, 2019.

⁽³⁾ Includes certain funds held by ceding insurers with a carrying value of \$225 million and an amortized cost of \$207 million at December 31, 2020.

⁽⁴⁾ Includes \$554 million of insured mortgages at December 31, 2020 and \$615 million at December 31, 2019.

At December 31, 2020, the Company's holdings of oil and gas sector related investments, including funds held by ceding insurers, were \$6.1 billion (\$5.9 billion at December 31, 2019). This included direct exposure of bond holdings of \$3.8 billion (\$3.4 billion at December 31, 2019), or 2.5% of invested assets including funds held by ceding insurers, and indirect exposure of commercial mortgages and investment properties of \$2.3 billion (\$2.5 billion at December 31, 2019), or 1.5% of invested assets including funds held by ceding insurers.

At December 31, 2020, the Company's oil and gas sector related bond holdings were well diversified across multiple sub-sectors and were high quality with over 99% rated investment grade. 59% of the of the portfolio was invested in Midstream and Refining entities and 41% in Integrated, Independent, Oil Field Services and Government Agency entities.

In addition, the Company's indirect exposure to oil and gas sector related commercial mortgages and investment properties were concentrated in certain geographic regions where the economy is more dependent upon the oil and gas sector and were well diversified across property type - Industrial/Other (25%), Office (17%), Multi-family (36%) and Retail (22%). Over 95% of the total portfolio was concentrated in the province of Alberta, with the remainder primarily in the state of Texas. The weighted average loan-to-value ratio of the commercial mortgages was 76% at December 31, 2020 (68% at December 31, 2019).

In March 2020, Moody's Investors Service and S&P Global Ratings revised their forecasts for crude oil downward for the remainder of 2020, due to decreased demand resulting from the COVID-19 pandemic. In June 2020, Moody's Investors Service further reduced its short and medium-term forecasts for crude oil downward due to

potential longer lasting impacts to global demand for oil. Hydrocarbon price assumptions are a key input into cash flow forecasts and the resulting issuer and sector credit risk profile, particularly for the Integrated, Independent and Oil Field Services sub-sectors. Increases to provisions for future credit losses as a result of ratings downgrades and impairment charges specific to energy sector holdings were negligible in the fourth quarter of 2020.

United Kingdom Property Related Exposures

Holdings of United Kingdom Mortgages and Investment Properties

	December 31, 2020							December 31, 2019
	Multi-family residential	Retail & shopping centres	Office buildings	Industrial	Equity release	Other	Total	Total
Mortgages	\$ 719	\$ 1,385	\$ 1,399	\$ 821	\$ 2,020	\$ 541	\$ 6,885	\$ 6,129
Investment properties	—	801	637	812	—	339	2,589	2,726
Total	\$ 719	\$ 2,186	\$ 2,036	\$ 1,633	\$ 2,020	\$ 880	\$ 9,474	\$ 8,855

At December 31, 2020, the Company's holdings of property related investments in the U.K. were \$9.5 billion (\$8.9 billion at December 31, 2019); or 6.5% of invested assets. The increase from December 31, 2019 was primarily due to originations of equity release mortgages. Holdings in Central London were \$3.0 billion (\$2.8 billion at December 31, 2019) or 2.1% of invested assets, while holdings in other regions of the U.K. were \$6.5 billion (\$6.1 billion at December 31, 2019) or 4.4% of invested assets. These holdings were well diversified across property type: Industrial/Other (26%), Retail (23%), Office (22%), Equity release (21%) and Multi-family (8%). Of the Retail sector holdings, 56% relate to warehouse/distribution and other retail, 22% relate to shopping centres and department stores and 22% relate to grocery retail sub-categories. The weighted average loan-to-value ratio of the mortgages was 51% at December 31, 2020 (51% at December 31, 2019) and the weighted average debt-service coverage ratio was 2.6 at December 31, 2020 (2.6 at December 31, 2019). At December 31, 2020, the weighted average mortgage and property lease term exceeded 11 years (11 years at December 31, 2019).

DERIVATIVE FINANCIAL INSTRUMENTS

There were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments in 2020. The Company's derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements, which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of an early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company's ISDA Master Agreements may include Credit Support Annex provisions, which require both the pledging and accepting of collateral in connection with its derivative transactions.

At December 31, 2020, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$141 million (\$38 million at December 31, 2019) and pledged on derivative liabilities was \$533 million (\$625 million at December 31, 2019). Collateral pledged on derivative assets increased and collateral pledged on derivative liabilities decreased in 2020 primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

During the twelve month period ended December 31, 2020, the outstanding notional amount of derivative contracts increased by \$3.6 billion to \$20.1 billion, primarily due to regular hedging activities.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, increased to \$669 million at December 31, 2020 from \$315 million at December 31, 2019. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars. There were no changes to derivative counterparty ratings during the fourth quarter of 2020 and all had investment grade ratings as of December 31, 2020. Refer to "Financial Instruments Risk Management", note 8 in the Company's December 31, 2020 annual consolidated financial statements for details of the Company's derivative counterparties' ratings.

Goodwill and intangible assets

Goodwill and intangible assets

	December 31	
	2020	2019
Goodwill	\$ 6,386	\$ 6,300
Indefinite life intangible assets	1,236	1,196
Finite life intangible assets	1,014	873
Total	\$ 8,636	\$ 8,369

Goodwill and intangible assets increased by \$0.3 billion to \$8.6 billion at December 31, 2020. Goodwill increased by \$0.1 billion to \$6.4 billion, primarily due to the impact of currency movement. Indefinite life intangible assets were comparable to the prior year. Finite life intangible assets increased by \$0.1 billion to \$1.0 billion, primarily due to computer software additions.

IFRS principles require the Company to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an impairment test on goodwill and indefinite life intangible assets at least annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. Finite life intangible assets are reviewed annually to determine if there are indications of impairment and assess whether the amortization periods and methods are appropriate. In the fourth quarter of 2020, the Company conducted its annual impairment testing of goodwill and intangible assets based on September 30, 2020 asset balances. It was determined that the recoverable amounts of cash generating unit groupings for goodwill and cash generating units for intangible assets were in excess of their carrying values and there was no evidence of significant impairment. Recoverable amount is based on fair value less cost of disposal.

Refer to note 10 in the Company's December 31, 2020 annual consolidated financial statements for further details of the Company's goodwill and intangible assets. Also, refer to the "Summary of Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

Other general fund assets

	December 31	
	2020	2019
Reinsurance assets	\$ 8,924	\$ 8,255
Funds held by ceding insurers	8,455	8,714
Premiums in course of collection, accounts and interest receivable	4,525	4,079
Other assets	1,711	1,662
Owner occupied properties	555	537
Derivative financial instruments	669	315
Deferred tax assets	232	260
Current income taxes	87	179
Fixed assets	292	310
Total	\$ 25,450	\$ 24,311

Total other general fund assets at December 31, 2020 were \$25.5 billion, an increase of \$1.1 billion from December 31, 2019. The increase was primarily due to an increase of \$0.7 billion in reinsurance assets and an increase of \$0.4 billion in premiums in course of collection, accounts and interest receivable, partially offset by a \$0.3 billion decrease in funds held by ceding insurers.

Other assets comprise several items including prepaid expenses and accounts receivable. Refer to note 12 in the Company's December 31, 2020 annual consolidated financial statements for a breakdown of other assets.

Investments on account of segregated fund policyholders

	December 31	
	2020	2019
Stocks and units in unit trusts	\$ 112,652	\$ 104,330
Bonds	34,396	31,904
Cash and other	15,901	12,514
Investment properties	12,430	12,986
Mutual funds	39,181	36,708
Sub-total	214,560	198,442
Non-controlling mutual funds interest	1,490	1,147
Total	\$ 216,050	\$ 199,589

Investments on account of segregated fund policyholders, which are measured at fair value, increased by \$16.5 billion to \$216.1 billion at December 31, 2020 compared to December 31, 2019. The increase was primarily due to the combined impact of market value gains and investment income of \$8.9 billion, the impact of currency movement of \$4.9 billion and net deposits of \$2.1 billion.

Proprietary mutual funds

Proprietary mutual funds and institutional assets⁽¹⁾

	December 31	
	2020	2019
Mutual funds⁽¹⁾		
Blend equity	\$ 2,198	\$ 2,293
Growth equity	1,754	1,570
Equity value	1,260	1,429
Fixed-income	1,782	1,324
Money market	317	187
Sub-total	\$ 7,311	\$ 6,803
Institutional assets⁽¹⁾		
Equity	\$ 39,715	\$ 38,185
Fixed-income	17,206	15,981
Other	9,813	10,373
Sub-total	\$ 66,734	\$ 64,539
Total proprietary mutual funds and institutional assets⁽¹⁾⁽²⁾	\$ 74,045	\$ 71,342

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

⁽²⁾ At December 31, 2020, institutional assets include \$7.4 billion of assets managed for other business units within the Lifeco group of companies.

At December 31, 2020, total proprietary mutual funds and institutional assets were \$74.0 billion, an increase of \$2.7 billion from December 31, 2019, primarily due to currency movement and market movement, partially offset by net cash outflows.

LIABILITIES

Total liabilities

	December 31	
	2020	2019
Insurance and investment contract liabilities	\$ 146,004	\$ 137,114
Preferred shares	1,000	—
Other general fund liabilities	10,179	10,600
Investment and insurance contracts on account of segregated fund policyholders	216,050	199,589
Total	\$ 373,233	\$ 347,303

Total liabilities increased by \$25.9 billion to \$373.2 billion at December 31, 2020 from December 31, 2019.

On January 1, 2020, the Company issued Class A preferred shares Series 6 to Great-West Lifeco Inc. (Lifeco), its parent company. The Class A preferred shares Series 6 of the Company have an aggregate redemption amount of \$1 billion at \$25 per share, an annual 6.25% cumulative dividend rate, payable quarterly, a mandatory redemption date of January 1, 2045, and are classified as liabilities. Dividends on the preferred shares classified as liabilities are recorded in financing charges.

Investment and insurance contracts on account of segregated fund policyholders increased by \$16.5 billion, primarily due to the combined impact of market value gains and investment income of \$8.9 billion, the impact of currency movement of \$4.9 billion and net deposits of \$2.1 billion. Insurance and investment contract liabilities increased by \$8.9 billion, primarily due to fair value adjustments, the impact of new business and natural movement.

Insurance and investment contract liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Insurance and investment contract liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. Also, refer to the "Summary of Critical Accounting Estimates" section of this document for further details.

Assets supporting insurance and investment contract liabilities

	Participating Account	Non-participating				Total
		Canada	Europe	Capital and Risk Solutions	Corporate	
December 31, 2020						
Bonds	\$ 24,303	\$ 21,511	\$ 34,941	\$ 2,365	\$ 38	\$ 83,158
Mortgage loans	10,966	4,498	5,746	52	—	21,262
Stocks	6,214	2,789	332	—	—	9,335
Investment properties	2,992	360	2,536	—	—	5,888
Other assets ⁽¹⁾	5,141	6,291	4,533	8,145	2,251	26,361
Total assets	\$ 49,616	\$ 35,449	\$ 48,088	\$ 10,562	\$ 2,289	\$ 146,004
Total insurance and investment contract liabilities	\$ 49,616	\$ 35,449	\$ 48,088	\$ 10,562	\$ 2,289	\$ 146,004
December 31, 2019						
Bonds	\$ 21,906	\$ 20,270	\$ 33,062	\$ 2,423	\$ 11	\$ 77,672
Mortgage loans	10,111	4,111	5,387	55	—	19,664
Stocks	6,205	2,237	299	—	—	8,741
Investment properties	2,484	407	2,672	—	—	5,563
Other assets ⁽¹⁾	5,036	5,643	4,069	8,583	2,143	25,474
Total assets	\$ 45,742	\$ 32,668	\$ 45,489	\$ 11,061	\$ 2,154	\$ 137,114
Total insurance and investment contract liabilities	\$ 45,742	\$ 32,668	\$ 45,489	\$ 11,061	\$ 2,154	\$ 137,114

⁽¹⁾ Other assets include reinsurance assets, premiums in the course of collection, interest due and accrued, other investment receivables, deferred acquisition costs, accounts receivable, current income taxes and prepaid expenses. Reinsurance assets include assets recognized as a result of the indemnity reinsurance agreement with Protective Life.

Asset and liability cash flows are matched within established limits to minimize the financial effects of a shift in interest rates and mitigate the changes in the Company's financial position due to interest rate volatility.

Other general fund liabilities

Other general fund liabilities

	December 31	
	2020	2019
Funds held under reinsurance contracts	\$ 2,174	\$ 2,025
Other liabilities	3,760	3,428
Accounts payable	1,493	1,816
Debentures and other debt instruments	768	751
Derivative financial instruments	1,150	1,335
Deferred tax liabilities	586	879
Current income taxes	248	366
Total	\$ 10,179	\$ 10,600

Total other general fund liabilities at December 31, 2020 were \$10.2 billion, a decrease of \$0.4 billion from December 31, 2019, primarily due to a decrease of \$323 million in accounts payable and a decrease of \$293 million in deferred tax liabilities.

Other liabilities of \$3.8 billion include pension and other post-employment benefits, deferred income reserve and other liability balances. Refer to note 17 in the Company's December 31, 2020 annual consolidated financial statements for a breakdown of the other liabilities balance and to note 15 in the Company's December 31, 2020 annual consolidated financial statements for details of the debentures and other debt instruments.

Segregated Fund and Variable Annuity Guarantees

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds.

In Canada, the Company offers individual segregated fund products through Canada Life (offered through Great-West Life, London Life and Canada Life prior to amalgamation on January 1, 2020). These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits (GMAB). Prior to November 4, 2020, the Company also offered lifetime guaranteed minimum withdrawal benefits (GMWB) products in Canada.

For a certain generation of products, the guarantees in connection with the Canadian individual segregated fund businesses are reinsured to London Reinsurance Group Inc. (LRG), a subsidiary of Canada Life. This does not include the guarantees on newer Canadian products. LRG also has a closed portfolio of GMAB and guaranteed minimum income benefits (GMIB) that it has reinsured from other U.S. and Canadian life insurance and reinsurance companies.

In Europe, the Company offers UWP products in Germany and unit-linked products with investment guarantees in Ireland. These products are similar to segregated fund products but include minimum credited interest rates and pooling of policyholders' funds. The Company also offers a GMWB product in Germany.

The GMWB products offered by the Company in Germany, and previously offered in Canada and Ireland, provide the policyholder with a guaranteed minimum level of annual income for life. The minimum level of income may increase depending upon the level of growth in the market value of the policyholder's funds. Where the market value of the policyholder's funds is ultimately insufficient to meet the level of guarantee purchased by the policyholder, the Company is obligated to make up the shortfall.

These products involve cash flows of which the magnitude and timing are uncertain and are dependent on the level of equity and fixed-income market returns, interest rates, currency markets, market volatility, policyholder behaviour and policyholder longevity.

The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products. The program methodology quantifies both the embedded option value and its sensitivity to movements in equity markets, currency markets and interest rates. Equity derivative instruments, currency derivative instruments and interest rate derivative instruments are used to mitigate changes in the embedded option value attributable to movements in equity markets, currency markets and interest rates respectively. The hedging program, by its nature, requires continuous monitoring and rebalancing to avoid over or under hedged positions. Periods of heightened market volatility will increase the frequency of hedge rebalancing.

By their nature, certain risks associated with the GMWB product either cannot be hedged or cannot be hedged on a cost-effective basis. These risks include policyholder behaviour, policyholder longevity, basis risk and market volatility. Consequently, the hedging program will not mitigate all risks to the Company associated with the GMWB products and may expose the Company to additional risks including the operational risk associated with the reliance upon sophisticated models, and counterparty credit risk associated with the use of derivative instruments.

Other risk management processes are in place aimed at appropriately limiting the Company's exposure to the risks it is not hedging or are otherwise inherent in its GMWB hedging program. In particular, the GMWB product has been designed with specific regard to limiting policyholder anti-selection, and the array of investment funds available to policyholders has been determined with a view to minimizing underlying basis risk.

Certain GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2020, the amount of GMWB product in-force in Canada, Ireland and Germany was \$2,522 million (\$2,518 million at December 31, 2019).

Segregated fund and variable annuity guarantee exposure

	December 31, 2020				
	Market value	Investment deficiency by benefit type			Total ⁽¹⁾
		Income	Maturity	Death	
Canada	\$ 33,429	\$ 3	\$ 14	\$ 36	\$ 36
Europe	10,770	7	—	919	919
Capital and Risk Solutions ⁽²⁾	859	339	—	—	339
Total	\$ 45,058	\$ 349	\$ 14	\$ 955	\$ 1,294

⁽¹⁾ A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2020.

⁽²⁾ Capital and Risk Solutions exposure is to markets in Canada and the U.S.

Investment deficiency at December 31, 2020 increased by \$317 million to \$1,294 million compared to December 31, 2019. The increase was primarily due to a year-to-date decrease in Germany UWP asset market values relative to the guarantees and a higher value of LRG GMIB annuitization benefit guarantees. The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on December 31, 2020 and does not include the impact of the Company's hedging program for GMWB products. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees were nil in-quarter (\$6 million for the fourth quarter of 2019) and \$20 million year-to-date (\$21 million year-to-date for 2019) with the majority arising in the Capital and Risk Solutions business unit released to the LRG GMIB legacy block of business.

DEBENTURES AND OTHER DEBT INSTRUMENTS

At December 31, 2020, debentures and other debt instruments increased by \$17 million to \$768 million compared to December 31, 2019.

Refer to note 15 in the Company's December 31, 2020 annual consolidated financial statements for further details of the Company's debentures and other debt instruments.

CAPITAL TRUST SECURITIES

At December 31, 2020, the Company had \$150 million principal outstanding of Canada Life Capital Trust Securities – Series B (CLiCS – Series B). Included in the Company's invested assets at December 31, 2020 were CLiCS – Series B with a fair value of \$55 million and principal value of \$37 million (fair value of \$53 million at December 31, 2019).

Each holder of the CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of \$37.645 per CLiCS – Series B, representing an annual yield of 7.529% payable out of Canada Life Capital Trust's (CLCT) distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time and the CLiCS – Series B are callable at par on June 30, 2032.

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 December 31, 2020, there were 2,407,384 common shares of the Company issued and outstanding with a stated value of \$7,884 million (2,407,385 and \$8,884 million as at December 31, 2019).

Participating account surplus and shareholders' equity

As at December 31, 2020, the Company's total participating account surplus and shareholders' equity was \$23.1 billion, compared to \$23.4 billion at December 31, 2019. The decrease was primarily due to a decrease in accumulated surplus of \$2.4 billion due to dividends paid on common shares and the conversion of common shares to preferred shares classified as liabilities of \$1.0 billion, partially offset by net earnings of \$2.9 billion.

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 December 31, 2020, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of \$5.4 billion (\$6.6 billion at December 31, 2019) and other liquid assets and marketable securities of \$80.9 billion (\$76.5 billion at December 31, 2019). 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 subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the subsidiaries to pay dividends to the Company. Refer to "Risk Management, COVID-19 Pandemic Impact - Government and Regulatory Responses" section for additional discussion of the impact of the current environment.

CASH FLOWS

Cash flows	For the three months ended		For the twelve months ended	
	December 31		December 31	
	2020	2019	2020	2019
Cash flows relating to the following activities:				
Operations	\$ 1,347	\$ 1,454	\$ 4,423	\$ 4,635
Financing	(502)	(381)	(2,231)	(2,843)
Investment	(880)	(798)	(2,365)	(1,392)
	(35)	275	(173)	400
Effects of changes in exchange rates on cash and cash equivalents	(15)	62	42	(75)
Increase in cash and cash equivalents in the period	(50)	337	(131)	325
Cash and cash equivalents, beginning of period	3,155	2,899	3,236	2,911
Cash and cash equivalents, end of period	\$ 3,105	\$ 3,236	\$ 3,105	\$ 3,236

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 fourth quarter of 2020, cash and cash equivalents decreased by \$50 million from September 30, 2020. Cash flows provided by operations during the fourth quarter of 2020 were \$1,347 million, a decrease of \$107 million compared to the fourth quarter of 2019. Cash flows used in financing of \$502 million were used for the payment of dividends on common shares. For the three months ended December 31, 2020, cash flows were used by the Company to acquire an additional \$880 million of invested assets.

For the twelve months ended December 31, 2020, cash and cash equivalents decreased by \$131 million from December 31, 2019. Cash flows provided by operations were \$4,423 million, a decrease of \$212 million compared to the same period in 2019. Cash flows used in financing of \$2,231 million were used for the payment of dividends on common shares. For the twelve months ended December 31, 2020, cash flows were used by the Company to acquire an additional \$2,365 million of invested assets, partially offset by the net proceeds from the sale of IPSI in the third quarter of 2020.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations

At December 31, 2020

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Debentures and other debt instruments	\$ 610	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 610
2) Lease obligations	348	51	44	34	29	23	167
3) Purchase obligations	99	45	34	11	5	4	—
4) Credit-related arrangements							
(a) Contractual commitments	1,368	1,252	95	21	—	—	—
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	226	226	—	—	—	—	—
Total contractual obligations	\$ 2,651	\$ 1,574	\$ 173	\$ 66	\$ 34	\$ 27	\$ 777

¹⁾ Refer to note 15 in the Company's December 31, 2020 annual consolidated financial statements. Excluded from debentures and other debt instruments are unamortized transaction costs.

²⁾ For a further description of the Company's lease obligations, refer to note 17 in the Company's December 31, 2020 annual consolidated financial statements.

³⁾ Purchase obligations are commitments to acquire goods and services, essentially related to information services.

⁴⁾ (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.

(b) Letters of credit (LC) are written commitments provided by a bank. The total amount of LC facilities is US\$2,028 million of which US\$1,713 million were issued as of December 31, 2020. There are six primary facilities within Canada Life.

The Reinsurance line of business periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. The Company may be required to seek collateral alternatives if it is unable to renew existing LCs on maturity.

A total of US\$1,493 million has been issued to subsidiaries or branches of Canada Life.

The remaining US\$220 million has been issued to external parties. Clients residing in the United States are required pursuant to their insurance laws to obtain LCs issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts.

⁵⁾ Pension contributions include funding estimates for defined benefit pension plans, defined contribution pension plans and other post-employment plans. These contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond 2021 are excluded due to the significant variability in the assumptions required to project the timing of future contributions.

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.

The Board of Directors reviews and approves an annual capital plan as well as capital transactions undertaken by management pursuant to the plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy, risk profile and business plans. The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. In addition to undertaking capital transactions, the Company uses and provides traditional and structured reinsurance to support capital and risk management.

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 Base Solvency Buffer or required capital. The Base Solvency Buffer is calibrated so that a life insurer can both withstand severe stress events and have assets remaining to allow continued support of its existing business. The total Base Solvency Buffer is the aggregate of all OSFI defined capital requirements multiplied by a fixed scalar of 1.05. The total capital resources include equity items such as common shares, retained earnings and participating policyholders' surplus. There are deductions for goodwill, intangibles and some deferred tax assets. Assets backing certain provisions for adverse deviation within the insurance contract liabilities reported on the financial statements are also included in total capital resources.

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 subsidiaries is 110% to 120% (on a consolidated basis).

The LICAT ratio at December 31, 2020 for Canada Life was 129% (135% at December 31, 2019). The decrease in the LICAT ratio from December 31, 2019 is primarily due to the growth in capital requirements from new business written in the year, market movements and the switch in the LICAT interest rate scenario for North America midway through the year.

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

LICAT Ratio	Dec. 31 2020	Dec. 31 2019
Tier 1 Capital	\$ 11,593	\$ 11,952
Tier 2 Capital	4,568	3,637
Total Available Capital	16,161	15,589
Surplus Allowance & Eligible Deposits	14,226	12,625
Total Capital Resources	\$ 30,387	\$ 28,214
Required Capital	\$ 23,607	\$ 20,911
Total Ratio (OSFI Supervisory Target = 100%)⁽¹⁾	129 %	135 %

⁽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 December 31, 2020. 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	December 31, 2020			
	20% increase	10% increase	10% decrease	20% decrease
Potential increase (decrease) on LICAT Ratio	1 point	1 point	0 points	(1 point)

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	December 31, 2020	
	50 bps increase	50 bps decrease
Potential increase (decrease) on LICAT Ratio	(2 points)	3 points

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. During the first quarter of 2020, OSFI introduced 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 new 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 4 points being reflected over the next 4 quarters, if the Company remains on the current scenario.

COVID-19 OSFI Regulatory Measures

OSFI is providing capital relief for insurance companies due to the COVID-19 economic environment. During the fourth quarter of 2020, OSFI updated its relief measures announced earlier in the year to phase out the special capital treatment for payment deferrals. The capital relief provided by this temporary measure is not material to the Company.

OSFI Regulatory Capital Initiatives

During the fourth quarter of 2020, OSFI issued an Advisory which confirmed the interest rate risk smoothing calculation on participating insurance, and provided clarification of available capital for certain participating insurance blocks, effective January 1, 2021. The Advisory will remain in effect until January 1, 2023, when it will be subsequently incorporated into the LICAT guideline. The noted clarification is not expected to be material to the Company.

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 any future development including 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 for further details.

RATINGS

The Company received strong ratings from the five rating agencies that rate Canada Life as set out below. The parent company of the Company, Great-West Lifeco Inc. (Lifeco) and Lifeco's major operating subsidiaries, including Canada Life, are assigned a group rating from each rating agency. Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. In 2020, the credit ratings for Canada Life were unchanged (set out in table below). These ratings are not a recommendation to buy, sell or hold the securities of the Company or its subsidiaries and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating agency.

This group rating is predominantly supported by Canada Life's and other major affiliates' leading positions in the Canadian insurance market and competitive positions in the U.S. and Europe. Each of Lifeco's operating companies benefits from the strong implicit financial support and collective ownership by Lifeco.

Rating agency	Measurement	Rating
A.M. Best Company	Financial Strength	A+
DBRS Morningstar	Issuer Rating	AA
	Financial Strength	AA
	Subordinated Debt	AA (low)
Fitch Ratings	Insurer Financial Strength	AA
	Subordinated Debt	A+
Moody's Investors Service	Insurance Financial Strength	Aa3
S&P Global Ratings	Insurer Financial Strength	AA
	Subordinated Debt	AA-

SEGMENTED OPERATING RESULTS

The consolidated operating results of Canada Life, including the comparative figures, are presented on an IFRS basis. The major reportable segments of the Company are the participating and shareholders' operations. Within these segments, the major business units are: Canada, Europe, Capital and Risk Solutions, and Corporate. As a result of strategic operational changes, the Company divided its Europe/Reinsurance business unit into two separate business units – Europe and Capital and Risk Solutions. Reinsurance, which had previously been reported as part of the Europe/Reinsurance business unit, is reported in the Capital and Risk Solutions business unit. The realignment resulted in a change to comparative figures within these business units. The Company's other business unit – Corporate – is unchanged. Business activities and transactions that are not associated with the specific business units are attributed to Corporate.

BUSINESS UNITS

CANADA

Canada comprises two distinct lines of business: Individual Customer, where the Company provides life, disability and critical illness insurance products as well as wealth savings and income products to individual clients; and Group Customer, where the Company provides life, accidental death and dismemberment, critical illness, health and dental protection, creditor insurance as well as retirement savings and income products and other specialty products to group clients in Canada.

On January 1, 2020, the Company amalgamated its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., into a single life insurance company, The Canada Life Assurance Company. This amalgamation creates operating efficiencies and simplifies the Company's capital structure to allow for more efficient use of capital, although it is not expected to have a material financial impact.

BUSINESS PROFILE

INDIVIDUAL CUSTOMER

Individual Customer comprises both insurance and wealth management product lines sold to individual customers in Canada.

Individual insurance includes individual life, disability and critical illness insurance products and services. Individual wealth management includes individual wealth savings and income products and services.

The Individual Customer line of business is a leader in Canada for all insurance and wealth management products and services and utilizes diverse, complementary distribution channels: Freedom 55 FinancialTM (Freedom), Wealth and Insurance Solutions Enterprise (WISE), managing general agencies (MGAs) and national accounts, including IG Wealth Management, a member of the Power Financial Corporation group of companies. Through Financial Horizons Group, the Company participates in the MGA channel, distributing products from across the insurance industry.

By offering this broad suite of products and services through multiple distribution channels, Individual Customer is able to provide advice and product solutions to meet the needs of Canadians at all phases of their lives.

GROUP CUSTOMER

Effective January 1, 2020, Group Customer includes group life and health benefits, group creditor, and group retirement and investment product lines in Canada.

Through its group life and health benefit product lines, the Company offers effective benefit solutions for small, medium and large plan sponsors. The Company offers a wide range of traditional group products and services including life, accidental death and dismemberment, critical illness, disability, health and dental as well as specialty products. In addition, specialty product development has been a focus over the past several years as the Company seeks to provide customized solutions to increasingly unique customer needs. Products to address the needs of mental health in the workplace, high cost medications, optional products purchased by plan members directly and wellness programs are examples of this.

The Company's creditor business offers creditor insurance products through large financial institutions and credit card companies. Canada Life is a leader in the creditor insurance business in Canada.

Group retirement and investment product lines include group Registered Retirement Savings Plans (RRSP), Tax-Free Savings Accounts (TFSA), Registered Education Savings Plans (RESP), group retirement income products, and institutional investment services. The Company is focused on innovation within its savings and investment product lines.

Through the Company's extensive network of Group sales offices located across the country, it distributes its products through brokers, consultants and financial security advisors.

MARKET OVERVIEW

PRODUCTS AND SERVICES

INDIVIDUAL CUSTOMER

The Company provides an array of individual insurance and individual wealth management products that are distributed through multiple sales channels.

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION ⁽³⁾
<ul style="list-style-type: none"> • A leader in individual life insurance sales measured by new annualized premium with 21.9% market share⁽¹⁾ • A significant provider of individual disability and critical illness insurance with 12.1% market share of new sales⁽¹⁾ • An industry leader with 26.3.% market share of individual segregated fund assets⁽²⁾ 	<p>Individual Life Insurance</p> <ul style="list-style-type: none"> • Term Life • Universal Life • Participating Life <p>Living Benefits</p> <ul style="list-style-type: none"> • Disability • Critical illness <p>Individual Wealth Management</p> <ul style="list-style-type: none"> • Savings plans • RRSPs • Non-registered savings programs • TFSAs • RESPs <p>Invested in:</p> <ul style="list-style-type: none"> • Segregated funds • Mutual funds • Guaranteed investment options <ul style="list-style-type: none"> • Retirement Income Plans • Retirement income funds • Life income funds • Payout annuities • Deferred annuities <ul style="list-style-type: none"> • Residential mortgages • Banking products 	<p>Wealth and Insurance Solutions Enterprise</p> <ul style="list-style-type: none"> • 2,150 financial security advisors <p>Freedom 55 FinancialTM</p> <ul style="list-style-type: none"> • 2,252 financial security advisors <p>Affiliated Partnerships</p> <ul style="list-style-type: none"> • 7,092 independent brokers associated with 31 MGAs • 1,395 advisors associated with 14 national accounts • 1,629 IG Wealth Management consultants who actively sell Canada Life products • 90 direct brokers and producer groups <p>Financial Horizons Group⁽⁴⁾</p> <ul style="list-style-type: none"> • 5,175 independent brokers selling products from across the insurance industry, including Canada Life <p>Quadrus Investment Services Ltd. (also included in WISE & Freedom advisor counts):</p> <ul style="list-style-type: none"> • 3,217 investment representatives

⁽¹⁾ Nine months ended September 30, 2020.

⁽²⁾ As at November 30, 2020.

⁽³⁾ WISE & Freedom includes all contracted advisors. Affiliated Partnerships and Financial Horizons Group include advisors who placed new business in 2020.

⁽⁴⁾ FHG advisors that placed Canada Life business in 2020 are also included in the MGA independent broker count.

GROUP CUSTOMER

The Company provides an array of life, health and creditor insurance products that are distributed primarily through Group sales offices across Canada.

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
<ul style="list-style-type: none"> • Employee benefits to over 29,700 plan sponsors⁽¹⁾ • 21% market share for employee benefit plans⁽¹⁾ • Leading market share for creditor products with coverage provided to over 7.4 million plan members⁽²⁾ • 19% market share of group capital accumulation plans⁽¹⁾ 	<p>Group Life and Health Benefits</p> <ul style="list-style-type: none"> • Life • Disability • Critical illness • Accidental death & dismemberment • Dental • Expatriate coverage • Extended health care <p>Group Creditor</p> <ul style="list-style-type: none"> • Life • Disability • Job loss • Critical illness <p>Group Retirement & Investment Services</p> <ul style="list-style-type: none"> • Group Capital Accumulation Plans including: <ul style="list-style-type: none"> • Defined contribution pension plans • Group RRSPs, RESPs & TFSAs • Deferred profit sharing plans • Non-registered savings programs Invested in: <ul style="list-style-type: none"> • Segregated funds • Guaranteed investment options • Single company stock • Retirement Income Plans <ul style="list-style-type: none"> • Payout annuities • Deferred annuities • Retirement income funds • Life income funds • Investment management services only plans <ul style="list-style-type: none"> Invested in: <ul style="list-style-type: none"> • Segregated funds • Guaranteed investment options • Securities <p>Specialty Products and Services</p> <ul style="list-style-type: none"> • DialogueTM • Best DoctorsTM • Contact • Individual Health 	<ul style="list-style-type: none"> • Group Life and Health and Group Retirement and Investment Services are distributed through brokers, consultants, and financial security advisors. Sales and service support are provided by an integrated team of over 619 employees, located in 26 offices across the country, including 114 account executives⁽²⁾. • Group Creditor products and services are distributed primarily through large financial institutions and serviced through a dedicated sales and service organization.

⁽¹⁾ As at December 31, 2019

⁽²⁾ As at November 30, 2020

COMPETITIVE CONDITIONS

INDIVIDUAL CUSTOMER

The individual insurance marketplace is highly competitive. Competition focuses on service, technology, product features, price and financial strength, as indicated by ratings issued by nationally recognized agencies. The Company's broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market.

The individual wealth management marketplace is also very competitive. The Company's main competitors include mutual fund companies, insurance companies, banks and investment advisors as well as other service and professional organizations. New FinTech competitors have entered the marketplace leading to increased competition. Competition focuses on ease of doing business through technology, service, variety of investment options, investment performance, product features, price (fees) and financial strength. Individual wealth management's broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market.

GROUP CUSTOMER

The group life and health benefits market in Canada is highly competitive. There are three large group insurance carriers with significant market positions, a number of smaller companies operating nationally and several regional and niche competitors. The Company has a significant market share of 21%, which is supported by an extensive distribution network who have access to a wide range of products and services. This strong market share position is a distinct advantage for competing successfully in the Canadian group insurance market.

The group capital accumulation plan market is also very competitive. Three major insurance companies hold a significant market share while several smaller insurance companies have an important market presence.

The pension risk transfer business continues to grow in the Canadian marketplace as more companies with defined benefit pension plans (open or closed) look to transfer the investment and longevity risk to insurance companies. Helping the market with the capacity to meet this demand, existing companies have increased their presence in the marketplace, including major independent and bank-owned insurance companies with strong balance sheets and new entrants.

Selected consolidated financial information - Canada

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾⁽²⁾	\$ 7,017	\$ 6,161	\$ 7,229	\$ 25,838	\$ 27,346
Sales ⁽¹⁾	3,729	2,520	3,609	12,271	13,249
Fee and other income	446	430	443	1,697	1,706
Net earnings	181	255	206	990	1,085

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

⁽²⁾ Comparative figures have been reclassified to reflect presentation adjustments.

Net earnings

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Individual Customer	\$ (8)	\$ 120	\$ 91	\$ 321	\$ 445
Group Customer	189	135	115	669	640
Net earnings	\$ 181	\$ 255	\$ 206	\$ 990	\$ 1,085

2020 DEVELOPMENTS

- **COVID-19 Pandemic Impacts** - The results of the Canada business unit for the twelve months ended December 31, 2020 reflect the continued positive impact of market recoveries but also the impact of the economic slowdown caused by the COVID-19 pandemic on new business growth and lower contributions from investment experience. The impact of lower sales due to the economic slowdown was mostly offset by lower redemptions or lower business attrition. Many new product launches and digital capabilities are helping to build sales momentum. Experience was positive with limited impact on mortality and lower claims experience and morbidity improvement offsetting pressures on expense recoveries. Insurance premium deferrals for customers were limited in 2020.

ASO expense recoveries are temporarily affected by lower claim volumes driven by restrictions on provider activity, but results are expected to improve as the economy re-opens and as services become accessible. Physical distancing and self-isolation requirements as well as the restrictions on business and social activities and the adverse economic environment resulting from the pandemic may cause unfavourable disability experience in future periods. Pricing of disability coverage will be adjusted over time as experience emerges. Paramedical services started to return early in the third quarter of 2020; insurance sales were affected for a period of time due to the absence of these services but have shown improvement in the fourth quarter.

The Canada business unit remains focused on supporting customers, communities and employees by providing Canadians with protection and wealth management solutions for their financial, physical and mental well-being during this unprecedented time. Products, services and support are being delivered digitally to promote physical distancing and help keep customers, advisors and employees safe. The Company has been supporting customers through digital solutions such as SimpleProtect, which provides online insurance policy application and approval, Consult+, which provides group customers virtual health care access, a digital context based messaging feature in the GroupNet for Plan Members mobile application that allows members to receive personalized notifications and offers directly to their device. This service has been used to connect members with some of the supports and measures that were introduced as a result of COVID-19. Financial assistance is being provided to plan sponsors and members to help maintain and extend coverage for employees, and to the communities through donations.

The Canadian business is maintaining a cautious approach to employees returning to the office, in line with the Company's principles and local government guidelines. During the fourth quarter of 2020, confirmed COVID-19 cases began to rise in the jurisdictions in Canada in which the Company operates. The Company estimates that maximum occupancy will not exceed the current level of 15% to 20% by the end of the first quarter of 2021 with health and safety protocols recommended by public health authorities in place.

Canada Life continued its temporary suspension of contributions, redemptions and transfers for its real estate segregated funds, as the economic conditions caused by the COVID-19 situation continue to lead to valuation uncertainty in the real estate industry. As of January 11, 2021, the suspension has been partially lifted, allowing contributions and transfers into the fund. As well, requests for redemptions and transfers out of the fund are being accepted for a limited period and will be processed, subject to available liquidity, on pre-specified dates; however, redemptions and transfers out of the funds otherwise remain suspended.

- On January 1, 2020, Great-West Lifeco Inc. (Lifeco), the Company's parent company amalgamated its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., into a single life insurance company, The Canada Life Assurance Company. This amalgamation creates operating efficiencies and simplifies the Company's capital structure to allow for more efficient use of capital, although it is not expected to have a material financial impact.
- On December 31, 2020, the Company's parent company, completed the sale of GLC Asset Management Group Ltd. (GLC) to Mackenzie Financial Corporation (Mackenzie), an affiliate of the Company. GLC was a wholly-owned subsidiary of Canada Life whose principal activity was the provision of investment management services to Canada Life. The Company recognized a net gain on disposal of \$143 million, net of restructuring costs of \$16 million after-tax. The carrying value and earnings of the business are immaterial to the Company. Refer to the "Transactions with Related Parties" section of this document for additional information regarding the sale.

Canada Life also established its own fund management company, Canada Life Investment Management Ltd. (CLIML), and on December 31, 2020, CLIML assumed fund management responsibilities for the Canada Life Mutual Funds, offered by Quadrus Investment Services Ltd., a subsidiary of Canada Life, and other Canada Life branded investment funds. CLIML entered into a long-term administration agreement with Mackenzie and Canada Life, and CLIML and Canada Life entered into a long-term distribution agreement with Mackenzie to provide them with access to Mackenzie's investment management services at preferred rates.

- In the fourth quarter of 2020, two initiatives impacting the Canada business unit operations were announced. The Company announced changes to its Canadian distribution strategy and vision for advisor based distribution, and IGM Financial, an affiliate of the Company, has notified the Company of its intent to terminate its long-term technology infrastructure related sharing agreement in the first quarter of 2021. These initiatives, together with the sale of GLC, will result in staff reductions, exit costs for certain facilities lease agreements and decommissioning activities related to technology and other assets. As a result of these transactions, the Company has recorded a restructuring provision of \$92 million, including the restructuring costs associated with the GLC disposition, (\$68 million in the shareholder account and \$24 million in the participating account). The after-tax impact of the restructuring provision is \$68 million in-quarter (\$50 million in the shareholder account, \$34 million excluding restructuring costs related to the GLC disposition, and \$18 million in the participating account). Changes relating to these initiatives are expected to be implemented by the end of 2022 and are not expected to have a material impact on the Company's ongoing financial results.
- During the year, the Company launched other new tools and products to improve customer experience and help them meet their financial and wellness objectives:
 - Canada Life launched a new participating life insurance product available to advisors in all channels and supported by the amalgamated Canada Life participating account.
 - Canada Life launched the newly rebranded Canada Life mutual fund shelf, Canada Life Mutual Funds. The shelf features 18 new mutual funds, which were available for sale starting September 9, 2020, and rebrands the existing Quadrus Group of Funds shelf, creating a curated selection of competitive investment strategies across a range of managers, asset classes and styles. Canada Life Mutual Funds are managed by CLIML and are exclusively available through Quadrus Investment Services Ltd.
 - Canada Life updated its target risk asset allocation funds and also launched new Risk-Managed Portfolios to help protect clients from the unexpected while still helping them reach their goals.
 - Rolled out the new Advisor Workspace to all Freedom 55 Financial and WISE advisors, approximately 93% of whom have registered to use the platform as of December 31, 2020. Advisor Workspace allows advisors to view their clients' complete book of business with Canada Life as well as to complete some simple non-financial transactions. Advisor Workspace will become the platform for all advisor information and activity with Canada Life as it continues to evolve.

- Group Customer became the first Group provider in Canada to launch an employer sponsored Registered Education Savings Program (RESP). This digital RESP simplifies the enrollment process and forms, offers lower fees and an easy to use portal.
- During the year, the Company received the following awards and rankings:
 - The Company earned an A ('Leadership') rating on CDP's 2020 Climate Change Questionnaire, a rating which identifies the global leaders in the management of carbon, climate change risks and low carbon opportunities. The Company once again achieved the highest rating among Canadian insurance companies for the sixth consecutive year.
 - The Company won the CNA Canada Award for Excellence in Philanthropy and Community Service at the 2020 Insurance Business Canada Awards for the Company's major philanthropic and community service initiatives, impact on local and national causes and strong presence in the insurance space in Canada.

OPERATING RESULTS - INDIVIDUAL CUSTOMER

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾⁽²⁾	\$ 3,049	\$ 2,503	\$ 3,110	\$ 10,626	\$ 10,619
Sales ⁽¹⁾	2,934	1,928	2,718	9,541	9,318
Fee and other income	251	251	259	981	998
Net earnings	(8)	120	91	321	445

⁽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.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 decreased by \$0.1 billion to \$3.0 billion compared to the same quarter last year, primarily due to lower segregated fund deposits, partially offset by higher proprietary mutual fund deposits and higher participating life insurance premiums.

For the twelve months ended December 31, 2020, premiums and deposits were comparable to the same period last year.

Sales

Sales for the fourth quarter of 2020 increased by \$0.2 billion to \$2.9 billion compared to the same quarter last year, primarily due to higher mutual fund sales.

For the twelve months ended December 31, 2020, sales increased by \$0.2 billion to \$9.5 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income

Fee and other income for the fourth quarter of 2020 decreased by \$8 million to \$251 million compared to the same quarter last year, primarily due to lower margins, partially offset by higher average assets under administration.

For the twelve months ended December 31, 2020, fee and other income decreased by \$17 million to \$981 million compared to the same period last year, primarily due to lower margins.

Net earnings

Net earnings for the fourth quarter of 2020 decreased by \$99 million to negative \$8 million compared to the same quarter last year. The decrease was primarily due to unfavourable impact of insurance contract liability basis changes, unfavourable market-related impacts, lower net fee income and the impact of changes to certain tax estimates, partially offset by favourable policyholder behaviour experience. Insurance contract liability basis changes in 2020 include the unfavourable impact of updates to policyholder behaviour assumptions and certain investment-related assumptions, partially offset by the favourable impact of updates to mortality assumptions.

For the twelve months ended December 31, 2020, net earnings decreased by \$124 million to \$321 million compared to the same period last year. The decrease was primarily due to higher unfavourable impacts of insurance contract liability basis changes, unfavourable market-related impacts, lower net fee income, lower impact of new business driven by lower interest rates and unfavourable morbidity experience, partially offset by favourable mortality and policyholder behaviour experience. The unfavourable market-related impacts were primarily driven by the impact of the equity market declines and volatility in the first quarter of 2020 on segregated fund guarantees and their related hedging ineffectiveness.

OUTLOOK - INDIVIDUAL CUSTOMER

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The Individual Customer line of business delivered strong core business results in 2020. The new single brand and company provides efficiencies and focus that when added to the Company's reputation for strength and stability, prudent business practices and the depth and breadth of its distribution channels, positions the Company well for 2021 and beyond.

COVID-19 impacted Individual Customer sales as a result of slower market activity and paramedical services closing for part of 2020. Individual Insurance application activity has returned to close to pre-COVID-19 levels and paramedical services have re-opened, but it is unclear what impact COVID-19 will have on future period results. Continued focus on providing customers and advisors with digital solutions for sales and service will remain a key priority.

In 2021, Individual Customer will continue to advance on strategies to position for growth. The Company will further establish the value propositions for advisors in all channels, providing them with strategies and tools for helping customers focus on achieving long-term financial security regardless of life stage and market fluctuations. This commitment to advice is beneficial to strong customer retention as well as helping advisors attract new customers to the Company. A key distribution strategy will be to maximize the use of common tools, processes and support, while tailoring support to specific segments of advisors where appropriate.

The Company will continue to competitively develop, price and market its comprehensive range of individual insurance and individual wealth management products while maintaining its focus on sales and service support to customers and advisors in all channels. The Company will also continue to monitor and respond to the impacts of long-term interest rates and fee income compression.

Operational expense management continues to be critically important to delivering strong financial results. The Company will seek to achieve this through disciplined expense controls and effective development and implementation of strategic initiatives. Management has identified a number of areas of focus for these initiatives to facilitate the objective of organic growth, including continuing to invest in digital solutions to support advisors and customers and addressing its legacy of administration systems and processes to unlock the potential for future growth.

OPERATING RESULTS - GROUP CUSTOMER

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 3,968	\$ 3,658	\$ 4,119	\$ 15,212	\$ 16,727
Sales ⁽¹⁾	795	592	891	2,730	3,931
Fee and other income	195	179	184	716	708
Net earnings	189	135	115	669	640

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

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 decreased by \$0.2 billion to \$4.0 billion compared to the same quarter last year, primarily due to lower segregated fund deposits.

For the twelve months ended December 31, 2020, premiums and deposits decreased by \$1.5 billion to \$15.2 billion compared to the same period last year. The decrease was primarily due to lower administrative services only (ASO) deposits for group insurance, lower segregated fund deposits and lower premiums from single premium group annuities (SPGAs). Lower ASO deposits were primarily related to the impact of the COVID-19 pandemic service restrictions resulting in lower claims of approximately \$0.3 billion.

Sales

Sales for the fourth quarter of 2020 decreased by \$0.1 billion to \$0.8 billion compared to the same quarter last year, primarily due to lower segregated fund deposits.

For the twelve months ended December 31, 2020, sales decreased by \$1.2 billion to \$2.7 billion compared to the same period last year. The decrease was primarily due to lower large case sales. There has been low market activity as a result of the COVID-19 pandemic, resulting in lower sales.

Fee and other income

Fee and other income for the fourth quarter of 2020 increased by \$11 million to \$195 million compared to the same quarter last year, primarily due to higher ASO fee income and higher fee income for group wealth products primarily due to higher average assets under management.

For the twelve months ended December 31, 2020, fee and other income increased by \$8 million to \$716 million compared to the same period last year, primarily due to higher fee income for group wealth products primarily due to higher average assets under management. The increase was partially offset by lower ASO fee income.

Net earnings

Net earnings for the fourth quarter of 2020 increased by \$74 million to \$189 million compared to the same quarter last year. The increase was primarily due to favourable morbidity experience as well as lower unfavourable impacts of insurance contract liability basis changes, partially offset by lower contributions from investment experience.

For the twelve months ended December 31, 2020, net earnings increased by \$29 million to \$669 million compared to the same period last year. The increase was primarily due to favourable morbidity experience and higher tax benefits, partially offset by lower contributions from investment experience and unfavourable impacts of insurance contract liability basis changes.

OUTLOOK - GROUP CUSTOMER

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

During 2020, the Company maintained its strong competitive position in the Canadian group market with leading or strong market share in all case size, regional and benefit market segments. The Company believes that this market share position, together with its distribution capacity, will facilitate continued growth in net premium income.

COVID-19 has impacted the overall Canada employment rate and this may impact employee attrition in existing Group plans, however impact to date has been limited. While uncertainty remains about the future of the economy, the supports that employers and Canada Life have put in place have helped preserve the critical benefits and savings programs for those on reduced working hours, temporary layoffs, or leaves of absences. Federal and Provincial governments have also stepped in to define emergency leaves that support members in the continuation of their benefit programs. These have all helped allow Canada Life to continue to offer critical Group Benefits and Savings programs to Canadians throughout the pandemic.

Additionally, through ongoing investment in digital technologies and innovative benefit solutions, the Company expects to continue to enhance its competitive position in the marketplace. For example, in 2020 and continuing into 2021, Group Customer is launching an integrated plan member digital platform to service customers of Group Benefits and Group Savings products. This new portal, *My Canada Life at Work*, will facilitate a more streamlined experience for both members and plan sponsors, bringing together the great digital experiences from *GroupNet* and *GRS Access*.

For customers that have both group benefits and pension business with Canada Life, this provides an integrated view into both benefits and pensions and makes it easier for members to interact and do business with Canada Life. It will also allow Group Customer to more effectively and efficiently service these customers through a singular experience, allow members to easily purchase additional services from Canada Life with an integrated view into their health and savings, and improve our digital market leadership in the Group Benefits and Savings space.

Group Customer also rolled out Portable Benefits, a fully digital optional benefits offering that provides members with additional flexibility in purchasing Life, Critical Illness or Accidental Death & Dismemberment coverages. This coverage is unique in that it requires no additional administration on the Group Sponsors' behalf, and quick and easy approval for members online, advancing our ability to provide financial protection to our members. In 2021, we will continue to offer Portable Benefits to more sponsors and more members, leveraging innovative new digital methods for surfacing and fulfilling this innovative solution. This product helps deepen our relationship with Group Customer plan members, and helps fulfil our purpose of improving the physical, financial and mental well-being of our customers.

The Canadian distribution landscape continues to evolve and the Company is working closely with all distribution partners to demonstrate how it can help build on the value of their advice.

EUROPE

The Europe business unit is comprised of three distinct lines of business serving customers in the United Kingdom, Ireland and Germany and offers protection and wealth management products, including payout annuity products. The U.K. and German business units operate under the Canada Life brand and Irish business unit operates under the Irish Life brand.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Impact of currency movement is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

BUSINESS PROFILE

UNITED KINGDOM

The core products offered by the U.K. line of business are bulk and individual payout annuities, equity release mortgages, investments (including life bonds, retirement drawdown and pension), individual protection and group insurance. These products are distributed through independent financial advisors and employee benefit consultants in the U.K. and Isle of Man.

IRELAND

The core products offered by Irish Life in Ireland are savings and investments, individual and group life insurance, health insurance and pension products. These products are distributed through independent brokers, a direct sales force and tied agent bank branches. Irish Life Health offers individual and corporate health plans, distributed through independent brokers and direct channels. Irish Life Investment Managers (ILIM) is one of the Company's fund management operations in Ireland. In addition to managing assets on behalf of companies in the Lifeco group, ILIM also manages assets for a wide range of institutional and retail clients, occupational defined benefit and defined contribution pension schemes, large multinational corporations, charities and domestic companies.

GERMANY

The German operation focuses on Company and Individual pension, and individual protection products that are distributed through independent brokers and multi-tied agents.

The Company continues to expand its presence in its lines of business by focusing on the introduction of innovative products and services, the quality of its service offerings as well as the enhancement of distribution capabilities and intermediary relationships.

MARKET OVERVIEW

PRODUCTS AND SERVICES

EUROPE

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
<p>U.K.</p> <ul style="list-style-type: none"> • Group life market share 24%⁽¹⁾ • Group income protection market share 17%⁽¹⁾ • Payout annuities market share 12% (Advisor only)⁽²⁾ • A market leading international life company selling into the U.K. market, with over 30% market share⁽³⁾ • Among the top five in the onshore unit-linked single premium bond market, with 13% market share (Advisor only)⁽³⁾ • An award winning competitor in the equity release market with a market share of 11%⁽⁶⁾ <p>Ireland</p> <ul style="list-style-type: none"> • Life assurance company market share 43%⁽⁴⁾ • Retail life and pensions market share 27%⁽⁴⁾ • Group pensions, group risk and corporate annuities market share 59%⁽⁴⁾ • ILIM is one of the largest institutional fund managers in Ireland with €87 billion assets under management⁽⁵⁾ • Third largest health insurance business through Irish Life Health⁽¹⁾ <p>Germany</p> <ul style="list-style-type: none"> • 3% share of the broker market⁽³⁾ 	<p>U.K.</p> <ul style="list-style-type: none"> • Individual and bulk payout annuities • Fixed term annuities • Individual Savings and Investments (retirement drawdown & pension, onshore & international bonds and collective investment funds) • Group and individual life insurance • Group income protection (disability) • Group and individual critical illness • Equity release mortgages <p>Ireland</p> <ul style="list-style-type: none"> • Individual and group risk & pensions • Individual and bulk payout annuities • Health insurance • Wealth management services • Individual savings and investment • Institutional investment management <p>Germany</p> <ul style="list-style-type: none"> • Pensions • Income protection (disability) • Critical illness • Variable annuities (GMWB) • Individual life insurance 	<p>U.K.</p> <ul style="list-style-type: none"> • Financial advisors • Private banks • Employee benefit consultants <p>Ireland</p> <ul style="list-style-type: none"> • Independent brokers • Pensions and investment consultants • Direct sales force • Tied bank branch distribution with various Irish banks <p>Germany</p> <ul style="list-style-type: none"> • Independent brokers • Multi-tied agents

⁽¹⁾ As at December 31, 2019

⁽²⁾ Market share based on second quarter 2020 data through financial advisors, restricted whole market advisors and non-advised distributor.

⁽³⁾ Market share shows a year-to-date position based on year-to-date sales at September 30, 2020

⁽⁴⁾ As at June 30, 2020

⁽⁵⁾ As at December 31, 2020

⁽⁶⁾ Equity Release Council market statistics for first quarter 2020 to third quarter 2020

COMPETITIVE CONDITIONS

UNITED KINGDOM

In the U.K., the Company has strong market positions for payout annuities, wealth management and group risk, where it is a market leader. Combined sales from the onshore and international wealth management businesses put Canada Life as one of the top single investment premium bond providers in the U.K.

The Company has benefited over recent years from an increase in the proportion of customers seeking the best price in the open market. This has increased the proportion of customers buying annuities through financial advisors, which are the Company's primary distribution channel. The Company continues to offer both standard and enhanced annuities as well as investment based pension and drawdown products for customers wanting to take advantage of the greater pension flexibility introduced in recent years. The Company expects further growth in the retirement retail market and is well placed to continue to grow in this market, supported by its equity release mortgage expertise which is an important part of the retirement market and an area of growth. The Company also offers bulk annuities aimed at trustees of defined benefits plans who want to insure pension annuities in payment. This is a large market and demand from trustees remains strong. The market is expected to grow as pension plan funding improves and trustees consider ways to reduce risk. With expertise and experience in longevity and investment products, the Company is well placed to continue to grow bulk annuity new business.

In international wealth management operations, the Company continued to focus efforts on increasing sales within the retail market while maintaining our strong presence in the institutional sector of the market. Future estate planning continues to be an area of focus for U.K. advisors and Canada Life International remains one of the leading companies in this sector of the market.

IRELAND

The Company continues to be the largest life assurance company in Ireland with a market share of 43% as at June 30, 2020. Irish Life follows a multi-channel distribution strategy with a large broker distribution network, the largest direct sales force and the largest Bancassurance distribution network where it has tied relationships with five banks.

Irish Life Investment Managers (ILIM) is one of Ireland's largest institutional fund managers with approximately €87 billion of assets under management, including funds managed for other companies within the Lifeco group, as at December 31, 2020. As market leader in the domestic market ILIM continued to expand its capabilities and solutions for Responsible Investments with multiple awards and ratings both in public markets and in its Real Estate offerings. It has also continued to evolve its Asset and Liability Management, Liability-Driven Investments and Bulk Annuity services to large defined benefit pension schemes.

Setanta Asset Management, a subsidiary of the Company, manages assets for a number of institutional clients, both third-party institutions as well as for companies in the Lifeco group and has approximately €12 billion of assets under management as at December 31, 2020.

The Company operates its Irish health insurance business under the Irish Life Health brand, where it has a top three position.

The Company also owns a number of employee benefits and wealth consultancy businesses in Ireland.

GERMANY

The Company has a leading position among providers of products to the German independent intermediary market. The Company is among the top six providers in the independent intermediary market through continuous product, technology and service improvements. The low interest rate environment for traditional German insurance products has been challenging leading to increased competition in the Canada Life hybrid and lighter guarantee product categories.

Selected consolidated financial information - Europe

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾⁽²⁾	\$ 7,926	\$ 6,216	\$ 8,028	\$ 33,257	\$ 35,758
Sales	6,904	5,415	6,670	29,632	32,382
Fee and other income	351	342	377	1,366	1,539
Net earnings	285	347	373	1,039	1,135

⁽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.

Net earnings

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
United Kingdom	\$ 172	\$ 86	\$ 225	\$ 494	\$ 641
Ireland	67	206	99	379	322
Germany	48	57	37	175	168
Corporate	(2)	(2)	12	(9)	4
Net earnings	\$ 285	\$ 347	\$ 373	\$ 1,039	\$ 1,135

2020 DEVELOPMENTS

- **COVID-19 Pandemic Impacts** - The European businesses in the U.K., Ireland and Germany focused on supporting customers, communities and employees by providing pensions, protection and wealth management solutions for their financial, physical and mental well-being during this unprecedented time. Products, services and support are being delivered digitally to promote physical distancing and help keep customers, advisors and employees safe.

On October 8, 2020, Canada Life U.K. reopened its real estate fund following a period of valuation uncertainty in the real estate industry caused by COVID-19. The suspension period was introduced in March following advice from the independent valuers that it was not possible to provide accurate and reliable valuations. On October 20, 2020, Irish Life removed deferral periods from its small U.K. and European property funds. The deferral period for redemptions and transfers for Irish Life's pension property fund is under review following the removal of third party appraisal uncertainty clauses in the Irish property market. The deferral period remains in place for the smaller fund focused on individual clients. Processes remain in place to facilitate hardship, death claims and certain other withdrawals as required for these funds.

- On January 31, 2020, the U.K. left the European Union (EU) and was in a transition period that ended on December 31, 2020. During December of 2020, a comprehensive trading agreement was made between the EU and U.K. which is now in force.
- On August 4, 2020, Irish Life completed the previously announced sale of Irish Progressive Services International Limited (IPSI), a wholly-owned subsidiary, whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The net gain resulting from the transaction was \$94 million post-tax.
- As of December 31, 2020, the Company has largely completed the Canada Life U.K. restructuring program with £18 million achieved to date, compared to targeted reductions of £20 million pre-tax. The expense reductions have come from various sources including systems and process improvements and a reduction in headcount.
- During 2020, the Company completed a number of acquisitions listed below. While individually the acquisitions are not material to the Company's financial results, they position the Europe business unit for growth.

- On February 3, 2020, Irish Life, through its subsidiary Invesco Limited, completed the acquisition of Acumen & Trust DAC, an Irish financial services consultancy firm expanding into the areas of employee benefits consulting and individual financial advice.
- On March 2, 2020, Irish Life acquired Conexim Advisors Limited (Conexim), which provides access to funds, equities, bonds and exchange traded funds across all major markets through an independent platform. Conexim provides its services through financial advisors who provide financial and investment advice to individual and corporate clients.
- On May 1, 2020, Irish Life completed the acquisition of APT Workplace Pensions Limited, which specializes in corporate pension consultancy for multi-national and indigenous corporate clients, and APT Wealth Management Limited, which provides private wealth management to individuals.
- On July 1, 2020, Irish Life completed the acquisition of Clearview Investments & Pensions Limited, which provides private wealth management to individuals.
- On December 7, 2020, Irish Life announced it had entered into an agreement to acquire Harvest Financial Services Limited and Harvest Trustees Limited. Harvest Financial Services is one of Ireland's largest privately-owned wealth management firms. The transaction is subject to regulatory approval and is expected to close during the first half of 2021.

OPERATING RESULTS - UNITED KINGDOM

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 1,361	\$ 677	\$ 957	\$ 4,191	\$ 5,145
Sales ⁽¹⁾	1,469	672	1,027	4,302	5,229
Fee and other income	43	42	63	168	225
Net earnings	172	86	225	494	641

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

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 increased by \$0.4 billion to \$1.4 billion compared to the same quarter last year, primarily due to higher bulk and individual annuity sales, partially offset by lower wealth management sales.

For the twelve months ended December 31, 2020, premiums and deposits decreased by \$1.0 billion to \$4.2 billion compared to the same period last year, primarily due to lower wealth management and individual annuity sales, partially offset by higher bulk annuity sales and the impact of currency movement.

Sales

Sales for the fourth quarter of 2020 increased by \$0.4 billion to \$1.5 billion compared to the same quarter last year, primarily due to the same reasons discussed for premiums and deposits for the same period.

For the twelve months ended December 31, 2020, sales decreased by \$0.9 billion to \$4.3 billion compared to the same period last year, primarily due to lower wealth management and individual annuity sales, partially offset by higher bulk annuity sales and the impact of currency movement.

Fee and other income

Fee and other income for the fourth quarter of 2020 decreased by \$20 million to \$43 million compared to the same quarter last year, primarily due to lower management fees as a result of the unit-linked policies sold to Scottish Friendly in the fourth quarter of 2019.

For the twelve months ended December 31, 2020, fee and other income decreased by \$57 million to \$168 million compared to the same period last year. The decrease was primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the fourth quarter of 2020 decreased by \$53 million to \$172 million compared to the same quarter last year. The decrease was primarily due to the positive impact of the resolution of an outstanding issue with a foreign tax authority in the fourth quarter of 2019 as well as unfavourable group mortality experience. These items were partially offset by higher impact of new business and favourable group morbidity and longevity experience.

Net earnings for the twelve months ended December 31, 2020 decreased by \$147 million to \$494 million compared to the same period last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes, lower impact of new business, unfavourable group mortality experience and lower contributions from investment experience. The decrease was partially offset by lower unfavourable market-related impacts related to changes to certain tax estimates driven by equity market declines in 2020. In addition, the twelve months ended December 31, 2019 included the positive impact of the resolution of an outstanding issue with a foreign tax authority.

OUTLOOK - UNITED KINGDOM

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The short-term outlook for the retail payout annuities market is negative due to the COVID-19 pandemic. Over the medium to long-term, management expects the market will continue to show modest growth. Individuals continue to have flexibility in accessing their savings in retirement. As expected, some individuals have chosen to remain invested in the market while drawing a pension income rather than buying a payout annuity. However, the Company expects that the attractiveness of guaranteed income from annuities will remain a key part of customers' retirement planning in the future and the Company sees the opportunity to grow its payout annuity business in line with the expected growth in the overall retirement market.

The overall size of the retirement market continues to grow as more employers transition from defined benefit to defined contribution pension plans, with significant growth expected in equity release, pension consolidation and income drawdown. The Company will continue to develop products for individuals who require additional pension flexibility and will further develop its presence in the bulk annuity market where trustees of defined benefit schemes want to remove longevity risk by insuring its pension liabilities near to or already in payment.

Canada Life continues to be a key player in the single premium investment bond marketplace. It will continue to develop its presence in both the international and onshore market segments. The Company's distribution strategy for onshore will remain focused on financial advisors. In the international wealth management segment, the outlook is cautiously optimistic with an expectation that the market will recover from COVID-19 and continue to grow. The majority of the Company's business growth is expected to be through discretionary fund management wealth advisors, the retail market and through tax and estate planning products.

2020 has seen increased mortality claims from COVID-19, which have broadly been balanced by increased annuitant mortality experience and that is expected to continue in 2021. The Company expects a reduction in the existing group customer base in 2021 with a contraction of employment arising from COVID-19 impact on the U.K. economy. This is expected to return to moderate growth in 2021 now that employers have implemented the changes required by the Auto Enrollment legislation. The Company's group operations will continue to maintain pricing discipline, reflecting the current low interest rate environment and the outlook for the group risk operation remains positive.

The Company's bulk annuity capability has been enhanced by an outsourcing agreement in 2020, which will allow the administration of deferred annuities in the future. The increased capability in the expanding equity release mortgage market allows improved annuity market competitiveness as well as providing an enhanced product offering to customers.

OPERATING RESULTS - IRELAND

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 6,191	\$ 5,239	\$ 6,705	\$ 27,804	\$ 29,417
Sales ⁽¹⁾	5,300	4,663	5,497	24,948	26,784
Fee and other income	189	189	229	753	927
Net earnings	67	206	99	379	322

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

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 decreased by \$0.5 billion to \$6.2 billion compared to the same quarter last year, primarily due to lower fund management and retail sales, partially offset by the renewal of health premiums and higher pension sales as well as the impact of currency movement.

For the twelve months ended December 31, 2020, premiums and deposits decreased by \$1.6 billion to \$27.8 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Sales

Sales for the fourth quarter of 2020 decreased by \$0.2 billion to \$5.3 billion compared to the same quarter last year, primarily due to lower fund management and retail sales, partially offset by higher corporate pension sales and the impact of currency movement.

For the twelve months ended December 31, 2020, sales decreased by \$1.8 billion to \$24.9 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income

Fee and other income for the fourth quarter of 2020 decreased by \$40 million to \$189 million compared to the same quarter last year, primarily due to a new reinsurance treaty and lower management fees as a result of the sale of IPSI, partially offset by the impact of currency movement.

For the twelve months ended December 31, 2020, fee and other income decreased by \$174 million to \$753 million compared to the same period last year. The decrease was primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the fourth quarter of 2020 decreased by \$32 million to \$67 million compared to the same quarter last year. The decrease was primarily due to unfavourable contributions from insurance contract liability basis changes, partially offset by favourable morbidity experience.

Net earnings for the twelve months ended December 31, 2020 increased by \$57 million to \$379 million compared to the same period last year. The increase was primarily due to favourable mortality and morbidity experience as well as the net gain on the sale of IPSI. The increase was partially offset by less favourable contributions from insurance contract liability basis changes and unfavourable market-related impacts related to unhedged market movements in the first quarter of 2020. Market impacts were primarily driven by the impact of the equity market declines and volatility and lower interest rates in the first quarter of 2020 on segregated fund guarantees.

OUTLOOK - IRELAND

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

Although the pandemic crisis continues to have a substantial impact, economic growth, measured by gross domestic product (GDP), is forecasted to be 3% in 2021, comparable to 2020. This reflects strong multinational Pharma and Information and Communication Technology exports, offset by significant pandemic control measures. A range of government Pandemic Unemployment Payments (PUP) were put in place in 2020, and while the unadjusted measure for unemployment was 7.2% at December 2020, the adjusted rate for those in receipt of PUP was 20.4%. While consumer confidence has been negatively impacted by the crisis, household savings levels have increased to record levels, presenting an opportunity as households turn to investments as a way to maximize returns in the low interest rate environment, possibly influenced by strong returns in equity markets.

Irish Life's vision to be "Ireland's home of Health and Wealth" continues to drive mergers and acquisitions, innovation and transformation initiatives in the Irish business unit. Society's transition to mobile and virtual working was the backdrop to the Company's digital developments in 2020 which saw the successful roll out of digital workplace and virtual financial advice models. The Company is accruing benefits from being a collaborative, centrally connected, inquisitive and digitally enabled organization that embraces technology for the benefit of all its stakeholders. The Company's broadly diversified product portfolio, distribution channels and target market segments have helped it to adapt successfully to the challenges of the pandemic, and position it to benefit from any upturn in the Irish economy post-crisis.

OPERATING RESULTS - GERMANY

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 374	\$ 300	\$ 366	\$ 1,262	\$ 1,196
Sales ⁽¹⁾	135	80	146	382	369
Fee and other income	119	111	109	445	411
Net earnings	48	57	37	175	168

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

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 increased by \$8 million to \$374 million compared to the same quarter last year, primarily due to the impact of currency movement, partially offset by lower pension sales.

For the twelve months ended December 31, 2020, premiums and deposits increased by \$66 million to \$1,262 million compared to the same period last year, primarily due to higher segregated fund premiums and the impact of currency movement.

Sales

Sales for the fourth quarter of 2020 decreased by \$11 million to \$135 million compared to the same quarter last year, primarily due to lower pension sales, partially offset by the impact of currency movement.

For the twelve months ended December 31, 2020, sales increased by \$13 million to \$382 million compared to the same period last year, primarily due to the impact of currency movement.

Fee and other income

Fee and other income for the fourth quarter of 2020 increased by \$10 million to \$119 million compared to the same quarter last year, primarily due to higher management fees on segregated fund assets and the impact of currency movement.

For the twelve months ended December 31, 2020, fee and other income increased by \$34 million to \$445 million compared to the same period last year. The increase was primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the fourth quarter of 2020 increased by \$11 million to \$48 million compared to the same quarter last year. The increase was primarily due to favourable contributions from insurance contract liability basis changes as well as higher impact of new business and lower expenses.

Net earnings for the twelve months ended December 31, 2020 increased by \$7 million to \$175 million compared to the same period last year. The increase was primarily due to the impact of changes to certain tax estimates and higher impact of new business, partially offset by the unfavourable equity market impacts related to variable annuity guarantees and related hedge ineffectiveness.

OUTLOOK - GERMANY

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The outlook for the German business continues to be positive and the Company expects continued growth in assets under management and its share of the market during 2021. The Company is positioning itself to further strengthen its presence through continued investments in product development, distribution technology and service improvements.

EUROPE CORPORATE

The Europe Corporate account includes financing charges and the impact of certain non-continuing items as well as the results for the legacy international businesses.

In the fourth quarter of 2020, Europe Corporate had a net loss of \$2 million compared to net earnings of \$12 million for the same quarter last year. The fourth quarter of 2019 results included a net gain on the Scottish Friendly transaction of \$8 million. Excluding this item, the net loss increased by \$6 million, primarily due to higher expenses.

For the twelve months ended December 31, 2020, Europe Corporate had a net loss of \$9 million compared to net earnings of \$4 million for the same period last year, primarily due to the same reasons discussed for the in-quarter results.

CAPITAL AND RISK SOLUTIONS

The Capital and Risk Solutions business unit includes the operating results of the Reinsurance line of business which operates primarily in the U.S., Barbados, Bermuda and Ireland. Capital and Risk Solutions Corporate consists of items not associated directly with or allocated to the Reinsurance line of business as well as the results for the legacy international businesses.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Impact of currency movement is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

BUSINESS PROFILE

REINSURANCE

Reinsurance provides capital and risk solutions and operates primarily in the U.S., Barbados, Bermuda and Ireland. In the U.S., the reinsurance business operates through a branch of Canada Life and subsidiaries of Canada Life. In Barbados, the reinsurance business operates primarily through a branch of Canada Life and subsidiaries of Canada Life. In Bermuda and Ireland, the reinsurance business operates through a subsidiary of Canada Life. In the third quarter of 2020, Capital and Risk Solutions established a subsidiary in Bermuda. The subsidiary, Canada Life International Reinsurance Corporation Limited, has been approved as a Certified Reinsurer by the Michigan Department of Insurance and Financial Services.

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to enable those companies to manage their insurance risk.

The product portfolio offered by the Company includes life, annuity/longevity, mortgage, surety and property catastrophe reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between companies in the Lifeco group. These transactions are undertaken to better manage insurance risks relating to retention, volatility and concentration; and to facilitate capital management for the Company, its subsidiaries and branch operations. These internal reinsurance transactions produce benefits that are reflected in one or more of the Company's other business units.

MARKET OVERVIEW

PRODUCTS AND SERVICES

REINSURANCE

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
<ul style="list-style-type: none"> Among the top two life reinsurers in the U.S. for assumed structured life reinsurance⁽¹⁾ Leading provider in the evolving European structured life reinsurance market Ranked 6th for traditional mortality reinsurance in the U.S. Leading provider of U.K. and other European annuity/longevity reinsurance Long-standing provider of a range of property and casualty catastrophe retrocession coverages. 	<p>Life</p> <ul style="list-style-type: none"> Yearly renewable term Co-insurance Modified co-insurance Capital management solutions <p>Mortgage Reinsurance</p> <ul style="list-style-type: none"> Stop loss <p>Annuity / Longevity</p> <ul style="list-style-type: none"> Payout annuity Longevity protection Fixed annuity <p>Property & Casualty</p> <ul style="list-style-type: none"> Catastrophe retrocession Capital management solutions 	<ul style="list-style-type: none"> Independent reinsurance brokers Direct placements

⁽¹⁾ As at November 30, 2019 (biennial survey)

COMPETITIVE CONDITIONS

REINSURANCE

In the U.S. life reinsurance market, insurers continue to view reinsurance as an important tool for risk and capital management. Several competitors are now focusing on growing their market share, which resulted in increased competition. However, a biennial independent industry survey released in November 2019 confirmed that the Company remains one of the top two providers of risk and capital management solutions in the U.S. market. The Company's financial strength and ability to offer risk and capital solutions and traditional mortality reinsurance continues to be a competitive advantage.

In Europe, Solvency II dominates the regulatory landscape and interest in capital management transactions that produce capital benefits continues to grow. Demand for longevity reinsurance remains strong in the U.K., the Netherlands and some other continental European countries. As a result, there are now more reinsurers participating in this market.

Selected consolidated financial information - Capital and Risk Solutions

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾⁽²⁾	\$ 5,319	\$ 4,476	\$ 4,433	\$ 19,328	\$ 17,375
Fee and other income	3	3	2	11	9
Net earnings	181	168	109	638	392

⁽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.

Net earnings

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Reinsurance	\$ 183	\$ 168	\$ 119	\$ 640	\$ 401
Capital and Risk Solutions Corporate	(2)	—	(10)	(2)	(9)
Net earnings	\$ 181	\$ 168	\$ 109	\$ 638	\$ 392

2020 DEVELOPMENTS

- **COVID-19 Pandemic Impacts** - The Capital and Risk Solutions business unit continues to have a strong new business pipeline and has not seen a material impact as a result of the COVID-19 pandemic in 2020. Capital and Risk Solutions will continue to focus on meeting market demand for life reinsurance involving capital solutions in the U.S. and Europe.
- The Company offers property catastrophe coverage to reinsurance companies. Current preliminary estimates of industry losses arising from catastrophe events in 2020 do not reach the level where any claims would be anticipated. As any precautionary claim notifications are unlikely to be received for some period of time, the Company will continue to monitor events and will update any estimates as required.
- On May 20, 2020, the Company announced it had entered into a long-term longevity reinsurance agreement with an insurance company in the Netherlands. The agreement covers approximately €5.3 billion of pension liabilities and close to 82,000 in-payment pensioners. In exchange for ongoing premium payments, the Company will pay the actual benefit obligations incurred by the insurance company.
- On July 7, 2020, the Company announced it had entered into a long-term longevity reinsurance agreement with an insurance company in the U.K. The agreement covers approximately £1.4 billion of pension liabilities and approximately 2,700 in-payment pensioners. In exchange for ongoing premium payments, the Company will pay the actual benefit obligations incurred by the insurance company.
- On December 15, 2020, the Company announced it had entered into a long-term longevity reinsurance agreement with an insurance company in the U.K. The agreement covers approximately £3 billion of pension liabilities and approximately 7,500 in-payment pensioners. In exchange for ongoing premium payments, Canada Life will pay the actual benefit obligations incurred by the insurance company.

OPERATING RESULTS - REINSURANCE

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 5,313	\$ 4,470	\$ 4,427	\$ 19,306	\$ 17,353
Fee and other income	3	3	2	11	9
Net earnings	183	168	119	640	401

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

Premiums and deposits

Reinsurance premiums can vary significantly from period to period depending on the terms of underlying treaties. For certain life reinsurance transactions, premiums will vary based on the form of the transaction. Treaties where insurance contract liabilities are assumed on a proportionate basis will typically have significantly higher premiums than treaties where claims are not incurred by the reinsurer until a threshold is exceeded. Earnings are not directly correlated to premiums received.

Premiums and deposits for the fourth quarter of 2020 increased by \$886 million to \$5,313 million compared to the same quarter last year, primarily due to new reinsurance agreements and volumes relating to existing business.

For the twelve months ended December 31, 2020, premiums and deposits increased by \$1,953 million to \$19,306 million compared to the same period last year, primarily due to new reinsurance agreements and higher volumes relating to existing business.

Fee and other income

Fee and other income for the fourth quarter of 2020 of \$3 million was comparable to the previous quarter.

For the twelve months ended December 31, 2020, fee and other income of \$11 million was comparable to the same period last year.

Net earnings

Net earnings for the fourth quarter of 2020 increased by \$64 million to \$183 million compared to the same quarter last year. The increase was primarily due to favourable longevity experience as well as higher contributions from insurance contract liability basis changes, partially offset by new business strain in the fourth quarter of 2020 compared to new business gains in the fourth quarter of 2019. The results in the fourth quarter of 2020 also reflect unfavourable claims experience in the life business.

For the twelve months ended December 31, 2020, net earnings increased by \$239 million to \$640 million compared to the same period last year. The increase was primarily due to higher contributions from insurance contract liability basis changes as well as favourable longevity experience and higher business volumes partially offset by new business strain and less favourable claims experience in the life business.

OUTLOOK - REINSURANCE

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is focused on accessing certain demographics, including the low to middle income families market. If the industry is successful, this could create renewed growth, otherwise expected sales and volume will remain stable.

In Europe, low interest rates and the associated financial impact on reserve and capital positions under Solvency II is a key market dynamic. The Company's Reinsurance line of business continues to help European clients and other affiliated companies meet these capital challenges through innovative reinsurance solutions. Demand for longevity reinsurance remains strong and will remain a focus for 2021.

2020 was the fourth consecutive year of significant hurricane and typhoon events. The Company expects 2021 retrocessional pricing to continue to increase. Insurance linked securities capacity is expected to decrease due to trapped collateral from 2017 to 2020 events. However, capital raising has also been evident in the market. The Company's primary focus in the property catastrophe market for 2021, will be to continue to support the core client base with prudent attachment levels and risk adjusted premiums.

CAPITAL AND RISK SOLUTIONS CORPORATE

Capital and Risk Solutions Corporate consists of items not associated directly with or allocated to the Reinsurance business unit as well as the results for the legacy international businesses.

In the fourth quarter of 2020, Capital and Risk Solutions Corporate had a net loss of \$2 million compared to a net loss of \$10 million for the same period last year, primarily due to less unfavourable contributions from insurance contract liability basis changes associated with the legacy international business.

For the twelve months ended December 31, 2020, Capital and Risk Solutions Corporate had a net loss of \$2 million compared to a net loss of \$9 million for the same period last year, primarily due to the same reasons discussed for the in-quarter results.

CORPORATE

The Corporate business unit mainly comprises investment income and distributions related to capital, the United States branch business of Canada Life and other expenses not associated with major business units. The branch business includes the run-off of certain closed blocks of business. Great-West Life & Annuity Insurance Company, an affiliate of the Company, administers these closed blocks of business.

For the fourth quarter of 2020, net earnings of \$125 million increased by \$107 million compared to the same quarter last year. Included in net earnings for the fourth quarter of 2020 was a net gain of \$143 million related to the sale of GLC as well as restructuring costs of \$34 million related to strategic initiatives in the Canadian business unit.

For the twelve months ended December 31, 2020, net earnings were \$140 million compared to \$80 million for the same period last year. Included in net earnings for twelve months ended December 31, 2020 was a net gain related to the sale of GLC as well as restructuring costs discussed for the in-quarter results. Excluding these items, net earnings for the twelve months ended December 31, 2020 decreased compared to the same period last year, primarily due to lower net investment income and higher financing costs related to the preferred shares issued by the Company to Lifeco, its parent company, on January 1, 2020.

RISK MANAGEMENT

COVID-19 Pandemic - Government and Regulatory Responses

While conditions have become more stable, governments and central banks in the jurisdictions in which the Company's subsidiaries operate have implemented and extended many of the measures introduced earlier in 2020 to deal with the economic impacts of the COVID-19 pandemic, including emergency spending, interest rate cuts, wage subsidies and other supports for individuals and businesses.

The overall level of regulatory engagement with the Company's regulated subsidiaries has moderated somewhat to reflect the more stable conditions. However, regulators continue to monitor the impact of the pandemic to ensure that regulated companies maintain sufficient capital and liquidity. Regulators in Canada, the U.K. and Ireland, where some of the Company's regulated subsidiaries operate, have maintained the guidance they provided earlier in 2020 on the payment of dividends and other shareholder distributions during the crisis.

On March 13, 2020, the Office of the Superintendent of Financial Institutions (OSFI) set expectations that Canadian banks and insurers should suspend share buybacks and not to increase dividend payments. The Company does not currently intend to increase dividends or engage in share repurchases.

In the U.K., the Prudential Regulatory Authority (PRA) wrote to all insurance companies in March and April 2020 to remind them to manage their financial resources prudently to ensure they are able to meet their commitments to policyholders and maintain safety and soundness and to satisfy themselves that any dividends are prudent, consistent with their risk appetite and informed by a range of scenarios including very severe ones. The Company's subsidiaries that are supervised by the PRA paid dividends in July, September and November 2020.

In Ireland, the position of the Central Bank of Ireland (CBI) is that, as the impact of COVID-19 remains uncertain, insurance firms should, at this time, postpone any dividend payment distribution or similar transactions until they can forecast their costs and future revenues with a greater degree of certainty. The CBI has indicated that it will continue to review its position in conjunction with ongoing guidance from the European Insurance and Occupational Pension Authority and the European Systemic Risk Board.

The declaration and payment of dividends by the Company in future periods remains at the discretion of its directors and will depend, among other things, on the Company's financial position, which will in turn depend on the duration of the COVID-19 pandemic and the severity and duration of the financial impacts. Although there can be no assurance, to the extent that the pandemic abates and the actions taken by governments lead to a sustained global

financial recovery within a reasonable time, the Company expects that its ability to pay dividends at current levels will not be adversely impacted.

OVERVIEW

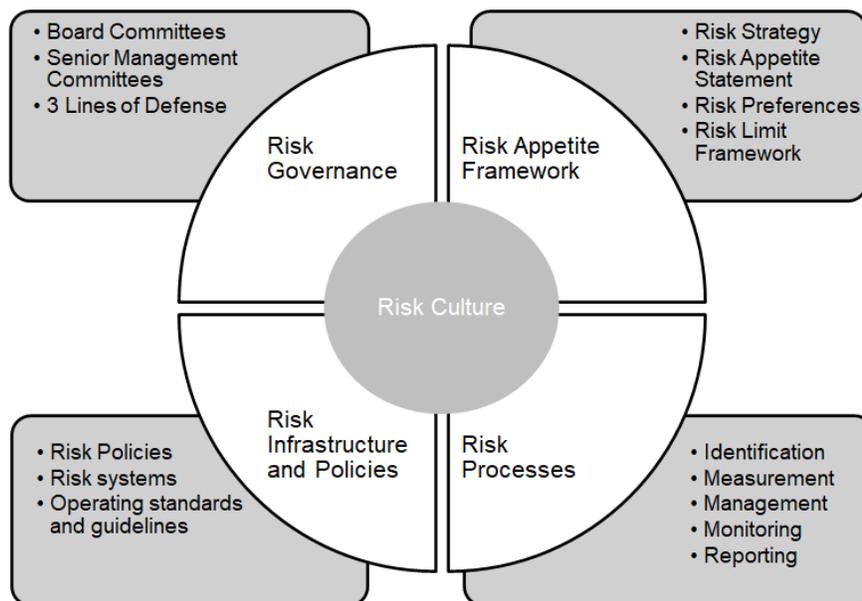
As a diverse financial services company, the effective management of risk is integral to the success of the Company's business. The Company is committed to a comprehensive system of risk management, which is embedded across all business activities, operated through a three lines of defense organization and overseen by the Board of Directors. The Company's three lines of defense include business unit and support functions, oversight functions including actuarial, finance, risk and compliance, and the Company's internal audit function. The Company has a prudent and measured approach to risk management. This approach is built on a strong risk culture and is guided by an integrated Enterprise Risk Management (ERM) Framework. The Company's governance follows the governance structure of Lifeco, the parent company of the Company's parent. As part of the Lifeco group of companies, the Company has adopted essentially the same Board and Committee mandates and other governance structures, processes and practices as Lifeco. As a result, the ERM Framework established by Lifeco applies to the Company and will be referenced as such throughout this section.

The 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 possible losses and risks. The Company's Risk Function is responsible for the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company's operations.

There are three main sections to this Risk Management disclosure: ERM Framework, Risk Management and Control Practices and Exposures and Sensitivities.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

Board and Management Committees provide oversight of the ERM Framework which is comprised of five components: Risk Culture, Risk Governance, RAF, Risk Processes and Risk Infrastructure & Policies.



RISK CULTURE

Risk culture is defined as the system of values and behaviours which reflect the Company's collective sense of responsibility to fulfill its promises and safeguard the Company's financial strength and reputation while growing shareholder value. This culture reflects the Company's commitment to treat customers fairly and support open communication and ethical behaviour.

This culture is instilled through a mindset of risk awareness as demonstrated by:

- Consistent tone from the Board of Directors and senior management in respect of behavioural and ethical expectations;
- Recognition that risk is inherent in the Company's business success and reflects opportunity when appropriately managed;
- Common commitment throughout the Company to the importance of continuous management of risk, including clear accountability for and ownership of specific risks and risk areas;
- Rewarding positive risk taking and management behaviours while challenging and remediating those that are inappropriate;
- Encouragement of risk event reporting and the presence of robust whistleblowing processes, actively seeking to learn from mistakes; and
- Recognition that risk management skills and knowledge are valued, encouraged and developed, throughout the Company and supported by an appropriately resourced Risk Function.

RISK GOVERNANCE

Risk governance sets out the roles and responsibilities for the Board of Directors (Board) and Board Committees.

Board of Directors

The mandate of the Board, which it discharges directly or through one of its Committees, is to supervise the management of the business and affairs of the Company. The Board is ultimately accountable and responsible for the governance and oversight of risk throughout the Company. The Board annually approves the strategic goals, objectives, plans and initiatives for Lifeco and in so doing reviews the risks associated with Lifeco's diverse business, strategic goals and high priority initiatives. Key risk responsibilities include:

- Approving the ERM Policy and RAF;
- Monitoring the implementation and maintenance by management of appropriate systems, policies, procedures and controls to manage the risks associated with the Company's businesses and operations;
- Annually approving Lifeco's business, financial and capital plans and monitoring the implementation by management thereof;
- Upon the recommendation of the Risk Committee, adopting a Code of Conduct applicable to Directors, officers and employees of the Company; and
- Periodically approving policies designed to support independence of the Internal Audit, Risk, Finance, Actuarial and Compliance oversight functions.

Risk Committee

The Risk Committee of the Board of Directors is responsible for assisting the Board with risk management oversight and governance for Lifeco and its major operating subsidiaries. The Risk Committee's responsibilities include:

- Review and oversight of the ERM Policy and RAF;
- Review, approval and oversight of the credit, market, insurance, operational, conduct, strategic and other risk policies;
- Approval of the risk limit framework, associated risk limits and monitoring adherence to those limits;
- Approval of the organizational structure and resources of the risk management and compliance functions;

- Evaluation of the Company's risk culture;
- Discussion of the risks in aggregate and by type of risk;
- Review relevant reports including stress testing and Financial Condition Testing;
- Review and approval of the Own Risk and Solvency Assessment (ORSA) Report;
- Periodically approve the recovery plan playbook;
- Review of the risk impact of business strategies, capital plans, financial plans and new business initiatives;
- Review and assessment of the performance of the Company's Chief Risk Officer (CRO) and Chief Compliance Officer (CCO);
- Monitoring compliance with the Company's Code of Conduct;
- Periodic consideration and input regarding the relationships between risk and compensation; and
- Review and assessment of the effectiveness of risk management across the Company including processes to ensure effective identification, measurement, management, monitoring and reporting on significant current and emerging risks.

The Risk Committee is required to meet, at least annually, with the Audit Committee and with the Company's Chief Internal Auditor. Members of the Risk Committee are independent of management.

Audit Committee - The primary mandate of the Audit Committee is to review the financial statements of the Company and public disclosure documents containing financial information and to report on such review to the Board, to be satisfied that adequate procedures are in place for the review of the Company's public disclosure documents that contain financial information and to oversee the work and review the independence of the external auditor. The Audit Committee is also responsible for reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. The Audit Committee meets as often as necessary to discharge its duties and responsibilities and meets at least annually, with the Risk Committee. Members of the Audit Committee are independent of management.

Conduct Review Committee - The primary mandate of the Conduct Review Committee is to require management to establish satisfactory procedures for the consideration and approval of material transactions with related parties and to review and, if deemed appropriate, to approve related party transactions in accordance with such procedures. Members of the Conduct Review Committee are independent of management.

Governance and Nominating Committee - The primary mandate of the Governance and Nominating Committee is to oversee the Company's approach to governance matters, to recommend to the Board effective corporate governance policies and processes, to assess the effectiveness of the Board, Board Committees and the Directors and to recommend to the Board candidates for election as Directors and candidates for appointment to Board Committees.

Human Resources Committee - The primary mandate of the Human Resources Committee is to support the Board in its oversight of compensation, talent management and succession planning. This includes the responsibility to approve compensation policies, to review the designs of major compensation programs, to approve compensation arrangements and any benefit or perquisite plan for senior executives of the Company and to recommend to the Board compensation arrangements for the Directors and for the President and Chief Executive Officer. The mandate also includes the responsibility to review succession plans for the President and Chief Executive Officer and other senior executives, to review talent management programs and initiatives and to review the leadership capabilities required to support the advancement of the Company's strategic objectives. The Human Resources Committee is also responsible for considering the implications of the risks associated with the Company's compensation policies, plans and practices and in doing so meets annually with the Chief Risk Officer. The Human Resources Committee also meets with the Risk Committee on an as needed basis.

Investment Committee - The primary mandate of the Investment Committee is to oversee the Company's global investment strategy and activities, including approving the Company's Investment Policy and monitoring the Company's compliance with the Investment Policy. The mandate also includes reviewing the Company's annual investment plan and monitoring emerging risks, market trends and performance, investment regulatory issues and any other matters relevant to the oversight of the Company's global investment function. The Investment Committee meets as often as necessary to discharge its duties and responsibilities and meets with the Risk Committee as appropriate.

Reinsurance Committee - The primary mandate of the Reinsurance Committee is to advise on the Corporation's reinsurance transactions. The mandate also includes reviewing and approving management's recommendations with respect to policies applicable to reinsurance.

Senior Management Risk Committees

Lifeco's Executive Risk Management Committee (ERMC) is the primary senior management committee that oversees all forms of risk and the implementation of the ERM Framework. The members are the CEO, the heads of each major Business Segment, the heads of key oversight functions and heads of support functions as appropriate. The Board Risk Committee delegates authority for the approval and management of lower level risk limits to the ERMC. The Company's CRO leads the Risk Function and chairs the ERMC. Its responsibilities include reviewing compliance with the RAF, risk policies and risk standards. It also assesses the risk impact of business strategies, capital and financial plans, and material initiatives. The following three enterprise-wide sub-committees, chaired by the Risk Function, report to the ERMC to provide advice and recommendations on each of the key risk categories:

- Market and Credit Risk Committee
- Insurance Risk Committee
- Operational Risk Committee

The oversight responsibilities of the above committees include identification, measurement, management, monitoring and reporting of their respective risks. In addition, each business segment has established its own executive risk management committee providing oversight for all forms of risk and the implementation of the ERM Framework.

Accountabilities

The Company has adopted a Three Lines of Defense model to clearly segregate risk management and risk oversight responsibilities and applies the ERM Framework rigorously across the enterprise:

- **First Line:** Business units and business support functions, including Investment Management, Human Resources, Information Services and Legal, are the ultimate owners of the risk and have primary risk management as well as risk-taking responsibility and accountability through day-to-day operations within ongoing business process.
- **Second Line:** The Risk Function has the primary and overall responsibility and accountability for independent oversight of risk-taking and risk management of the first line of defense. In this role, the Risk Function receives support from other oversight functions including Actuarial, Compliance and Finance; and
- **Third Line:** Internal Audit is responsible for independent assurance of the adequacy of the design and operational effectiveness of the Company's ERM Framework.

The Company's CRO reports directly, both to the President and Chief Executive Officer and to the Board Risk Committee. The CRO is responsible for ensuring that the Risk Function is appropriately resourced and effective in executing its responsibilities. The accountabilities of the CRO include reporting on compliance with the ERM Policy and RAF as well as for escalating matters that require attention.

Business Segment ERMCS monitor all risk categories for businesses and operations within their respective business segments. Risk resources and capabilities are aligned with the Company's business segments and operating units and further support is provided by centrally based risk areas of expertise.

Although the Company takes steps to anticipate and minimize risks in general, no risk management framework can guarantee that all risks will be identified, appreciated or mitigated effectively. Unforeseen future events may have a negative impact on the Company's business, financial condition and results of operations.

RISK APPETITE FRAMEWORK

Lifeco has an articulated Risk Appetite Framework (RAF) that includes the following elements along with the associated governance structure:

- **Risk Strategy:** Risk philosophy of the Company that links to the business strategy
- **Risk Appetite Statement:** Qualitative reflection of the aggregate level of risk and types of risk that the Company is willing to accept to achieve its business objective
- **Risk Preference:** Qualitative description of risk tolerances
- **Risk Limit Framework:** Quantitative components of the RAF including excess and escalation process

Risk Strategy

The Company's business strategy is aligned with its risk strategy and risk appetite. The risk strategy supports the Company's main objectives to keep its commitments while growing shareholder value. The risk strategy requires:

- diversification of products and services, customers, distribution channels and geographies;
- a prudent and measured approach to risk-taking,
- resilience of business operations and sustainable growth, taking into consideration corporate social responsibility,
- conducting business to safeguard the Company's reputation and deliver fair customer outcomes through maintaining high standards of integrity based on the Code of Conduct and sound sales and marketing practices, and
- generating returns to grow shareholder value through profitable and growing operations while maintaining a strong balance sheet.

Risk Appetite Statement

Lifeco's Risk Appetite Statement has four key components:

- **Strong Capital Position:** The Company intends to maintain a strong balance sheet and not take risks that would jeopardize its financial strength;
- **Mitigated Earnings Volatility:** The Company seeks to avoid substantial earnings volatility through appropriate diversification and limiting exposure to more volatile lines of business;
- **Strong Liquidity:** The Company intends to maintain a high quality, diversified investment portfolio with sufficient liquidity to meet the demands of policyholder and financing obligations under normal and stressed conditions; and
- **Treating Customers Fairly and Maintaining the Company's Reputation:** The Company seeks to maintain a high standing and positive reputation with its customers, counterparties, creditors and other stakeholders. This includes building and maintaining trust, fair treatment of the customers, consideration of corporate social responsibility, and effective management of sustainability and reputational risk.

Risk Preference

The Company has established qualitative risk preferences for each risk type. Each risk is assigned a risk preference level, in the context of understanding and managing these risks. The current level of exposure is regularly measured and risk tolerances are expressed quantitatively through actual constraints to the Company's risk profile within pre-agreed limits. Maximum guidelines are established to monitor risk concentration and inform the risk limit setting process.

Risk Limit Framework

A comprehensive structure of risk limits and controls is in place across the Company. Enterprise risk limits are further broken down by business unit and risk type. The limit structure is accompanied by comprehensive limit approval and excess management processes to ensure effective governance and oversight of the RAF.

The Company and its subsidiaries are subject to various regulatory regimes. The capital requirements under these regulatory capital regimes are reflected in the development of risk limits. Business units are responsible for operating within the risk appetite and the risk limit framework and satisfying local needs as required.

RISK PROCESSES

Risk processes follow a cycle of identification, measurement, management, monitoring and reporting and are designed to ensure both current and emerging risks are assessed against the RAF.

Risk Identification, Measurement and Management

Risk identification requires the structured analysis of the current and emerging risks facing the Company, so that they are understood and appropriately controlled. Processes are designed to ensure risks are considered, assessed, prioritized and addressed in all business initiatives and changes, including investment strategies, product design, significant transactions, annual planning and budgeting as well as potential business acquisitions and disposals.

Risk measurement provides the means to quantify and assess the Company's risk profile and monitor the profile against the risk limits. Any material new business development or change in strategy warrants an independent assessment of risk and potential impact on reputation, in addition to measurement of the impact on capital, earnings and liquidity. Stress and scenario testing is used to evaluate risk exposures against the risk appetite. Sensitivity testing of key risks is used to evaluate the impact of risk exposures independent of other risks. Scenario testing is used to evaluate the combined impact of multiple risk exposures.

The Company has processes in place to identify risk exposures on an ongoing basis and, where appropriate, develops mitigation strategies to proactively manage these risks. Effective risk management requires the selection and implementation of approaches to accept, reject, transfer, avoid or control risk, including mitigation plans. It is based on a control framework for financial and non-financial risks that includes risk limits, Risk Function Indicators (RFIs) and stress and scenario testing to ensure appropriate escalation and resolution of potential issues in a timely manner.

A key responsibility of the Risk Function is to ensure that the risk appetite is applied consistently across the Company and that limits are established to ensure that risk exposures comply with the risk appetite and Company-wide risk policies.

Risk Monitoring, Reporting and Escalation

Risk monitoring relates to ongoing oversight and tracking of the Company's risk exposures, ensuring that the risk management approaches in place remain effective. Monitoring may also identify risk-taking opportunities.

Risk reporting presents an accurate and timely picture of existing and emerging risk issues and exposures as well as their potential impact on business activities. Reporting highlights the risk profile relative to the risk appetite and associated risk limits.

A clearly defined escalation protocol is in place to address any excesses against thresholds or limits established by the RAF, risk policies, operating standards and guidelines. Remediation plans are reviewed by the Risk Function and escalated to designated management and Board committees.

RISK INFRASTRUCTURE AND POLICIES

The Company's organization and infrastructure is established to provide resources and risk systems to support adequate and appropriate risk policies, operating standards and guidelines and processes. The Company endeavours to take a consistent approach to risk management across key risk types.

The Company has codified its procedures and operations related to risk management and oversight requirements in a set of guiding documents composed of risk policies, operating standards and associated guidelines. This comprehensive documentation framework provides detailed and effective guidance across all risk management processes. These documents enable a consistent approach to risk management and oversight across the Company's businesses and are reviewed and approved regularly, in accordance with an established authority hierarchy, by the Board of Directors, the Board Risk Committee or a senior management committee. Similar policy structures have been developed and are maintained by each business segment.

RISK MANAGEMENT AND CONTROL PRACTICES

The Company's risk profile is impacted by a variety of risks and its risk management and independent oversight processes are tailored to the type, volatility and magnitude of each risk. The Company has defined specific risk management and oversight processes for risks, broadly grouped in the following categories:

1. Market and Liquidity Risk
2. Credit Risk
3. Insurance Risk
4. Operational Risk
5. Conduct Risk
6. Strategic Risk

COVID-19 Pandemic

The global pandemic is elevating disruption themes, amplifying existing financial and nonfinancial risks, introducing new uncertainties, and highlighting interdependencies and accentuating risk correlations.

Many factors still remain unknown, such as the depth and length of the recession, rollout and efficacy of vaccines, ongoing effectiveness of monetary and fiscal stimulus, and impacts from the cross-accumulation of risks. Near and longer term implications of COVID-19 pandemic raise several unique challenges that may affect Lifeco's business strategy.

The Company is monitoring the situation closely, including carrying out stress and scenario testing, and has implemented processes for the continuation of operations and to support the well-being of customers, employees and broader communities. The risks associated with the COVID-19 pandemic (financial, operational, regulatory and other risks) are being managed within the Company's existing risk management framework.

MARKET AND LIQUIDITY RISK

Risk Description

Market risk is the risk of loss resulting from potential changes in market rates, prices or liquidity in various markets such as for interest rates, real estate, currency, common shares and commodities. Exposure to this risk results from business activities including investment transactions which create on-balance sheet and off-balance sheet positions.

Liquidity risk is the risk of the Company's inability to generate the necessary funds to meet its obligations as they come due, including off-balance sheet commitments and obligations.

Market and Liquidity Risk Management

Canada Life's Market Risk Policy sets out the market risk management framework and provides the principles for market risk management. This policy is supported by other policies and guidelines that provide detailed guidance.

A governance structure has been implemented for the management of market risk. The business units, including Investment Management, are the ultimate owners of market risk and as such have primary responsibility for the identification, measurement, management, monitoring and reporting of market risk. The Company has established a senior management committee to provide oversight of market risk, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, excess management and mitigation pertaining to market risk. Each business segment has established oversight committees and operating committees to help manage market risk within the segment. The Company has developed risk limits, RFIs and measures to support the management of market and liquidity risk in compliance with the RAF. The Risk Function works with the business units and other oversight functions to identify current and emerging market risks and take appropriate action, if required.

The Company is willing to accept market risk and liquidity risk in certain circumstances as a consequence of its business model and seeks to mitigate the risk wherever practical. To reduce market risk, the Company uses a dynamic hedging program associated with segregated fund and variable annuity guarantees. This is supplemented by a general macro equity hedging program that has been established to execute hedge transactions in circumstances and at levels that have been determined by the Company.

Risks and risk management activities associated with the broad market and liquidity risk categories are detailed below.

Interest Rate Risk

Interest rate risk is the risk of loss resulting from the effect of the volatility and uncertainty of future interest rates on asset cash flows relative to liability cash flows and on assets backing surplus. This also includes changes in the amount and timing of cash flows related to asset and liability optionality, including interest rate guarantees and book value surrender benefits in the liabilities.

The Company's principal exposure to interest rate risk arises from certain general fund and segregated fund products. The Company's Asset Liability Management (ALM) strategy has been designed to mitigate interest rate risks associated with general fund products, with close matching of asset cash flows and insurance and investment contract obligations. Products with similar risk characteristics are grouped together to ensure an effective aggregation and management of the Company's ALM positions. Asset portfolios supporting insurance and investment contract liabilities are segmented to align with the duration and other characteristics (e.g. liquidity) of the associated liabilities.

A prolonged period of low interest rates may adversely impact the Company's earnings and regulatory capital and could impact the Company's business strategy. During periods of prolonged low interest rates, investment earnings may be lower because the interest earned on new fixed income investments will likely have declined with the market interest rates, and hedging costs may increase. Also, early repayment on investments held such as mortgage-backed securities, asset-backed securities, and callable bonds, may be experienced and proceeds forced to be reinvested at lower yields, which will reduce investment margins.

Crediting rates within general fund products are set prudently and a significant proportion of the Company's portfolio of crediting rate products includes pass-through features, which allow for the risk and returns to be shared with policyholders. Asset management and related products permit redemptions; however, the Company attempts to mitigate this risk by establishing long-term customer relationships, built on a strategic customer focus and an emphasis on delivering strong fund performance.

The Company has established dynamic hedging programs to hedge interest rate risk sensitivity associated with segregated fund and variable annuity guarantees. These hedging programs are designed to offset changes in the economic value of liabilities using derivative instruments. The Company's approach to dynamic hedging of interest rate risk principally involves transacting in interest rate swaps. The hedge asset portfolios are dynamically rebalanced within approved thresholds and rebalancing criteria.

Where the Company's insurance and investment products have benefit or expense payments that are dependent on inflation (e.g. inflation-indexed annuities, pensions and disability claims), the Company generally invests in real return instruments to mitigate changes in the real dollar liability cash flows. Some protection against changes in the inflation index can be achieved, as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

Equity Risk

Equity risk is the risk of loss resulting from the sensitivity of the value of assets, liabilities, financial instruments and fee revenue to changes in the level or in the volatility of market prices of common shares and real estate. This includes the equity risk associated with the Company's general fund assets and investments on account of segregated fund policyholders.

The Company's principal exposure to equity risk arises from segregated funds and fee income associated with the Company's assets under management. Approved investment and risk policies also provide for general fund investments in equity markets within defined limits.

The Company has established dynamic hedging programs to hedge equity risk sensitivity associated with segregated fund and variable annuity guarantees. The hedging programs are designed to mitigate exposure to changes in the economic value of these liabilities using derivative instruments. The Company's approach to dynamic hedging of equity risk principally involves the short selling of equity index futures. The hedge asset portfolios are dynamically rebalanced within approved thresholds and rebalancing criteria. The Company's product-level hedging programs are supplemented by a general macro hedging strategy that has been established to execute hedge transactions in circumstances and at levels that have been determined by the Company.

For certain very long-dated liabilities it is not practical or efficient to closely match liability cash flows with fixed-income investments. Therefore, certain long-dated asset portfolios target an investment return sufficient to meet liability cash flows over the longer term. These liabilities are partially backed by a diversified portfolio of non-fixed income investments, including equity and real estate investments, in addition to long dated fixed-income instruments. Real estate losses can arise from fluctuations in the value of or future cash flows from the Company's investments in real estate.

The Company has established a macro equity hedging program to execute hedge transactions in circumstances and at levels that have been determined by the Company. The objective of the program is to reduce the Company's exposure to equity tail-risk and to maintain overall capital sensitivity to equity market movements within Board approved risk appetite limits. The program is designed to hedge a portion of the Company's capital sensitivity due to movements in equity markets arising from sources outside of dynamically hedged segregated fund and variable annuity exposures.

Foreign Exchange Risk

Foreign exchange risk is the risk of loss resulting from changes in currency exchange rates against the reporting currency. The Company's foreign exchange investment and risk management policies and practices are to match the currency of the Company's general fund investments with the currency of the underlying insurance and investment contract liabilities. To enhance portfolio diversification and improve asset liability matching, the Company may use foreign exchange derivatives to mitigate currency exchange risk to the extent this is practical using forward contracts and swaps.

The Company has net investments in foreign operations. As a result, the Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect the Company's financial results. The Company has exposures to the U.S. dollar resulting from its reinsurance business and to the British pound and the euro resulting from operations of business in Europe operating in the U.K., the Isle of Man, Ireland and Germany.

In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income (loss). Strengthening or weakening of the Canadian dollar end-of-period market rate compared to the U.S. dollar, British pound and euro end-of-period market rates impacts the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

- A 5% appreciation (depreciation) of the average exchange rate of the Canadian dollar to each of the British pound, euro and U.S. dollar would increase (decrease) net earnings in 2020 by \$43 million, \$34 million and \$10 million, respectively.
- A 5% appreciation (depreciation) of the Canadian dollar end-of-period market rate compared to each of the U.S. dollar, British pound and euro end-of-period market rates would decrease (increase) the unrealized foreign currency translation gains, including the impact of instruments designated as hedges of net investments on foreign operations, in accumulated other comprehensive income (loss) of shareholders' equity by approximately \$72 million, \$306 million and \$233 million, respectively, as at December 31, 2020.

Management may use forward foreign currency contracts and foreign denominated debt to mitigate the volatility arising from the movement of rates as they impact the translation of net investments in foreign operations. The Company uses non-IFRS financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results.

Liquidity Risk

The Company's liquidity risk management framework and associated limits are designed to ensure that the Company can meet cash and collateral commitments as they fall due, both on an expected basis and under a severe liquidity stress.

In the normal course of certain reinsurance business, the Company provides letters of credit (LCs) to other parties, or beneficiaries. A beneficiary will typically hold a LC as collateral to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from the Company.

The Company may be required to seek collateral alternatives if it is unable to renew existing LCs at maturity. The Company monitors its use of LCs on a regular basis and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LCs issued to the LC beneficiaries for certain reinsurance treaties. The Company staggers the maturities of LCs to reduce the renewal risk.

Liquidity

	December 31	
	2020	2019
Cash, cash equivalents and short-term bonds	\$ 5,386	\$ 6,640
Other liquid assets and marketable securities		
Government bonds	31,627	29,200
Corporate bonds	35,471	33,596
Common/Preferred shares (public)	9,967	9,598
Residential mortgages - insured	3,785	4,141
	<u>\$ 80,850</u>	<u>\$ 76,535</u>
Total	<u>\$ 86,236</u>	<u>\$ 83,175</u>

Cashable liability characteristics

	December 31	
	2020	2019
Surrenderable insurance and investment contract liabilities ⁽¹⁾		
At market value	\$ 4,986	\$ 4,957
At book value	43,686	41,017
Total	<u>\$ 48,672</u>	<u>\$ 45,974</u>

⁽¹⁾ Cashable liabilities include insurance and investment contract liabilities classified as held for sale.

The carrying value of the Company's liquid assets and marketable securities is approximately \$86.2 billion or 1.8 times the Company's surrenderable insurance and investment contract liabilities. The Company believes that it holds adequate and appropriate liquid assets to meet anticipated cash flow requirements as well as to meet cash flow needs under a severe liquidity stress.

Approximately 68% (approximately 68% in 2019) of insurance and investment contract liabilities are non-cashable prior to maturity or claim.

The majority of liquid assets and other marketable securities comprise fixed-income securities whose value decrease when interest rates rise. Also, a high interest rate environment may encourage holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

For a further description of the Company's financial instrument risk management policies, refer to note 8 in the Company's December 31, 2020 annual consolidated financial statements.

CREDIT RISK

Risk Description

Credit risk is the risk of loss resulting from an obligor's potential inability or unwillingness to fully meet its contractual obligations. Exposure to this risk occurs any time funds are extended, committed or invested through actual or implied contractual agreements. Components of credit risk include: loan loss/principal risk, pre-settlement/replacement risk and settlement risk. Obligors include issuers, debtors, borrowers, brokers, policyholders, reinsurers, derivative counterparties and guarantors.

Credit exposure resulting from the purchase of fixed-income securities, which are primarily used to support policyholder liabilities. The Company also manages financial contracts with counterparties. Such contracts may be used to mitigate insurance and market risks (reinsurance ceded agreements and derivative contracts) or they may arise from the Company's direct business operations (Reinsurance business unit) and may result in counterparty risk. The risk arising from these types of arrangements is included in the Company's measurement of its risk profile.

Credit Risk Management

The Company's credit risk management framework focuses on minimizing undue concentration of assets, in-house credit analysis to identify and measure risks, continuous monitoring, and proactive management. Diversification is achieved through the establishment of appropriate concentration limits (by asset class, issuers, credit rating, industries, and individual geographies) and transaction approval authority protocols. The Company's approach to credit risk management includes the continuous review of its existing risk profile relative to the RAF as well as to the projection of potential changes in the risk profile under stress scenarios.

Effective governance of credit risk management requires the involvement of dedicated senior management committees, experienced credit risk personnel, and with the guidance of appropriate credit risk policies, standards and processes. For credit risk, the Investment Committee is responsible for the approval of investment decisions of significant size or level of complexity, and oversight of the Company's global investment strategy, including compliance with investment limits and policies as well as excess management. Additionally, the Investment Committee reviews the Company's investment policies, procedures, guidelines, and corresponding limits to ensure that investment decisions are in compliance with the RAF. The Risk Committee advises the Board of Directors on credit risk oversight matters and approves and monitors compliance with credit risk policies and limits. The Risk Committee also provides oversight of the Credit Risk Policy and related processes and is responsible for ensuring compliance with the RAF.

The Investment Committee and Risk Committee are supported by senior management committees. Lifeco's Global Management Investment Review Committee (GMIRC) and the Management Investment Review Committees (MIRCs) for each business segment review and approve new investments above the transaction approval authority delegated to management and manage credit risk across invested assets and counterparties. Lifeco's Market and Credit Risk Committee (MCRC), is the ERM sub-committee responsible for providing oversight of market and credit risk management activities, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, excess management and mitigation pertaining to credit risk.

The Company has established business-segment specific Investment and Lending Policies, including investment limits for each asset class, which are approved by the Investment Committee. These policies and limits are complemented by Lifeco's Credit Risk Policy which describes credit risk management processes and describes the role of the Risk Function in the oversight of credit risk, including the setting and monitoring of aggregate concentration risk limits, and the approval and escalation of exceptions.

The Company identifies credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness based on a thorough and objective analysis of business risk, financial profile, structural considerations and security characteristics including seniority and covenants. Credit risk ratings are expressed using a 22-point scale that is consistent with those used by external rating agencies. In accordance with the Company's policies, internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies. The Risk Function reviews and approves the credit risk ratings assigned by Investment Management for all new investments and reviews the appropriateness of ratings assigned to outstanding exposures.

The Risk Function assigns credit risk parameters (probabilities of default, rating transition rates, loss given default, exposures at default) to all credit exposures to measure the Company's aggregate credit risk profile. In addition, the Risk Function establishes limits and processes, performs stress and scenario testing (using stochastically generated and deterministic scenarios) and assesses compliance with the limits established for Lifeco in the RAF. It

regularly reports on the Company's credit risk profile to executive management, the Board of Directors and various committees at enterprise, business segment and legal entity levels.

Investment Management and the Risk Function are independently responsible for the monitoring of exposures relative to limits as well as for the management and escalation of risk limit excesses as they occur. Investment Management is also responsible for the continuous monitoring of its portfolios for changes in credit outlook, and performs regular credit reviews of all relevant obligors and counterparties, based on a combination of bottom-up credit analysis and top-down views on the economy and assessment of industry and sub-sector outlooks. Watch Lists are also used at the business segment levels to plan and execute the relevant risk mitigation strategies for obligors experiencing heightened credit stress.

The Risk Function oversees monitoring, management of excesses and escalation activities, and has developed risk limits, RFIs and risk budgets to act as early warnings against unacceptable levels of concentration and to support the management of credit risk limits in compliance with the Company's RAF.

Counterparty Risk

Counterparties include both reinsurers and derivative counterparties.

The Company uses reinsurance to mitigate insurance risks. This mitigation results in increased credit risk to reinsurance counterparties from the potential failure to collect reinsurance recoveries due to either the inability, or an unwillingness to fulfill their contractual obligation.

Counterparties providing reinsurance to the Company are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in the Reinsurance Risk Management Policy. The Company seeks to minimize reinsurance credit risk through diversification as well as seeking protection in the form of collateral or funds withheld arrangements where possible.

The Company enters into derivative contracts primarily to mitigate market risks. Derivative counterparty risk is the risk of loss resulting from the potential failure of the derivative counterparty to meet their financial obligations under the contract. Derivative products are traded through exchanges or with counterparties approved by the Board of Directors or the Investment Committee. The Company seeks to mitigate derivative credit risk through diversification and through collateral arrangements where possible. In addition, the Company includes potential future exposure of derivatives in its measure of total exposure against single name limits.

INSURANCE RISK

Risk Description

Insurance risk is the risk of loss resulting from adverse changes in experience associated with contractual promises and obligations arising from insurance contracts. Insurance risk includes uncertainties around the ultimate amount of net cash flows (premiums, commissions, claims, payouts and related settlement expenses), the timing of the receipt and payment of these cash flows, as well as the impact of policyholder behaviour (e.g. lapses).

The Company identifies six broad categories of insurance risk, which may contribute to financial losses: mortality risk, morbidity risk, longevity risk, policyholder behaviour risk, expense risk and property catastrophe risk. Mortality risk, morbidity risk and longevity risk are core business risks and the exchange of these risks into value is a core business activity. Policyholder behaviour risk and expense risk associated with offering core products are accepted as a consequence of the business model and mitigated where appropriate. Property catastrophe risk is a selectively accepted business risk which is constrained, actively managed and controlled within risk limits.

Insurance Risk Management

Insurance products involve commitments by the insurer to provide services and financial obligations with coverage for extended periods of time. To provide insurance protection effectively, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing insurance contract liabilities, to make assumptions regarding expected levels of income, claims and expenses and how policyholder behaviours and market risks might impact these assumptions. As a result, the Company is exposed to product design and pricing risk which is the risk of financial loss resulting from transacting business where the costs and liabilities arising in respect of a product line exceed the pricing expectations.

Insurance contract liabilities are established to fund future claims and include a provision for adverse deviation, set in accordance with professional actuarial standards. Insurance contract liability valuation requires regular updating of assumptions to reflect emerging experience.

A governance structure has been implemented for the management of insurance risk. Business units are the ultimate owners of insurance risk and as such have primary responsibility for the identification, measurement, management, monitoring and reporting of insurance risk. The Risk Function, supported by Corporate Actuarial, is primarily responsible for oversight of the insurance risk management framework. Lifeco has established an Insurance Risk Committee to provide oversight of insurance risk, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, excess management and mitigation pertaining to insurance risk. Each business segment has established oversight committees and operating committees to help manage insurance risk within the segment.

The Company's Insurance Risk Policy sets out the insurance risk management framework and provides the principles for insurance risk management. This policy is supported by several other policies and guidelines that provide detailed guidance, including:

- Product Design and Pricing Risk Management Policy and Reinsurance Risk Management Policy, which provide guidelines and standards for the product design and pricing risk management processes and reinsurance ceded risk management practices;
- Corporate Actuarial Valuation Policy, which provides documentation and control standards consistent with the valuation standards of the Canadian Institute of Actuaries; and
- Participating Account Management Policies and Participating Policyholder Dividend Policies, which govern the management of participating accounts and provide for the distribution of a portion of the earnings in the participating account as participating policyholder dividends.

The Risk Function, in conjunction with Corporate Actuarial, implements a number of processes to carry out its responsibility for oversight of insurance risk. It reviews the Insurance Risk Policy relative to current risk exposures and updates it as required. It reviews insurance risk management processes carried out by the business units, including product design and pricing, underwriting, claims adjudication, and reinsurance ceding, and provides challenge as required.

The Risk Function works with the business units and other oversight functions to identify current and emerging insurance risks and take appropriate action, if required. Insurance risk limits, risk budgets and RFIs are set to keep the insurance risk profile within the Company's appetite for insurance risk and the Risk Function regularly monitors the insurance risk profile relative to these measures. Any excesses are required to be escalated so that appropriate remediation may be implemented. The Risk Function performs stress testing and does analysis of insurance risks, including review of experience studies. It provides regular reporting on these activities to the business units, senior management, and risk oversight committees. The Risk Function performs thematic reviews and/or enhances the monitoring and reporting of associated exposures to these risks.

Risks and risk management activities associated with the broad insurance risk categories are detailed below.

Mortality and Morbidity Risk

Mortality risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance contract liabilities.

Morbidity risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of disability, health, dental, critical illness and other sickness rates, where an increase in the incidence rate or a decrease in the disability recovery rate leads to an increase in the value of insurance contract liabilities.

There is a risk that the Company will mis-estimate the level of mortality or morbidity, or write business which generates worse mortality and morbidity experience than expected.

The Company employs the following practices to manage its mortality and morbidity risk:

- Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active.
- Underwriting limits, practices and policies control the amount of risk exposure, the selection of risks insured for consistency with claims expectations and support the long-term sustainability of the Company.
- The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with actuarial standards. This margin is required to provide for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions.
- The Company sets retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk where appropriate.
- For Group life products, exposure to a concentrated mortality event due to concentration of risk in specific locations for example, could have an impact on financial results. To manage the risk, concentrations are monitored for new business and renewals. The Company may impose single-event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.
- Effective plan design and claims adjudication practices, for both morbidity and mortality risks are critical to the management of the risk. As an example, for Group healthcare products, inflation and utilization will influence the level of claims costs, which can be difficult to predict. The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees and include the ability to regularly re-price for emerging experience.
- The Company manages large blocks of business, which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period. For some policies, these risks are shared with the policyholder through adjustments to future policyholder charges or in the case of participating policies through future changes in policyholder dividends.

Longevity Risk

Longevity risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance contract liabilities. Annuities, some segregated fund products with Guaranteed Minimum Withdrawal Benefits and longevity reinsurance are priced and valued to reflect the life expectancy of the annuitant. There is a risk that annuitants could live longer than was estimated by the Company, which would increase the value of the associated insurance contract liabilities.

Business is priced using mortality assumptions which consider recent Company and industry experience and the latest research on expected future trends in mortality.

Aggregate risk is managed through reinsurance to transfer the risk as appropriate, as well as consideration of capital market solutions if deemed necessary. The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to ensure annuity payments accrue to those

contractually entitled to receive them and help ensure mortality data used to develop pricing and valuation assumptions is as complete as possible.

Policyholder Behaviour Risk

Policyholder behaviour risk is the risk of loss resulting from adverse changes in the level or volatility of the rates of policy lapses, terminations, renewals, surrenders, or exercise of embedded policy options.

Many products are priced and valued to reflect the expected duration of contracts and the exercising of options embedded in those contracts. There is a risk that contracts may be terminated earlier or later than assumed in pricing and plan design. To the extent that higher costs are incurred in early contract years, there is a risk that contracts are terminated before higher early expenses can be recovered. Conversely, on certain long-term level premium products where costs increase by age, there is risk that contracts are terminated later than assumed.

Business is priced using policy termination assumptions which consider product designs and policyholder options, recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated as necessary for both pricing of new policies and valuation of in-force policies.

The Company also incorporates early surrender charges into certain contracts and incorporates commission chargebacks in its distribution agreements to reduce unrecovered expenses.

Policyholder taxation rules in many jurisdictions help encourage the retention of insurance coverage.

Expense Risk

Expense risk is the risk of loss resulting from adverse variability of expenses incurred with fee-for-service business or in servicing and maintaining insurance, savings or reinsurance contracts, including direct expenses and allocations of overhead costs.

Expense management programs are regularly monitored to control unit costs while maintaining effective service delivery.

Property Catastrophe Risk

Property catastrophe risk is the risk of loss resulting from adverse changes in property damage experience and is mainly related to extreme or catastrophic events.

The reinsurance business in particular has exposure to extreme or catastrophic events that result in property damage. As a retrocessionaire for property catastrophe risk, the Company generally participates at more remote event-loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. The Company limits the total maximum claim amount under all property catastrophe contracts. The Company monitors cedant companies' claims experience and research from third party expert risk models on an ongoing basis and incorporates this information in pricing models to ensure that the premium is adequate for the risk undertaken.

OPERATIONAL RISK

Risk Description

Operational Risk is the risk of loss resulting from potential problems relating to internal processes, people and systems or from external events. Exposure to Operational risk results from either normal day-to-day operations or a specific unanticipated event, and can have material financial and/or reputational consequences.

Operational Risk Management

While operational risks can be mitigated and managed, they remain an inherent feature of the business model, as multiple processes, systems, and stakeholders are required to interact across the enterprise on an ongoing basis. The Company actively manages operational risk across the enterprise to maintain a strong reputation, standing and financial strength and to protect customers and the Company's value. Ongoing engagement of businesses and support functions across the enterprise through robust training and communications is regularly undertaken for identifying, assessing and mitigating operational risk issues.

Operational risk management governance and oversight reflects a combined effort between business units and oversight functions. The Risk Function is responsible for the development of operational risk management policies and operating standards as well as overseeing operational risk management activities performed in the first line of defense. The Operational Risk Committee has the primary mandate to provide risk oversight for operational risk across the enterprise. In addition, each business segment has established committees to oversee operational risk management within their business.

Canada Life has an Operational Risk Policy that is supported by standards and guidelines that relate to specialized functions including detailed practices related to stress testing, modeling, fraud, regulatory compliance, information technology risk management and risk data aggregation & risk reporting. The Company implements controls to manage operational risk through integrated policies, procedures, processes and practices, with consideration given to the cost/benefit trade-off. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's Internal Audit department. Financial reporting processes and controls are further examined by external auditors.

The Company also manages operational risks through the corporate insurance program which mitigates a portion of the operational risk exposure by purchasing insurance coverage that provides protection against unexpected material losses resulting from events such as property loss or damage and liability exposures. The nature and amount of insurance protection purchased is assessed with regard to the Company's risk profile, risk appetite and tolerance for the associated risks, as well as legal requirements and contractual obligations.

The Company employs a combination of operational risk management methods including risk and control assessments, internal control factors and risk events analyses. For the identification of operational risks, the Company utilizes risk and control assessments which systematically identify and assess potential operational risks and associated controls. Internal and external operational risk events are analyzed to identify root causes and provide insights into potential new operational risks that could impact the Company. In addition, scenario analysis is employed to identify and quantify potential severe operational risk exposures, while RFIs, risk appetite preferences, and other processes are leveraged to measure, manage and monitor operational risks.

The Risk Function monitors the status of actions being undertaken to remediate risks to ensure that risk exposures are mitigated in a timely manner. Processes are in place to escalate significant matters to senior management to inform and enable management to take appropriate action when needed. The Risk Function regularly reports on Lifeco's operational risk profile to executive management, the Board of Directors and various committees at enterprise, business segment and legal entity levels.

Key operational risks and the Company's approach to managing them are outlined below.

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss resulting from non-compliance with specific local or international rules, laws, regulations, or prescribed practices, as well as civil or criminal litigation engaged in/by the Company. As a multi-national company, the Company and certain of its subsidiaries are subject to extensive legal and regulatory requirements in Canada, the U.S., the U.K., Ireland, Germany and other jurisdictions. These requirements cover most aspects of the Company's operations including capital adequacy, privacy, liquidity and solvency, investments, the sale and marketing of insurance and wealth products, the business conduct of insurers, asset managers and investment advisors as well as reinsurance processes. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements could have an adverse effect on the Company. An increase in the pace of regulatory change could lead to increased operational costs to implement changes and ensure ongoing compliance.

Legal and regulatory risk is managed through coordination between first and second line of defense functions. The Company records, manages and monitors the regulatory compliance environment closely, using the subject matter expertise of both local and enterprise-wide Compliance and Legal stakeholders and reporting on emerging changes that could have a significant impact on the Company's operations or business.

The Company is subject to the risk of litigation and regulatory action relating to its business, operations, products, securities and contractual relationships and it establishes contingency reserves for litigation that it determines are appropriate.

People Risk

People risk is the risk of loss resulting from the Company's inability to attract, retain, train and develop the right talent from inadequate recruitment, talent management and succession planning programs and practices, ineffective governance practices or legal action related to discrimination, and can impact the ability of the Company to meet its business objectives. The Company has compensation programs, succession planning, talent management and employee engagement processes that are designed to manage these risks, support a high performance culture and maintain a highly skilled workforce that is reflective of the diverse cultures and practices of the countries in which the Company operates. The Company's ability to recognize and accommodate changing trends with respect to human resources in the industry is important to execute upon business strategies.

Infrastructure Risk

Infrastructure risk is the risk of loss resulting from the reduction or non-availability of any aspect of a fully functioning business environment, including corporate facilities, physical assets, human resources and/or technology (technology assets, systems, applications, cloud computing and virtualization), security (logical, physical and cyber), failures in license management and insufficient software/application support.

The ability to consistently and reliably obtain securities pricing information, accurately process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these services could have an adverse effect on the Company's results of operations and financial condition and could lead to loss of customer confidence, non-compliance of regulatory requirements, harm to the Company's reputation, exposure to disciplinary action and liability to the Company's customers.

The Company invests in and manages infrastructure that is intended to be sustainable and effective in meeting the Company's needs for a fully functioning and secure business operation that protects assets and stakeholder value. Infrastructure risk management programs include strong business continuity capabilities across the enterprise to manage incidents or outages and the recovery of critical functions in the event of a disaster. In addition, security measures are intended to deny unauthorized access to facilities, equipment and resources, and to protect personnel and property from damage or harm (such as espionage, theft or terrorist attacks) and events that could cause serious losses or damage.

Physical Security Risk - Physical security risk is the risk of damage to physical assets, physical data, corporate facilities or human resources.

Physical security risk management entails safeguarding people, facilities, hardware and software assets, network infrastructure, and digital data from physical incidents which can cause significant loss to the organization. Physical security threats can be natural, such as weather events and floods, man-made, such as theft or workplace violence or inadvertent, such as industrial or motor vehicle accidents. Physical security strategies also complement the cybersecurity protocols, structures and technology that protect our digital assets.

The objective of physical security risk management is to identify, assess, and mitigate the impact of security risks to the Company, and utilize physical security measures which allow the Company to advance its overall objectives. Physical security risk management is a strategic approach that links the Company's physical security measures to its operations using established and acceptable risk management strategies.

IT and Cyber Risk - IT and cyber risk is the risk of loss resulting from events such as failures, faults or incompleteness in computer operations, or illegal or unauthorized use of computer systems. It includes the risk of cyber-attack that leads to unplanned outages, unauthorized access, or unplanned disclosure of confidential or restricted information resulting in a potential privacy non-compliance. IT risk includes not only the risk of existing failures, faults or incompleteness in computer operations but also the risk of a deterioration in the reliability and availability of internal, customer-facing, or vendor-supported applications, infrastructure systems and/or services. These risks can arise as a result of the Company's implementation or use of its own technology or as a result of the implementation or use of third party technology providers and other service providers.

The nature of advancing technology introduces additional uncertainty as to how the insurance industry will evolve. Cloud services, which are being adopted by the Company to improve systems flexibility and information security, require scrutiny as digital supply chains grow in complexity.

Technology is a critical component of the Company's business operations and is also central to the Company's customer-focused digital strategy. The Company continues to face technology and cyber risks stemming from legacy technology constraints and the advancement of techniques used in cyber-attacks.

The Company has been implementing new risk management processes and practices designed to allow it to better identify, measure, mitigate, and report this risk, but those processes and practices continue to require further development as well as ongoing updates as technology and business needs evolve. The Company's strategy and approach to managing technology and cyber risks includes policies that govern the technology environment and set standards related to information security and the use of technology, including:

- the use of multiple layers of technologies that are designed to prevent unauthorized access, ransomware attacks, distributed denial of service and other cyber-attacks;
- coordinated global and regional information security offices that gather threat intelligence, detect, monitor and respond to security events and conduct regular threat and vulnerability risk assessments;
- independent oversight and assessment of the approach taken to mitigate technology and cyber risks by the Technology Risk Management team, an independent group that acts as the second line of defense; and
- regular cyber security awareness sessions and mandatory cyber security training for all employees.

The Company also manages operational risks through the corporate insurance program which mitigates a portion of the operational risk exposure by purchasing insurance coverage that provides protection against unexpected material losses resulting from events such as property loss, cyber-attack or damage and liability exposures. The nature and amount of insurance protection purchased is assessed with regard to the Company's risk profile, risk appetite and tolerance for the associated risks, as well as legal requirements and contractual obligations.

Business Continuity Risk - Business continuity risk is the risk of loss as a result of the failure to provide for the continuity of business processes and operations under adverse conditions that may arise from natural, technological or human caused events involving the loss of sites, workforce disruptions, technology and supply chain outages.

A business continuity management framework has been implemented to manage business continuity risks and impacts through the development, testing, training and maintenance in four key areas: emergency response planning incident management planning, business continuity planning and disaster recovery planning.

Poor operational resiliency in the face of natural, technological, or human caused events could prevent the Company from carrying out mission-critical business processes, with potential for lost revenue, regulatory sanctions and damage to reputation.

Process Risk

Process risk is the risk of loss resulting from inadequate or failed business processes that deliver products and services and grow shareholder value. These processes include change management, data aggregation and reporting, product development, product introduction, new business (including the distribution and sales process) and renewal (including underwriting process), investment activities, client administration, claims and benefit payments, risk and financial modelling and financial management. The inadequacy can arise in transaction processing, governance, communication or general process management.

Risk management seeks strategic alignment and congruency across all of the Company's business activities, including change initiatives and business-as-usual activities, with the Company's operational risk appetite and considers the potential impact on the Company's reputation. The Company monitors change initiatives to mitigate risks and realize benefits. Core business operational activities have quality control measures in place.

One of the processes relates to model risk and use of models. The Company uses models in many functions and processes that support business decisions and reporting. Model risk arises from the potential for adverse consequences from decisions based on incorrect models or misused model outputs and reports. Robust processes are in place for the management and oversight of model risk as outlined in the Model Risk Management and Validation Standard.

Further, the Company seeks to control processes across the value chain through automation, standardization and process improvements to prevent or reduce operational losses.

Fraud Risk

Fraud risk is the risk of loss resulting from acts or activities that are intended to defraud, misappropriate assets, or circumvent laws or regulations by customers, contractors or other third parties, directors, officers, employees or distribution associates. The external fraud environment continues to intensify for financial institutions, as increasingly sophisticated methods of organized fraud and cyber fraud are employed. Fraud can result in a financial loss or reputational impact to the Company and have other impacts that are detrimental to customers and other stakeholders.

The Company manages fraud through a combined focus on its governance framework, assessment, prevention, detection, investigation and response. The Company promotes a culture of honesty, integrity, transparency and fairness in its operations and further manages fiduciary responsibilities through Lifeco's Fraud Risk Management Policy, Fraud Risk Operating Standard and Code of Conduct. The Company has processes and controls in place that are intended to prevent fraud and employs various methods to detect fraud. A fraud response framework is in place to deal with events through a coordinated investigative strategy designed to protect stakeholders and the interests of the Company.

Supplier Risk

Supplier risk is the risk of financial loss, adverse operational impacts and reputational damage resulting from the failure to establish and manage adequate supplier arrangement transactions or other interactions to meet the expected or contracted service level. Supplier risk is applicable to both external and internal suppliers. The Company strategically engages suppliers to maintain cost efficiency, to optimize internal resources and capital and to utilize skills, expertise and resources not otherwise available to the Company. Suppliers are engaged based on our prescribed supplier risk management principles in our Supplier Risk Management Policy. The Company applies a supplier risk management framework to oversee and monitor interactions with suppliers throughout the entire supplier lifecycle, including how they meet standards for quality of service and protect stakeholders and the interests of the Company.

CONDUCT RISK

Risk Description

Conduct risk is the risk of unfair outcomes for customers as a result of inadequate or failed processes and/or inappropriate behaviours, offerings or interactions by the Company or its agents. A failure to identify and mitigate conduct risk impacts not only the Company's customers but can also have adverse reputational and financial consequences for the Company due to the cost of customer remediation, damage to reputation and/or regulatory fines.

Conduct Risk Management

The Company manages conduct risk through various processes which include:

- providing appropriate and clear customer disclosures and communications;
- applying product design, complaint, claims management and sales and advice processes that consider outcomes to customers; and
- conducting risk based advisor assessments and suitability reviews, maintaining controls and adhering to Board-approved policies and processes, including the Conduct Risk Policy and the Code of Conduct.

Conduct Risk is incorporated in risk management and compliance activities, including risk and control assessments, internal events reporting, emerging risk assessments, and other measurement, monitoring and reporting activities.

STRATEGIC RISK

Risk Description

Strategic Risk is the risk of failing to set or meet appropriate strategic objectives in the context of the internal and external operating environment resulting in a material impact on business performance (e.g. earnings, capital, reputation or standing).

The Company's ability to maintain leadership positions in today's highly competitive environment is dependent on many factors, including scale, price and yields offered, distribution channels, digital capabilities, financial strength ratings, range of product lines and product quality, brand strength, investment performance, historical dividend levels to provide value added services to distributors and customers and the ability to innovate and deploy innovations rapidly.

Competitors and new entrants have significant potential to disrupt the Company's business through targeted strategies to reduce the Company's market share which may include targeting key people and other distributors or aggressively pricing their products. The Company's ability to achieve strategic objectives depends significantly upon the Company's capacity to anticipate and respond quickly to these competitive pressures.

The Company has placed strategic focus on improving technology infrastructure and capabilities. Not adapting effectively to changes in the technological environment or to evolving customer expectations could impact the Company's ability to remain competitive.

There are significant uncertainties relating to the political and economic environment. Increasing geopolitical tensions and slower global economic recovery may result in reduced trade and investment opportunities, failures of national, regional or global governance, interstate conflict or terrorism which may impact the Company's business.

The Company evaluates and optimizes strategy through a combined lens to meet strategic objectives. It assesses market attractiveness and the ability to drive leadership in the markets, sectors, and regions where the Company chooses to participate, evaluates portfolio and businesses from the lens of shareholder value creation and embeds resilience in strategies and operations to anticipate and respond quickly to external environment and competitive pressures. This enables the Company to dynamically manage tactical initiatives that ensure strategies will be both achievable in the short term and sustainable over the long term.

Strategic Risk Management

Strategic risk-taking is inherent to achieving strategic objectives and arises from the fundamental decisions made and actions taken concerning an organization's objectives. It may relate to or stem from the design and development of strategy, including the formulation, evaluation and ongoing validation of strategy, or execution of corporate and business strategies, and management of associated risks stemming from the same.

Strategic risk may reflect intentional risk-taking in anticipation or response to industry forces or it may emerge as unintended consequences from changes to strategy, execution of strategy, or from lack of responsiveness to external forces. The Company aligns business strategies with its Risk Appetite and mitigates exposure to strategic risk through strategic planning and value-based decision making, establishing appropriate performance indicators, reporting of strategy execution and implementation against strategic goals and ongoing monitoring, together with robust oversight and challenge. The Company's carefully aligns business strategies with the Risk Appetite.

In respect initiatives, a review of the alignment with risk strategy and qualitative risk preferences is completed. Material change initiatives, including those related to new markets, mergers and acquisitions, distribution channels, product design and investments, are also subject to independent risk review

OTHER RISKS

Holding Company Structure Risk

As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital.

In the event of bankruptcy, liquidation or reorganization of any of these subsidiaries, insurance and investment contract liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company. In addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries.

Any payment (including payment of interest and dividends) by the principal subsidiaries is subject to restrictions set forth in relevant insurance, securities, corporate and other laws and regulations, which require that solvency and capital standards be maintained. There are considerable risks and benefits related to this structure.

Management monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company level. Management also establishes lines of credit for additional liquidity and may also access capital markets for funds. Management monitors compliance with the regulatory laws and regulations at both the holding company and operating company levels.

Mergers and Acquisitions Risk

From time-to-time, the Company and its subsidiaries evaluate existing companies, businesses, assets, products and services, and such review could result in the Company or its subsidiaries acquiring or disposing of businesses or assets. In the ordinary course of business, the Company considers and discusses the purchase or sale of companies, businesses segments or assets.

If effected, such transactions could be material to the Company in size or scope, could result in risks and contingencies, including integration risks, relating to companies, businesses or assets that the Company acquires or expose it to the risk of claims relating to those it has disposed of, could result in changes in the value of the securities of the Company, including the common shares of the Company, and could result in the Company holding additional capital for contingencies that may arise after the transaction is completed.

To mitigate these risks, due diligence reviews are undertaken and risks are assessed in the context of our Risk Appetite. Before acquiring or disposing of companies, businesses, business segments, or assets, businesses assess and provide assurance that systems and processes are in place to manage the risks after the transaction is completed.

Product Distribution Risk

Product distribution risk is the risk of loss resulting from the Company's inability to market its products through its network of distribution channels and intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of provider and the consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.

Product distribution risk is managed by maintaining a broad network of distribution relationships, with products distributed through numerous broker-dealers, managing general agencies, financial planners, banks and other financial institutions.

Sustainability Risk

Sustainability risk is the risk that business operations and business growth are not sustained due to failure to meet societal expectations related to corporate social responsibility.

Dynamics and attitudes towards societal issues have solidified and been further amplified during COVID-19. Factors such as diversity and inclusion and climate change are now a significant focus on the Company's strategic agenda. The Company may experience direct or indirect financial, operational or reputational impact stemming from societal related events, which include climate change, regulatory enforcement or costs associated with changes in environmental laws and regulations as well as diversity and inclusion related matters.

Sustainability considerations are formally reflected in the Company's risk management principles and associated policies. The Company recognizes that sustainability risk impacts both financial risks (market, credit, insurance) as well as non-financial risks (operational, conduct, strategic). Sustainability risk is not a stand-alone risk type, but underlies all risk types (e.g. credit, market, insurance, operational and strategic risk). As a result, the processes for managing sustainability risk are embedded in the processes for managing each risk type.

The Company endeavors to respect the environment and to take a balanced and sustainable approach to conducting business. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of investment properties, loans secured by real property and investments in equity and fixed-income securities. These policies are approved by the Board of Directors and are reviewed annually.

EXPOSURES AND SENSITIVITIES

Insurance and Investment Contract Liabilities

In determining the Company's insurance contract liabilities, valuation assumptions are made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. When the assumptions are revised to reflect emerging experience or change in outlook, the result is a change in the value of liabilities which in turn affects the Company's earnings.

The following table illustrates the approximate impact to the Company's earnings that would arise as a result of changes to management's best estimate of certain assumptions. For changes in asset related assumptions, the sensitivity is shown net of the corresponding impact on earnings of the change in the value of the assets supporting liabilities.

	Increase (decrease) in net earnings	
	2020	2019
Mortality - 2% increase	\$ (266)	\$ (255)
Annuitant mortality - 2% decrease	\$ (755)	\$ (600)
Morbidity - 5% adverse change	\$ (279)	\$ (253)
Investment returns		
Parallel shift in yield curve		
1% increase	\$ —	\$ —
1% decrease	\$ —	\$ —
Change in interest rates		
1% increase	\$ 231	\$ 229
1% decrease	\$ (604)	\$ (604)
Change in publicly traded common stock values		
20% increase	\$ 28	\$ 54
10% increase	\$ 15	\$ 27
10% decrease	\$ (51)	\$ (39)
20% decrease	\$ (208)	\$ (182)
Change in other non-fixed income asset values		
10% increase	\$ 34	\$ 60
5% increase	\$ 6	\$ 25
5% decrease	\$ (69)	\$ (28)
10% decrease	\$ (108)	\$ (90)
Change in best estimate return assumptions for equities		
1% increase	\$ 556	\$ 509
1% decrease	\$ (682)	\$ (585)
Expenses - 5% increase	\$ (117)	\$ (114)
Policy termination and renewal - 10% adverse change	\$ (791)	\$ (756)

ACCOUNTING POLICIES

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenue and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing market conditions related to global credit, equities, investment properties and foreign exchange and prevailing health and mortality experience. These estimates and judgments are more challenging in a period of uncertainty as is currently

being experienced as a result of the COVID-19 pandemic. The fair value of portfolio investments, the valuation of goodwill and other intangible assets, the valuation of insurance contract liabilities and the recoverability of deferred tax asset carrying values reflect management's judgement based on current expectations but could be impacted in the future depending on current market developments.

The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use independent third-party credit ratings where available as an input to its internal credit rating process. Investment properties, which are primarily held in the U.K. and Canada, rely upon independent third-party appraisals for their valuation which impact the estimation of insurance contract liabilities. Independent appraisals for the portfolio occur over the year with management adjustments for material changes in the interim periods. Credit rating changes for fixed income investments and market values for investment properties may lag developments in the current environment. Subsequent credit rating adjustments and market value adjustments on investment properties will impact actuarial liabilities.

The significant accounting estimates include the following:

Fair Value Measurement

Financial and other instruments held by the Company include portfolio investments, various derivative financial instruments, debentures and other debt instruments.

Financial instrument carrying values reflect the liquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Refer to note 9 in the Company's December 31, 2020 annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement at December 31, 2020.

Fair values for bonds classified as fair value through profit or loss or available-for-sale are determined using quoted market prices. Where prices are not quoted in an active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for equity release mortgages classified as fair value through profit or loss are determined by an internal valuation model that uses discounted future cash flows. Inputs to the model include marketable observable and non-market observable inputs.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. Fair values for investment properties are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Investment impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset; however, market price is taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish the estimated realizable value. For impaired available-for-sale bonds recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (loss) is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in net investment income; therefore, in the event of an impairment, the reduction will be recorded in net investment income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Goodwill and intangibles impairment testing

Goodwill and indefinite life intangible assets, including those resulting from an acquisition during the year, are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Company would be required to reverse the impairment loss or a portion thereof.

Goodwill has been allocated to cash generating unit groupings, representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill is tested for impairment by comparing the carrying value of each cash generating unit grouping to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Intangible assets have been allocated to cash generating units, representing the lowest level that the assets are monitored for internal reporting purposes.

Intangible assets with an indefinite useful life are reviewed annually to determine if there are indicators of impairment. If indicators of impairment have been identified, a test for impairment is performed and recognized as necessary. Impairment is assessed by comparing the carrying values of the assets to their recoverable amounts. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use.

Finite life intangible assets are reviewed annually to determine if there are indicators of impairment and assess whether the amortization periods and methods are appropriate. If indicators of impairment have been identified, a test for impairment is performed and then the amortization of these assets is adjusted or impairment is recognized as necessary.

Insurance and investment contract liabilities

Insurance and investment contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in-force with the Company. The Appointed Actuary of the Company is responsible for determining the amount of the liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuary determines the liabilities for insurance contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of mis-estimation and/or future deterioration in the best-estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Investment contract liabilities are measured at fair value determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out regularly for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. Annuitant mortality is also studied regularly, and the results are used to modify established annuitant mortality tables. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Improvement scales for life insurance and annuitant mortality are updated periodically based on population and industry studies, product specific considerations, as well as professional guidance. In addition, appropriate provisions are made for future mortality deterioration on term insurance.

- A 2% increase in the best estimate life insurance mortality assumption would cause a decrease in net earnings of approximately \$266 million.
- A 2% decrease in the best estimate annuitant assumption would cause a decrease in net earnings of approximately \$755 million.

Morbidity – The Company uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly, and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption, a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best-estimate incidence assumptions for active life liabilities would cause a decrease in net earnings of approximately \$279 million.

Property and casualty reinsurance – Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG) are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses, which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to provide for reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries' prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained, however, the parallel shift could impact the Company's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries' prescribed scenarios.

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios resulted in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios resulted in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

The total provision for interest rate is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios. The range of interest rates covered by these provision is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact the Company's range of scenarios covered. The following is the impact to the value of liabilities net of changes in the value of assets supporting liabilities of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions.

- The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately \$297 million causing an increase in net earnings of approximately \$231 million.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately \$785 million causing a decrease in net earnings of approximately \$604 million.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some insurance and investment contract liabilities with long-tail cash-flows are supported by publicly traded common stocks and investments in other non-fixed income assets, primarily comprised of investment properties, real estate funds, private stocks, and equity release mortgages. The value of the liabilities may fluctuate with changes in the value of the supporting assets. The liabilities for other products such as segregated fund products with guarantees also fluctuate with equity values.

There may be additional market and liability impacts as a result of changes in the value of publicly traded common stocks and other non-fixed income assets that will cause the liabilities to fluctuate differently than the equity values. This means that there is a greater impact on net earnings from larger falls in equity values, relative to the change in equity values. Falls in equity values beyond those shown in the table below would have a greater impact on net earnings, relative to the change in equity values. The following provides information on the expected impacts of an immediate 10% or 20% increase or decrease in the value of publicly traded common stocks on insurance and investment contract liabilities and on the shareholders' net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities and hedge assets.

The following shows the impact of an immediate 10% or 20% increase or decrease in the value of publicly traded common stocks on insurance and investment contract liabilities and on the shareholders' net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities and hedge assets:

- A 10% increase in publicly traded common stock values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately \$18 million, causing an increase in net earnings of approximately \$15 million.
- A 10% decrease in publicly traded common stock values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately \$62 million, causing a decrease in net earnings of approximately \$51 million.
- A 20% increase in publicly traded common stock values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately \$34 million, causing an increase in net earnings of approximately \$28 million.
- A 20% decrease in publicly traded common stock values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately \$264 million, causing a decrease in net earnings of approximately \$208 million.

The following provides information on the expected impacts of an immediate 5% or 10% increase or decrease in the value of other non-fixed income assets on insurance and investment contract liabilities and on the shareholders' net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities:

- A 5% increase in other non-fixed income asset values would be expected to decrease non-participating insurance and investment contract liabilities by approximately \$8 million, causing an increase in net earnings of approximately \$6 million.
- A 5% decrease in other non-fixed income asset values would be expected to increase non-participating insurance and investment contract liabilities by approximately \$88 million, causing a decrease in net earnings of approximately \$69 million.
- A 10% increase in other non-fixed income asset values would be expected to decrease non-participating insurance and investment contract liabilities by approximately \$41 million, causing an increase in net earnings of approximately \$34 million.
- A 10% decrease in other non-fixed income asset values would be expected to increase non-participating insurance and investment contract liabilities by approximately \$138 million, causing a decrease in net earnings of approximately \$108 million.

The best-estimate return assumptions for publicly traded common stocks, and other non-fixed income assets are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows.

- A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately \$691 million causing an increase in net earnings of approximately \$556 million.
- A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately \$861 million causing a decrease in net earnings of approximately \$682 million.

For a further description of the Company's sensitivity to equity market and interest rate fluctuations, refer to "Financial Instruments Risk Management:", note 8 in the Company's annual consolidated financial statements for the period ended December 31, 2020.

Expenses – Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would cause a decrease in net earnings of approximately \$117 million.

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of the term for renewable term policies in Canada and Capital and Risk Solutions. Industry experience has guided the Company's assumptions for these products as its own experience is very limited. A 10% adverse change in the best-estimate policy termination and renewal assumptions would cause a decrease in net earnings of approximately \$791 million.

Utilization of elective policy options – There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on Company or industry experience when it exists and otherwise based on judgement considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features – Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is the Company's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholders' net earnings is reflected in the impacts of changes in best estimate assumptions above.

Income taxes

The Company is subject to income tax laws in various jurisdictions. The Company's operations are complex and related income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. As life insurance companies, the Company's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the *Income Tax Act (Canada)* for purposes of determining the amount of the Companies' income that will be subject to tax in Canada.

Tax planning strategies to obtain tax efficiencies are used. The Company continually assesses the uncertainty associated with these strategies and holds an appropriate level of provisions for uncertain income tax positions. Accordingly, the provision for income taxes represents management's interpretation of the relevant income tax laws and its estimate of current and deferred income tax balances for the period. Deferred income tax assets and liabilities are recorded based on expected future income tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Company has substantial deferred income tax assets. The recognition of deferred income tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the realization of the asset.

The audit and review activities of tax authorities may affect the ultimate determination of the amounts of income taxes payable or receivable, deferred income tax assets or liabilities and income tax expense. Therefore, there can be no assurance that income taxes will be payable as anticipated and/or the amount and timing of receipt or use of the income tax related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived income tax issues and have increased the resources they put to these efforts.

Employee future benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for eligible employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay; however, these plans are closed to new entrants. Many of the defined benefit pension plans also no longer provide future defined benefit accruals. The Company's defined benefit plan exposure is expected to reduce in future years. Where defined benefit pension accruals continue, active plan participants share in the cost of benefits through employee contributions in respect of current service. Certain pension payments are indexed on either an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits in accordance with the terms of the plans. Assets supporting the funded pension plans are held in separate trustee pension funds. Obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets. New hires and active plan participants in defined benefit plans closed to future defined benefit accruals are eligible for defined contribution benefits. The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. The Company and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. These plans are also closed to new entrants. For further information on the pension plans and other post-employment benefits refer to note 23 in the Company's December 31, 2020 annual consolidated financial statements.

For the defined benefit plans, service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. Re-measurements of the defined benefit liability (asset) due to asset returns less (greater) than interest income, actuarial losses (gains) and changes in the asset ceiling are recognized immediately in the Consolidated Statements of Comprehensive Income.

Accounting for defined benefit pension and other post-employment benefits requires estimates of expected increases in compensation levels, indexation of certain pension payments, trends in health-care costs, the period of time over which benefits will be paid, as well as the appropriate discount rates for past and future service liabilities. These assumptions are determined by management using actuarial methods, and are reviewed and approved

annually. Emerging experience that differs from the assumptions will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

Actuarial assumptions - employee future benefits

At December 31

	Defined benefit pension plans		Other post-employment benefits	
	2020	2019	2020	2019
Actuarial assumptions used to determine benefit cost				
Discount rate - past service liabilities	2.5 %	3.2 %	3.1 %	3.7 %
Discount rate - future service liabilities	3.2 %	3.8 %	3.2 %	3.9 %
Rate of compensation increase	2.9 %	3.0 %	— %	— %
Future pension increases ⁽¹⁾	1.3 %	1.4 %	— %	— %
Actuarial assumptions used to determine defined benefit obligation				
Discount rate - past service liabilities	2.1 %	2.5 %	2.5 %	3.1 %
Rate of compensation increase	2.9 %	2.9 %	— %	— %
Future pension increases ⁽¹⁾	1.0 %	1.3 %	— %	— %
Medical cost trend rates:				
Initial medical cost trend rate			4.6 %	4.6 %
Ultimate medical cost trend rate			4.0 %	4.0 %
Year ultimate trend rate is reached			2040	2040

⁽¹⁾ Represents the weighted average of plans subject to future pension increases.

Actuarial assumptions – The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty, and judgment is required in establishing this assumption. As mortality assumptions are significant in measuring the defined benefit obligation, the mortality assumptions applied by the Company take into consideration such factors as age, gender and geographic location, in addition to an estimation of future improvements in longevity.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practices. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

As these assumptions relate to factors that are long-term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-employment benefits expense and defined benefit obligation in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-employment benefits.

Impact of a change of 1.0% in actuarial assumptions on defined benefit obligation ⁽¹⁾	1% increase		1% decrease	
	2020	2019	2020	2019
Defined benefit pension plans:				
Impact of a change to the discount rate	\$ (1,251)	\$ (1,150)	\$ 1,663	\$ 1,517
Impact of a change to the rate of compensation increase	328	311	(291)	(284)
Impact of a change to the rate of inflation	662	598	(569)	(541)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	27	24	(23)	(20)
Impact of a change to the discount rate	(40)	(38)	48	46

⁽¹⁾ To measure the impact of a change in an assumption, all other assumptions were held constant. It is expected that there would be interaction between at least some of the assumptions.

Funding – The Company and its subsidiaries have both funded and unfunded pension plans as well as other post-employment benefit plans that are unfunded. The funded pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company and its subsidiaries contributed \$223 million (\$229 million in 2019) to the pension plans and made benefit payments of \$16 million (\$18 million in 2019) for post-employment benefits. The Company and its subsidiaries expect to contribute \$206 million to the pension plans and make benefit payments of \$20 million for post-employment benefits in 2021.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Due to the evolving nature of IFRS, there are a number of IFRS changes impacting the Company in 2020, as well as 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 narrow scope amendments to International Financial Reporting Standards (IFRS) for IFRS 3, *Business Combinations*; IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; and IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, effective January 1, 2020. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

For a further description of the impact of the accounting policy change, refer to note 2 of the Company's December 31, 2020 annual consolidated financial statements.

IFRS that have changed or may change subsequent to 2020 and could impact the Company in future reporting periods, are set out in the following table:

Standard	Summary of Future Changes
<p>IFRS 17 - <i>Insurance Contracts</i></p>	<p>In May 2017, the IASB issued IFRS 17, Insurance Contracts (IFRS 17), which will replace IFRS 4, Insurance Contracts. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard. In June 2020, the IASB finalized the amendments to IFRS 17, which included confirmation of the effective date for the standard of January 1, 2023. In addition, the IASB confirmed the extension to January 1, 2023 of the exemption for insurers to apply the financial instruments standard, IFRS 9, Financial Instruments (IFRS 9), keeping the alignment of the effective dates for IFRS 9 and IFRS 17.</p> <p>The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework and project plan, for which substantial resources are being dedicated. The Company has assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. The project team is also monitoring developments from the IASB and various industry groups that the Company has representation on. The Company continues to make progress in implementing its project plan, with key policy decisions well advanced as well as significant progress on the technology solutions.</p> <p>IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. For the General Measurement Model and Variable Fee Approach, IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of:</p> <ul style="list-style-type: none"> a. the fulfilment cash flows - the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and b. the contractual service margin - the future profit for providing insurance coverage. <p>Under IFRS 17, the discount rate used to reflect the time value of money in the fulfillment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the Canadian Asset Liability Method, where the discount rate was based on the yield curves of the assets supporting those liabilities (refer to the Company's significant accounting policies in note 2 of these financial statements).</p>

Standard	Summary of Future Changes
IFRS 17 - <i>Insurance Contracts</i> , continued	<p>The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance services are provided. IFRS 17 also requires the Company to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. The Company is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, the Company expects its insurance contract liabilities to increase upon adoption.</p> <p>IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the Consolidated Statements of Earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the consolidated financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. The Company is also actively monitoring potential impacts on regulatory capital and the associated ratios and disclosures. The Company continues to assess all these impacts through its global implementation plan.</p>
IFRS 9 - <i>Financial Instruments</i>	<p>In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i> to replace IAS 39, <i>Financial Instruments: Recognition and Measurement</i>. The standard provides changes to financial instruments accounting for the following:</p> <ul style="list-style-type: none"> • classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; • impairment based on an expected loss model; and • hedge accounting that incorporates the risk management practices of an entity. <p>In September 2016, the IASB issued an amendment to IFRS 4, <i>Insurance Contracts</i> (IFRS 4). The amendment “Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>” provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows:</p> <ul style="list-style-type: none"> • <i>Deferral Approach</i> - provides the option to defer implementation of IFRS 9 until the effective date of the new insurance contract standard; or • <i>Overlay Approach</i> - provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. <p>The Company qualifies for the amendment and is applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously.</p> <p>The disclosure for the measurement and classification of the Company's portfolio investments provides most of the information required by IFRS 9. The Company continues to evaluate the impact of the adoption of this standard with the adoption of IFRS 17.</p>

Standard	Summary of Future Changes
<p>IAS 37 - <i>Provisions, Contingent Liabilities, and Contingent Assets</i></p>	<p>In May 2020, the IASB issued amendments to IAS 37, <i>Provisions, Contingent Liabilities, and Contingent Assets</i>. The amendments specify which costs should be included when assessing whether a contract will be loss-making.</p> <p>These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Company is evaluating the impact of the adoption of these amendments.</p>
<p><i>Annual Improvements 2018-2020 Cycle</i></p>	<p>In May 2020, the IASB issued <i>Annual Improvements 2018-2020 Cycle</i> as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Two amendments were included in this issue that are applicable for the Company relating to IFRS 9, <i>Financial Instruments</i> and IFRS 16, <i>Leases</i>.</p> <p>The amendments are effective January 1, 2022. The Company is evaluating the impact of the adoption of these amendments.</p>
<p>IFRS 16 - <i>Leases</i></p>	<p>In May 2020, the IASB published amendments to IFRS 16, <i>Leases</i> amending the standard to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification.</p> <p>The amendments are effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted. The Company does not anticipate a significant impact on its consolidated financial statements as a result of this amendment.</p>
<p>IFRS 9 - <i>Financial Instruments</i>, IAS 39 - <i>Financial Instruments: Recognition and Measurement</i>, IFRS 7 - <i>Financial Instruments: Disclosures</i>, IFRS 4 - <i>Insurance Contracts</i> and IFRS 16 - <i>Leases</i></p>	<p>In August 2020, the IASB published <i>Interest Rate Benchmark Reform – Phase 2</i> which issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments provide relief from remeasurement impacts on financial instruments, and discontinuation of hedge relationships arising from reform of an interest rate benchmark, including its replacement with alternative benchmark rates.</p> <p>The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. The Company is monitoring the interest rate benchmark reform process and has established an internal program to fully transition to alternative reference rates by the end of 2021. The transition to alternative reference rates is not expected to impact the Company's risk management strategy. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.</p>

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. Total premiums and deposits exclude the initial ceded premium related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business. This measure provides an indicator of top-line growth.

Premiums and deposits

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Amounts reported in the financial statements					
Net premium income (Life insurance, guaranteed annuities and insured health products)	\$ 10,809	\$ 8,405	\$ 8,873	\$ 37,838	\$ 34,796
Policyholder deposits (segregated funds)	5,139	4,709	6,663	20,038	22,264
Premiums and deposits reported in the financial statements	15,948	13,114	15,536	57,876	57,060
Self-funded premium equivalents (ASO contracts) and other	846	786	841	2,964	3,295
Proprietary mutual funds and institutional deposits	3,933	3,118	3,725	19,254	20,841
Add back: U.S. Individual Life Insurance & Annuity Business - initial reinsurance ceded premiums	—	—	—	—	701
Total premiums and deposits	\$ 20,727	\$ 17,018	\$ 20,102	\$ 80,094	\$ 81,897

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

	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019
Total assets per financial statements	\$ 396,290	\$ 381,491	\$ 370,664
Proprietary mutual funds and institutional assets	74,045	72,349	71,342
Total assets under management	470,335	453,840	442,006
Other assets under administration	29,425	28,169	65,856
Total assets under administration	\$ 499,760	\$ 482,009	\$ 507,862

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 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 assets 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", "impact of currency movement", and "effect of currency translation fluctuations". 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.

SELECTED ANNUAL INFORMATION

Selected annual information (in \$ millions, except per share amounts)	Years ended December 31		
	2020	2019	2018
Total revenue	\$ 50,569	\$ 48,266	\$ 36,876
Net earnings - common shareholder			
Net earnings - common shareholder	\$ 2,807	\$ 2,692	\$ 2,987
Total assets			
Total assets	\$ 396,290	\$ 370,664	\$ 346,606
Proprietary mutual funds and institutional assets ⁽¹⁾	74,045	71,342	54,129
Total assets under management ⁽¹⁾	470,335	442,006	400,735
Other assets under administration ⁽¹⁾	29,425	65,856	58,639
Total assets under administration ⁽¹⁾	\$ 499,760	\$ 507,862	\$ 459,374
Total liabilities	\$ 373,233	\$ 347,303	\$ 322,647

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

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (in \$ millions, except per share amounts)	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue⁽¹⁾	\$ 14,719	\$ 11,056	\$ 17,107	\$ 7,687	\$ 9,127	\$ 11,872	\$ 13,291	\$ 13,976
Net earnings - Participating account								
Before policyholder dividends	343	340	381	365	302	371	353	345
Policyholder dividends	342	318	347	355	332	327	347	355
Net earnings ⁽²⁾	1	22	34	10	(30)	44	6	(10)
Net earnings - Common shareholder								
Net earnings	772	792	844	399	706	748	576	662

⁽¹⁾ Revenue includes the change in fair value through profit or loss on investment assets.

⁽²⁾ Net earnings for the participating account represent the in-year earnings for the account(s) after dividend distributions.

The Company's consolidated net earnings attributable to the common shareholder in the fourth quarter of 2020 were \$772 million compared to \$706 million reported a year ago. Net earnings for the participating account before policyholder dividends were \$343 million compared to \$302 million for the fourth quarter of 2019.

Total revenue for the fourth quarter of 2020 was \$14,719 million and comprises premium income of \$10,809 million, regular net investment income of \$1,266 million, fee and other income of \$815 million and a positive change in fair value through profit or loss on investment assets of \$1,829 million.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed or submitted by it under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2020 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the 2013 *Internal Control - Integrated Framework* (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management adopted the revised 2013 COSO Framework in 2015 as the basis to evaluate the effectiveness of Canada Life's internal control over financial reporting.

During the twelve months ended December 31, 2020, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Internal controls over financial reporting have been adapted for the remote work environment that has resulted from the COVID-19 pandemic, as necessary, and were effective. Management evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2020 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting.

TRANSACTIONS WITH RELATED PARTIES

Reinsurance Transactions

The Company utilizes internal reinsurance transactions between companies in the Lifeco group of companies. These transactions are undertaken to better manage insurance risks relating to retention, volatility and concentration; and to facilitate capital management for the Company, its subsidiaries and branch operations. These transactions may produce benefits that were reflected in one or more of the Company's other business units and were at market terms and conditions.

A subsidiary of the Company has agreements with Great-West Life & Annuity Insurance Company, an affiliated company, to assume certain life business. In 2020, for the Consolidated Statement of Earnings, these transactions resulted in an increase in total net premiums of \$1,623 million (\$1,336 million in 2019) and total paid or credited to policyholders of \$1,610 million (\$1,323 million in 2019). The transactions were at market terms and conditions.

During 2005, Great-West Life & Annuity Insurance Company of South Carolina (GWSC), an affiliated company, assumed on a coinsurance basis with funds withheld, certain of Canada Life's U.S. term life reinsurance business. During 2007, an additional amount of U.S term life reinsurance business was retroceded by Canada Life to GWSC. In 2020, for the Consolidated Statements of Earnings, these transactions resulted in a reduction in total net premiums of \$82 million (\$95 million in 2019) and total paid or credited to policyholders of \$89 million (\$91 million in 2019). These transactions were at market terms and conditions.

Other Related Party Transactions

In the normal course of business, the Company provided insurance benefits and other services to other companies within the Power Financial group of companies enabling each organization to take advantage of economies of scale and areas of expertise. In all cases, transactions were at market terms and conditions.

During the year, the Company provided to and received from IGM and its subsidiaries, a member of the Power Corporation group of companies, certain administrative and information technology services. During the year, IGM notified the company that it intends to terminate its long-term technology infrastructure related sharing agreement in the first quarter of 2021. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. In addition, the Company provided distribution services to IGM. During 2016, the Company was appointed as sub-advisor to Great-West Funds, Inc. and Great-West Capital Management, LLC, affiliated companies, to act as an investment advisor to a series of Great-West Funds. All transactions were provided at market terms and conditions.

The Company owns 9,200,518 shares representing a 3.86% ownership interest in IGM. The Company uses the equity method to account for its investment in IGM as it exercises significant influence. In 2020, the Company recognized \$25 million for the equity method share of IGM net earnings and received dividends of \$21 million from its investment in IGM.

During the year, the Company completed the sale of GLC to Mackenzie. The Company recorded a gain on disposal of \$143 million, net of restructuring and other one-time costs of \$16 million.

The Company has debentures issued to Lifeco, its parent company, with a combined outstanding balance of \$4,200 million. The Company has made a corresponding investment of \$4,200 million in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has a legally enforceable right to settle these financial instruments on a net basis and the Company intends to exercise these rights. Accordingly, the investment and debentures are offset in the consolidated financial statements of the Company.

Segregated funds of the Company were invested in funds managed by IG Wealth Management and Mackenzie Investments. The Company also has interests in mutual funds, open-ended investment companies and unit trusts. Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services. All transactions were provided at market terms and conditions (refer to note 14 in the Company's December 31, 2020 annual consolidated financial statements for further information).

The Company held debentures issued by IGM, the interest rates and maturity dates are as follows:

	2020	2019
3.44%, matures January 26, 2027	\$ 22	\$ 21
6.65%, matures December 13, 2027	17	16
7.45%, matures May 9, 2031	14	14
7.00%, matures December 31, 2032	14	13
4.56%, matures January 25, 2047	25	22
4.115%, matures December 9, 2047	12	10
4.174%, matures July 13, 2048	6	5
Total	\$ 110	\$ 101

During 2020, the Company purchased residential mortgages of \$21 million from IGM (\$11 million in 2019).

On December 22, 2020 the Company issued to Great-West Lifeco U.S. LLC, an affiliated entity, a US\$65 million (\$83 million at December 31, 2020), 5 year loan with an annual interest rate of 1.25%

On December 7, 2016, the Company issued to Lifeco a 200 million euro (\$310 million at December 31, 2020), 15 year loan with an annual interest rate of 2.53% until first par call date of December 7, 2026, and, thereafter at a rate equal to the five-year euro semi-annual mid-swap rate plus 1.85% (refer to note 15 in the Company's December 31, 2020 annual consolidated financial statements for further information). During 2020, interest expense of \$8 million (\$8 million in 2019) is included in the Consolidated Statements of Earnings.

The Company has 6.74% debentures due to Lifeco, its parent, which have an outstanding balance of \$200 million (\$200 million in 2019). Financing charges of \$13 million is included in the Consolidated Statements of Earnings (\$13 million in 2019).

TRANSLATION OF FOREIGN CURRENCY

Through its operating subsidiaries, the Company conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the U.S. dollar, the 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	Dec. 31 2020	Sept. 30 2020	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sept. 30 2019	June 30 2019	Mar. 31 2019
United States dollar								
Balance sheet	\$ 1.27	\$ 1.33	\$ 1.36	\$ 1.40	\$ 1.30	\$ 1.32	\$ 1.31	\$ 1.34
Income and expenses	\$ 1.30	\$ 1.33	\$ 1.39	\$ 1.34	\$ 1.32	\$ 1.32	\$ 1.34	\$ 1.33
British pound								
Balance sheet	\$ 1.74	\$ 1.72	\$ 1.68	\$ 1.74	\$ 1.72	\$ 1.63	\$ 1.66	\$ 1.74
Income and expenses	\$ 1.72	\$ 1.72	\$ 1.72	\$ 1.72	\$ 1.70	\$ 1.63	\$ 1.72	\$ 1.73
Euro								
Balance sheet	\$ 1.55	\$ 1.56	\$ 1.52	\$ 1.55	\$ 1.46	\$ 1.44	\$ 1.49	\$ 1.50
Income and expenses	\$ 1.55	\$ 1.56	\$ 1.53	\$ 1.48	\$ 1.46	\$ 1.47	\$ 1.50	\$ 1.51

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.



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