



The Canada Life
Assurance Company

Consolidated financial statements

Third quarter results

For the period ended September 30, 2021

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

CONSOLIDATED STATEMENTS OF EARNINGS *(unaudited)*

(in Canadian \$ millions)

	For the three months ended		For the nine months ended	
	September 30	September 30	September 30	September 30
	2021	2020	2021	2020
Income				
Premium income				
Gross premiums written	\$ 15,637	\$ 9,347	\$ 41,228	\$ 29,943
Ceded premiums	(911)	(942)	(2,765)	(2,914)
Total net premiums	<u>14,726</u>	<u>8,405</u>	<u>38,463</u>	<u>27,029</u>
Net investment income (note 5)				
Regular net investment income	1,104	1,199	3,338	3,493
Changes in fair value through profit or loss	(613)	663	(3,005)	3,010
Total net investment income	<u>491</u>	<u>1,862</u>	<u>333</u>	<u>6,503</u>
Fee and other income	862	789	2,527	2,318
	<u>16,079</u>	<u>11,056</u>	<u>41,323</u>	<u>35,850</u>
Benefits and expenses				
Policyholder benefits				
Gross	10,710	8,379	32,708	26,088
Ceded	(601)	(517)	(1,892)	(1,718)
Total net policyholder benefits	<u>10,109</u>	<u>7,862</u>	<u>30,816</u>	<u>24,370</u>
Changes in insurance and investment contract liabilities				
Gross	3,008	792	1,190	4,285
Ceded	127	(18)	1,033	(245)
Total net changes in insurance and investment contract liabilities	<u>3,135</u>	<u>774</u>	<u>2,223</u>	<u>4,040</u>
Policyholder dividends and experience refunds	388	251	1,132	1,104
Total paid or credited to policyholders	<u>13,632</u>	<u>8,887</u>	<u>34,171</u>	<u>29,514</u>
Commissions	492	450	1,530	1,440
Operating and administrative expenses	721	735	2,331	2,215
Premium taxes	119	116	357	344
Financing charges	27	28	82	84
Amortization of finite life intangible assets	39	38	119	112
Earnings before income taxes	<u>1,049</u>	<u>802</u>	<u>2,733</u>	<u>2,141</u>
Income taxes (note 13)	109	(13)	267	38
Net earnings before non-controlling interests	<u>940</u>	<u>815</u>	<u>2,466</u>	<u>2,103</u>
Attributable to non-controlling interests	—	1	2	2
Net earnings	<u>940</u>	<u>814</u>	<u>2,464</u>	<u>2,101</u>
Net earnings - participating account	106	22	326	66
Net earnings - common shareholder	<u>\$ 834</u>	<u>\$ 792</u>	<u>\$ 2,138</u>	<u>\$ 2,035</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*
(in Canadian \$ millions)

	For the three months ended		For the nine months ended	
	September 30	September 30	September 30	September 30
	2021	2020	2021	2020
Net earnings	\$ 940	\$ 814	\$ 2,464	\$ 2,101
Other comprehensive income (loss)				
Items that may be reclassified subsequently to Consolidated Statements of Earnings				
Unrealized foreign exchange gains (losses) on translation of foreign operations	65	232	(317)	275
Unrealized gains (losses) on hedges of the net investment in foreign operations	(19)	—	(14)	—
Income tax (expense) benefit	5	—	4	—
Unrealized gains (losses) on available-for-sale assets	(46)	6	(198)	235
Income tax (expense) benefit	8	(1)	39	(40)
Realized (gains) losses on available-for-sale assets	(7)	(10)	(15)	(112)
Income tax expense (benefit)	—	1	2	10
Non-controlling interests	—	—	—	(1)
Total items that may be reclassified	6	228	(499)	367
Items that will not be reclassified to Consolidated Statements of Earnings				
Re-measurements on defined benefit pension and other post-employment benefit plans (note 12)	53	(41)	649	(274)
Income tax (expense) benefit	(25)	6	(175)	66
Revaluation surplus on transfer to investment properties	—	11	—	11
Income tax (expense) benefit	—	(1)	—	(1)
Total items that will not be reclassified	28	(25)	474	(198)
Total other comprehensive income (loss)	34	203	(25)	169
Comprehensive income	\$ 974	\$ 1,017	\$ 2,439	\$ 2,270

CONSOLIDATED BALANCE SHEETS *(unaudited)*
(in Canadian \$ millions)

	September 30 2021	December 31 2020
Assets		
Cash and cash equivalents	\$ 3,478	\$ 3,105
Bonds (note 5)	99,724	100,608
Mortgage loans (note 5)	23,319	22,263
Stocks (note 5)	12,609	10,464
Investment properties (note 5)	7,326	6,267
Loans to policyholders	3,465	3,447
	<u>149,921</u>	<u>146,154</u>
Funds held by ceding insurers	7,309	8,455
Reinsurance assets (note 8)	7,683	8,924
Goodwill	6,452	6,386
Intangible assets	2,291	2,250
Derivative financial instruments	430	669
Owner occupied properties	555	555
Fixed assets	290	292
Other assets	1,803	1,711
Premiums in course of collection, accounts and interest receivable	4,842	4,525
Current income taxes	274	87
Deferred tax assets	249	232
Investments on account of segregated fund policyholders (note 9)	229,053	216,050
Total assets	<u>\$ 411,152</u>	<u>\$ 396,290</u>
Liabilities		
Insurance contract liabilities (note 8)	\$ 144,742	\$ 144,333
Investment contract liabilities (note 8)	1,627	1,671
Debentures and other debt instruments	751	768
Preferred shares (note 10)	1,000	1,000
Funds held under reinsurance contracts	2,024	2,174
Derivative financial instruments	1,221	1,150
Accounts payable	2,030	1,493
Other liabilities	3,239	3,760
Current income taxes	206	248
Deferred tax liabilities	928	586
Investment and insurance contracts on account of segregated fund policyholders (note 9)	229,053	216,050
Total liabilities	<u>386,821</u>	<u>373,233</u>
Equity		
Participating account surplus	3,167	2,858
Non-controlling interests	27	25
Shareholders' equity		
Share capital (note 10)		
Common shares	7,884	7,884
Accumulated surplus	12,769	11,802
Accumulated other comprehensive income	65	73
Contributed surplus	419	415
Total equity	<u>24,331</u>	<u>23,057</u>
Total liabilities and equity	<u>\$ 411,152</u>	<u>\$ 396,290</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*

(in Canadian \$ millions)

September 30, 2021

	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Participating account surplus	Total equity
Balance, beginning of year	\$ 7,884	\$ 415	\$ 11,802	\$ 73	\$ 20,174	\$ 25	\$ 2,858	\$ 23,057
Net earnings	—	—	2,138	—	2,138	2	326	2,466
Other comprehensive income (loss)	—	—	—	(8)	(8)	—	(17)	(25)
	7,884	415	13,940	65	22,304	27	3,167	25,498
Dividends to common shareholder	—	—	(1,171)	—	(1,171)	—	—	(1,171)
Share-based payments	—	4	—	—	4	—	—	4
Balance, end of period	\$ 7,884	\$ 419	\$ 12,769	\$ 65	\$ 21,137	\$ 27	\$ 3,167	\$ 24,331

September 30, 2020

	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Participating account surplus	Total equity
Balance, beginning of year	\$ 8,884	\$ 412	\$ 11,411	\$ (112)	\$ 20,595	\$ 21	\$ 2,745	\$ 23,361
Net earnings	—	—	2,035	—	2,035	2	66	2,103
Other comprehensive income	—	—	—	122	122	1	47	170
	8,884	412	13,446	10	22,752	24	2,858	25,634
Dividends to common shareholder	—	—	(1,729)	—	(1,729)	—	—	(1,729)
Share-based payments	—	3	—	—	3	—	—	3
Conversion of common shares to preferred share liability (note 10)	(1,000)	—	—	—	(1,000)	—	—	(1,000)
Balance, end of period	\$ 7,884	\$ 415	\$ 11,717	\$ 10	\$ 20,026	\$ 24	\$ 2,858	\$ 22,908

CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*
(in Canadian \$ millions)

	For the nine months ended September 30	
	2021	2020
Operations		
Earnings before income taxes	\$ 2,733	\$ 2,141
Income taxes paid, net of refunds received	(299)	(234)
Adjustments:		
Change in insurance and investment contract liabilities	354	4,550
Change in funds held by ceding insurers	805	556
Change in funds held under reinsurance contracts	(132)	144
Change in reinsurance assets	1,011	(261)
Changes in fair value through profit or loss	3,005	(3,010)
Other	(92)	(810)
	<u>7,385</u>	<u>3,076</u>
Financing Activities		
Dividends paid on common shares	(1,171)	(1,729)
Investment Activities		
Bond sales and maturities	14,099	13,529
Mortgage loan repayments	1,821	1,329
Stock sales	4,514	3,194
Investment property sales	33	70
Change in loans to policyholders	(18)	(112)
Business acquisitions, net of cash and cash equivalents acquired	(63)	(43)
Sale of business, net of cash and cash equivalents in subsidiary	—	108
Investment in bonds	(17,251)	(13,756)
Investment in mortgage loans	(3,034)	(2,312)
Investment in stocks	(5,179)	(3,337)
Investment in investment properties	(702)	(155)
	<u>(5,780)</u>	<u>(1,485)</u>
Effect of changes in exchange rates on cash and cash equivalents	(61)	57
Increase (decrease) in cash and cash equivalents	373	(81)
Cash and cash equivalents, beginning of period	3,105	3,236
Cash and cash equivalents, end of period	\$ 3,478	\$ 3,155
Supplementary cash flow information		
Interest income received	\$ 2,716	\$ 2,814
Interest paid	75	77
Dividend income received	227	233

CONDENSED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

(in Canadian \$ millions except per share amounts)

1. Corporate Information

The Canada Life Assurance Company (Canada Life) is incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Canada Life is wholly-owned by Great-West Lifeco Inc. (Lifeco). Lifeco is a member of the Power Corporation of Canada (Power Corporation) group of companies and is a subsidiary of Power Corporation.

Canada Life is a leading Canadian insurer, with interests in the life insurance, health insurance, investment, savings and retirement income and reinsurance businesses, primarily in Canada and Europe through its subsidiaries including The Canada Life Group (U.K.) Limited, Canada Life Limited, Irish Life Group Limited (Irish Life), Canada Life Capital Corporation Inc., Toronto College Park Ltd., Quadrus Investment Services Ltd., and GWL Realty Advisors Inc.

The condensed consolidated interim unaudited financial statements (financial statements) of the Company as at and for the three and nine months ended September 30, 2021 were approved by the Board of Directors on November 3, 2021.

2. Basis of Presentation and Summary of Accounting Policies

These financial statements should be read in conjunction with the Company's December 31, 2020 consolidated annual audited financial statements and notes thereto.

The financial statements of the Company at September 30, 2021 have been prepared in compliance with the requirements of International Accounting Standard (IAS) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) using the same accounting policies and methods of computation followed in the consolidated annual audited financial statements for the year ended December 31, 2020 except as described below.

Changes in Accounting Policies

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

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

The Company actively monitors changes in IFRS, both proposed and released, by the IASB for potential impact on the Company. The following sets out standards released and updates to the Company's analysis since the year ended December 31, 2020:

Standard	Summary of Future Changes
IAS 1 – <i>Presentation of Financial Statements</i>	<p>In February 2021, the IASB published <i>Disclosure of Accounting Policies</i>, amendments to IAS 1, <i>Presentation of Financial Statements</i>. The amendments clarify how an entity determines whether accounting policy information is material.</p> <p>These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company is evaluating the impact for the adoption of these amendments.</p>
IAS 8 – <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	<p>In February 2021, the IASB published <i>Definition of Accounting Estimates</i>, amendments to IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. The amendments clarify the difference between an accounting policy and an accounting estimate.</p> <p>These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company is evaluating the impact for the adoption of these amendments.</p>
IAS 12 – <i>Income Taxes</i>	<p>In May 2021, the IASB published <i>Deferred Tax Related to Assets and Liabilities from a Single Transaction</i>, amendments to IAS 12, <i>Income Taxes</i>. The amendments clarify that for transactions in which both deductible and taxable temporary differences arise on initial recognition that result in deferred tax assets and liabilities of the same amount, deferred tax assets and liabilities are to be recognized.</p> <p>These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company is evaluating the impact for the adoption of these amendments.</p>

Use of Significant Judgments, Estimates and Assumptions

In preparation of these financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are further described in the relevant accounting policies as described in note 2 of the Company's December 31, 2020 consolidated annual audited financial statements and notes thereto.

Impact of COVID-19 on Significant Judgments, Estimates and Assumptions

The COVID-19 pandemic has continued to result in uncertainty in global financial markets and the economic environment in which the Company operates. The duration and impact of the COVID-19 pandemic continues to be unknown at this time, as is the efficacy of the associated fiscal and monetary interventions by governments and central banks.

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, as well as prevailing health and mortality experience.

2. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. In addition to its own credit assessments, the Company's practice is to use third party independent credit ratings where available. Management judgment is required when setting credit ratings for instruments that do not have a third party credit rating. Given rapid market changes, third party credit rating changes may lag developments in the current environment.

The fair value of portfolio investments (note 5), the valuation of goodwill and other intangible assets, the valuation of insurance contract liabilities (note 8) and the recoverability of deferred tax asset carrying values reflect management's judgment.

Given the uncertainty surrounding the current environment, the actual financial results could differ from the estimates made in preparation of these financial statements.

3. Business Acquisitions and Subsequent Event

(a) Acquisition of Ark Life Assurance Company

On July 13, 2021, Irish Life, an indirect wholly-owned subsidiary of the Company, announced that it had entered into an agreement to acquire Ark Life Assurance Company dac (Ark Life) from Phoenix Group Holdings plc for total cash consideration of €230. Ark Life is closed to new business and manages a range of pensions, savings and protection policies for its customers in the Irish market. The transaction closed on November 1, 2021.

(b) Acquisition of ClaimSecure Inc.

On September 1, 2021, the Company completed the acquisition of 100% of the equity of ClaimSecure Inc., a healthcare management firm that provides health and dental claim management services to private and public businesses in Canada. As at September 30, 2021, the purchase price allocation is incomplete, with the initial amount assigned to goodwill of \$93 on the date of acquisition to be adjusted pending the completion of a comprehensive valuation of the intangible assets acquired.

Subsequent Event

(c) Sale of EverWest

On October 7, 2021, Lifeco announced it had agreed to enter into a long-term strategic relationship with Sagard Holdings Inc. (Sagard), a wholly-owned subsidiary of Power Corporation. The strategic relationship includes the sale by Lifeco of the Company's indirect United States-based subsidiaries, EverWest Real Estate Investors, LLC and EverWest Advisors, LLC (EverWest) to Sagard, in exchange for a minority shareholding in Sagard's subsidiary, Sagard Holdings Management Inc. EverWest's principal activity is real estate investment management and it will be distributed as a dividend by the Company to Lifeco prior to the sale. The sale of EverWest is expected to close in the fourth quarter of 2021, subject to regulatory and customary closing conditions. Sagard is a related party and therefore certain aspects involving the Company were reviewed and approved by the Company's Conduct Review Committee. The carrying value and earnings of EverWest are immaterial to the Company.

As part of the strategic relationship with Sagard, Lifeco will make a capital commitment of up to approximately U.S. \$500 into certain Sagard strategies. Lifeco has also committed to investing a further approximately U.S. \$2,000 in real estate investments to support EverWest's future growth within Sagard. Investments by Lifeco's subsidiaries, including Canada Life, would count toward satisfaction of Lifeco's commitment but would be subject to completion of diligence, and compliance with all regulatory requirements and the Company's applicable policies and procedures.

4. Restructuring

Canada Restructuring

At September 30, 2021, the Company has a restructuring provision of \$64 remaining in other liabilities. The change in the restructuring provision for the Canada restructuring is set out below:

	September 30 2021	December 31 2020
Balance, beginning of year	\$ 86	\$ —
Restructuring expenses	—	92
Amounts used	(22)	(6)
Balance, end of period	\$ 64	\$ 86

The Company expects to pay out substantially all of these amounts by December 31, 2022.

5. Portfolio Investments

(a) Carrying values and estimated fair values of portfolio investments are as follows:

	September 30, 2021		December 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss ⁽¹⁾	\$ 73,185	\$ 73,185	\$ 74,190	\$ 74,190
Classified fair value through profit or loss ⁽¹⁾	1,799	1,799	1,863	1,863
Available-for-sale	9,443	9,443	9,902	9,902
Loans and receivables	15,297	17,122	14,653	17,443
	<u>99,724</u>	<u>101,549</u>	<u>100,608</u>	<u>103,398</u>
Mortgage loans				
Residential				
Designated fair value through profit or loss ⁽¹⁾	2,500	2,500	2,020	2,020
Loans and receivables	7,343	7,632	7,325	7,858
	<u>9,843</u>	<u>10,132</u>	<u>9,345</u>	<u>9,878</u>
Commercial				
	<u>13,476</u>	<u>14,043</u>	<u>12,918</u>	<u>14,034</u>
	<u>23,319</u>	<u>24,175</u>	<u>22,263</u>	<u>23,912</u>
Stocks				
Designated fair value through profit or loss ⁽¹⁾	12,130	12,130	10,014	10,014
Available-for-sale	14	14	8	8
Available-for-sale, at cost ⁽²⁾	8	8	8	8
Equity method	457	510	434	397
	<u>12,609</u>	<u>12,662</u>	<u>10,464</u>	<u>10,427</u>
Investment properties				
	<u>7,326</u>	<u>7,326</u>	<u>6,267</u>	<u>6,267</u>
Total	<u>\$ 142,978</u>	<u>\$ 145,712</u>	<u>\$ 139,602</u>	<u>\$ 144,004</u>

⁽¹⁾ A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. Changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

⁽²⁾ Fair value cannot be reliably measured, therefore the investments are held at cost.

5. Portfolio Investments (cont'd)

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

	September 30 2021	December 31 2020
Impaired amounts by classification		
Fair value through profit or loss	\$ 6	\$ 8
Available-for-sale	1	2
Loans and receivables	77	23
Total	\$ 84	\$ 33

The carrying amount of impaired investments includes \$7 bonds and \$77 mortgage loans at September 30, 2021 (\$10 bonds and \$23 mortgage loans at December 31, 2020). The above carrying values for loans and receivables are net of allowances of \$25 at September 30, 2021 and \$57 at December 31, 2020.

(c) Net investment income comprises the following:

For the three months ended September 30, 2021	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 730	\$ 186	\$ 80	\$ 110	\$ 70	\$ 1,176
Net realized gains						
Available-for-sale	—	—	8	—	—	8
Other classifications	—	5	—	—	—	5
Net allowances for credit losses on loans and receivables	—	4	—	—	—	4
Other income (expenses)	—	—	—	(37)	(52)	(89)
	730	195	88	73	18	1,104
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	(9)	—	—	—	—	(9)
Designated fair value through profit or loss	(827)	25	58	—	(81)	(825)
Recorded at fair value through profit or loss	—	—	—	221	—	221
	(836)	25	58	221	(81)	(613)
Total	\$ (106)	\$ 220	\$ 146	\$ 294	\$ (63)	\$ 491

5. Portfolio Investments (cont'd)

For the three months ended September 30, 2020	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 727	\$ 185	\$ 92	\$ 98	\$ 54	1,156
Net realized gains (losses)						
Available-for-sale	11	—	(1)	—	—	10
Other classifications	1	7	88	—	—	96
Net allowances for credit losses on loans and receivables	—	(1)	—	—	—	(1)
Other income (expenses)	—	—	—	(33)	(29)	(62)
	<u>739</u>	<u>191</u>	<u>179</u>	<u>65</u>	<u>25</u>	<u>1,199</u>
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	6	—	—	—	—	6
Designated fair value through profit or loss	118	(8)	286	—	233	629
Recorded at fair value through profit or loss	—	—	—	28	—	28
	<u>124</u>	<u>(8)</u>	<u>286</u>	<u>28</u>	<u>233</u>	<u>663</u>
Total	\$ 863	\$ 183	\$ 465	\$ 93	\$ 258	\$ 1,862

For the nine months ended September 30, 2021	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,172	\$ 556	\$ 234	\$ 314	\$ 270	3,546
Net realized gains						
Available-for-sale	8	—	8	—	—	16
Other classifications	1	33	6	—	—	40
Net allowances for credit losses on loans and receivables	—	(28)	—	—	—	(28)
Other income (expenses)	—	—	—	(104)	(132)	(236)
	<u>2,181</u>	<u>561</u>	<u>248</u>	<u>210</u>	<u>138</u>	<u>3,338</u>
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	(53)	—	—	—	—	(53)
Designated fair value through profit or loss	(4,423)	(63)	1,392	—	(297)	(3,391)
Recorded at fair value through profit or loss	—	—	—	439	—	439
	<u>(4,476)</u>	<u>(63)</u>	<u>1,392</u>	<u>439</u>	<u>(297)</u>	<u>(3,005)</u>
Total	\$ (2,295)	\$ 498	\$ 1,640	\$ 649	\$ (159)	\$ 333

5. Portfolio Investments (cont'd)

For the nine months ended September 30, 2020	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,187	\$ 557	\$ 254	\$ 299	\$ 183	3,480
Net realized gains						
Available-for-sale	113	—	1	—	—	114
Other classifications	3	20	88	—	—	111
Net allowances for credit losses on loans and receivables						
	—	(10)	—	—	—	(10)
Other income (expenses)	—	—	—	(94)	(108)	(202)
	<u>2,303</u>	<u>567</u>	<u>343</u>	<u>205</u>	<u>75</u>	<u>3,493</u>
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss						
	77	—	—	—	—	77
Designated fair value through profit or loss						
	3,570	98	(714)	—	136	3,090
Recorded at fair value through profit or loss						
	—	—	—	(157)	—	(157)
	<u>3,647</u>	<u>98</u>	<u>(714)</u>	<u>(157)</u>	<u>136</u>	<u>3,010</u>
Total	<u>\$ 5,950</u>	<u>\$ 665</u>	<u>\$ (371)</u>	<u>\$ 48</u>	<u>\$ 211</u>	<u>\$ 6,503</u>

Investment income earned comprises income from investments that are classified as available-for-sale, loans and receivables and investments classified or designated as fair value through profit or loss. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income from stocks includes dividends, distributions from private equity and equity income from the investment in IGM Financial Inc. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

6. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks. The Company's approach to risk management has not substantially changed from that described in the Company's 2020 Annual Report. Certain risks have been outlined below. For a discussion of the Company's risk governance structure and risk management approach, see the "Financial Instruments Risk Management" note in the Company's December 31, 2020 consolidated annual audited financial statements.

The Company has also 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. The Board of Directors reviews and approves all capital transactions undertaken by management.

(a) Credit Risk

Credit risk is the risk of loss resulting from an obligor's potential inability or unwillingness to fully meet its contractual obligations.

Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single obligor, a group of related obligors or groups of obligors that have similar credit risk characteristics and operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due. No significant changes have occurred from the year ended December 31, 2020.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. The Company maintains a committed line of credit with a Canadian bank.

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

Caution Related to Risk Sensitivities

These financial statements include estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. 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,
- Changes in actuarial, investment return and future investment activity assumptions,
- Actual experience differing from the assumptions,

6. *Financial Instruments Risk Management (cont'd)*

- 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 based on the assumptions outlined above. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

(i) **Currency Risk**

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases.

- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial immediate change to net earnings. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial immediate change in net earnings.

The Company has net investments in foreign operations. The Company's debt obligations are denominated in Canadian dollars and euros. 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. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total equity. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

(ii) **Interest Rate Risk**

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability.

Projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation 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.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk because the Company's sensitivity to interest rate movements varies at different terms.

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.

6. Financial Instruments Risk Management (cont'd)

The impact to the value of liabilities from an immediate parallel 1% increase or 1% decrease in the interest rates would be largely offset by changes in the value of assets supporting the liabilities.

The following table provides information on the impact to the value of liabilities net of changes in the value of assets supporting liabilities of an immediate parallel 1% increase or 1% decrease in the interest rates as well as a corresponding parallel shift in the ultimate reinvestment rates, as defined in the actuarial standards.

	September 30, 2021		December 31, 2020	
	1% increase	1% decrease ⁽¹⁾	1% increase	1% decrease ⁽¹⁾
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (406)	\$ 824	\$ (297)	\$ 785
Increase (decrease) in net earnings	\$ 328	\$ (652)	\$ 231	\$ (604)

⁽¹⁾ For the 1% decrease, initial risk-free yields are floored at zero, wherever risk-free yields are not currently negative.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets and liabilities arising from changes in equity markets and other pricing risk. To mitigate pricing risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The risks associated with segregated fund guarantees on lifetime Guaranteed Minimum Withdrawal Benefits have been mitigated through a hedging program using equity futures, currency forwards, and interest rate derivatives.

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.

6. Financial Instruments Risk Management (cont'd)

The following table 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 shareholder net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities and hedge assets.

	September 30, 2021				December 31, 2020			
	20% increase	10% increase	10% decrease	20% decrease	20% increase	10% increase	10% decrease	20% decrease
Change in publicly traded common stock values								
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (39)	\$ (21)	\$ 30	\$ 116	\$ (34)	\$ (18)	\$ 62	\$ 264
Increase (decrease) in net earnings	\$ 32	\$ 18	\$ (26)	\$ (98)	\$ 28	\$ 15	\$ (51)	\$ (208)

The following table 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 shareholder net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities.

	September 30, 2021				December 31, 2020			
	10% increase	5% increase	5% decrease	10% decrease	10% increase	5% increase	5% decrease	10% decrease
Change in other non-fixed income asset values								
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (16)	\$ (1)	\$ 33	\$ 144	\$ (41)	\$ (8)	\$ 88	\$ 138
Increase (decrease) in net earnings	\$ 12	\$ —	\$ (23)	\$ (106)	\$ 34	\$ 6	\$ (69)	\$ (108)

The Canadian Institute of Actuaries Standards of Practice for the valuation of insurance contract liabilities establish limits on the investment return assumptions for publicly traded common stocks and other non-fixed income assets which are generally based on historical returns on market indices. The sensitivities shown in the tables above allow for the impact of changes in these limits following market falls.

The best estimate return assumptions for publicly traded common stocks and other non-fixed income assets are primarily based on long-term historical averages. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

	September 30, 2021		December 31, 2020	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions				
Increase (decrease) in non-participating insurance contract liabilities	\$ (669)	\$ 854	\$ (691)	\$ 861
Increase (decrease) in net earnings	\$ 531	\$ (668)	\$ 556	\$ (682)

7. Fair Value Measurement

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

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, and mortgage loans. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.

Level 3: Fair value measurements 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. The values of the majority of Level 3 securities were obtained from single broker quotes, internal pricing models, or external appraisers. Assets and liabilities utilizing Level 3 inputs generally include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties and equity release mortgages.

7. Fair Value Measurement (cont'd)

The following presents the Company's assets and liabilities measured at fair value on a recurring basis by hierarchy level:

Assets measured at fair value	September 30, 2021			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,478	\$ —	\$ —	\$ 3,478
Financial assets at fair value through profit or loss				
Bonds	—	74,898	86	74,984
Mortgage loans	—	—	2,500	2,500
Stocks	10,831	—	1,299	12,130
Total financial assets at fair value through profit or loss	10,831	74,898	3,885	89,614
Available-for-sale financial assets				
Bonds	—	9,443	—	9,443
Stocks	—	—	14	14
Total available-for-sale financial assets	—	9,443	14	9,457
Investment properties	—	—	7,326	7,326
Funds held by ceding insurers	235	5,358	—	5,593
Derivatives ⁽¹⁾	9	421	—	430
Reinsurance assets	—	114	—	114
Other assets - trading account assets	141	—	—	141
Total assets measured at fair value	\$ 14,694	\$ 90,234	\$ 11,225	\$ 116,153
Liabilities measured at fair value				
Derivatives ⁽²⁾	\$ —	\$ 1,221	\$ —	\$ 1,221
Investment contract liabilities	—	1,627	—	1,627
Total liabilities measured at fair value	\$ —	\$ 2,848	\$ —	\$ 2,848

⁽¹⁾ Excludes collateral received from counterparties of \$31.

⁽²⁾ Excludes collateral pledged to counterparties of \$515.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the period.

7. Fair Value Measurement (cont'd)

Assets measured at fair value	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,105	\$ —	\$ —	\$ 3,105
Financial assets at fair value through profit or loss				
Bonds	—	75,980	73	76,053
Mortgage loans	—	—	2,020	2,020
Stocks	8,698	4	1,312	10,014
Total financial assets at fair value through profit or loss	8,698	75,984	3,405	88,087
Available-for-sale financial assets				
Bonds	—	9,902	—	9,902
Stocks	—	—	8	8
Total available-for-sale financial assets	—	9,902	8	9,910
Investment properties	—	—	6,267	6,267
Funds held by ceding insurers	233	6,097	—	6,330
Derivatives ⁽¹⁾	1	668	—	669
Reinsurance assets	—	130	—	130
Other assets - trading account assets	156	—	—	156
Total assets measured at fair value	\$ 12,193	\$ 92,781	\$ 9,680	\$ 114,654
Liabilities measured at fair value				
Derivatives ⁽²⁾	\$ 5	\$ 1,145	\$ —	\$ 1,150
Investment contract liabilities	—	1,671	—	1,671
Total liabilities measured at fair value	\$ 5	\$ 2,816	\$ —	\$ 2,821

⁽¹⁾ Excludes collateral received from counterparties of \$141.

⁽²⁾ Excludes collateral pledged to counterparties of \$435.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the period.

7. Fair Value Measurement (cont'd)

The following presents additional information about assets and liabilities measured at fair value on a recurring basis which the Company classifies as Level 3 in the fair value hierarchy:

	September 30, 2021					
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks ⁽³⁾	Available- for-sale stocks	Investment properties	Total Level 3 assets
Balance, beginning of year	\$ 73	\$ 2,020	\$ 1,312	\$ 8	\$ 6,267	\$ 9,680
Total gains (losses)						
Included in net earnings	3	(68)	169	—	439	543
Included in other comprehensive income ⁽¹⁾	(3)	(21)	—	3	(49)	(70)
Purchases	13	—	356	3	702	1,074
Issues	—	694	—	—	—	694
Sales	—	—	(81)	—	(33)	(114)
Settlements	—	(125)	—	—	—	(125)
Transfers into Level 3 ⁽²⁾	—	—	—	—	—	—
Transfers out of Level 3 ⁽²⁾	—	—	(457)	—	—	(457)
Balance, end of period	\$ 86	\$ 2,500	\$ 1,299	\$ 14	\$ 7,326	\$ 11,225
Total gains (losses) for the period included in net investment income	\$ 3	\$ (68)	\$ 169	\$ —	\$ 439	\$ 543
Change in unrealized gains (losses) for the period included in earnings for assets held at September 30, 2021	\$ 3	\$ (61)	\$ 168	\$ —	\$ 446	\$ 556

(1) Amount of other comprehensive income for fair value through profit or loss bonds, mortgage loans and investment properties represents the unrealized gains (losses) on foreign exchange.

(2) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies or the placement of redemption restrictions on investments in mutual and segregated funds. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual and segregated funds.

(3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

7. Fair Value Measurement (cont'd)

	December 31, 2020					
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks ⁽⁴⁾	Available-for-sale stocks	Investment properties	Total Level 3 assets
Balance, beginning of year	\$ 67	\$ 1,314	\$ 677	\$ 4	\$ 5,884	\$ 7,946
Total gains (losses)						
Included in net earnings	2	156	16	—	(74)	100
Included in other comprehensive income ⁽¹⁾	4	15	—	1	21	41
Purchases	—	—	341	3	481	825
Issues	—	622	—	—	—	622
Sales	—	—	(79)	—	(73)	(152)
Settlements	—	(87)	—	—	—	(87)
Transferred from owner occupied properties ⁽²⁾	—	—	—	—	28	28
Transfers into Level 3 ⁽³⁾	—	—	357	—	—	357
Transfers out of Level 3 ⁽³⁾	—	—	—	—	—	—
Balance, end of year	\$ 73	\$ 2,020	\$ 1,312	\$ 8	\$ 6,267	\$ 9,680
Total gains (losses) for the year included in net investment income	\$ 2	\$ 156	\$ 16	\$ —	\$ (74)	\$ 100
Change in unrealized gains (losses) for the year included in earnings for assets held at December 31, 2020	\$ 2	\$ 145	\$ 17	\$ —	\$ (73)	\$ 91

(1) Amount of other comprehensive income for fair value through profit or loss bonds, mortgage loans and investment properties represents the unrealized gains (losses) on foreign exchange.

(2) As a result of the sale of Irish Progressive Services International Limited (IPSI), a property with a fair value of \$28 was reclassified from owner occupied properties to investment properties. The reclassification resulted in the recognition of revaluation surplus on the transfer to investment properties of \$11 and income tax expense of \$(1) in the Consolidated Statements of Comprehensive Income.

(3) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies or the placement of redemption restrictions on investments in mutual and segregated funds. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual and segregated funds.

(4) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

On March 20, 2020, Canada Life temporarily suspended contributions to and transfers into, as well as redemptions and transfers out of, its Canadian real estate investment funds as 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 a result of these restrictions, the Company's investment in these funds with a fair value of \$357 was transferred on March 20, 2020 from Level 1 to Level 3.

On January 11, 2021, Canada Life lifted the temporary suspension on contributions to and transfers into its Canadian real estate investment funds, and on April 19, 2021, the temporary suspension on redemptions and transfers out was fully lifted, as confidence over the valuation of the underlying properties returned as a result of increased market activity. As a result of the lifting of these temporary suspensions, the Company's investment in these funds with a fair value of \$457 was transferred on April 19, 2021 from Level 3 to Level 1.

7. Fair Value Measurement (cont'd)

The following sets out information about significant unobservable inputs used at period-end in measuring assets categorized as Level 3 in the fair value hierarchy:

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 3.4% - 12.6%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 3.5% - 7.0%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 2.6%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage loans - equity release mortgages (fair value through profit or loss)	The valuation approach for equity release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long term care of the loanholders.	Discount rate	Range of 3.5% - 4.6%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

8. Insurance and Investment Contract Liabilities

	September 30, 2021		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 144,742	\$ 7,569	\$ 137,173
Investment contract liabilities	1,627	114	1,513
Total	\$ 146,369	\$ 7,683	\$ 138,686
	December 31, 2020		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 144,333	\$ 8,794	\$ 135,539
Investment contract liabilities	1,671	130	1,541
Total	\$ 146,004	\$ 8,924	\$ 137,080

9. Segregated Funds

The following presents details of the investments, determined in accordance with the relevant statutory reporting requirements of each region of the Company's operations, on account of segregated fund policyholders:

(a) Investments on account of segregated fund policyholders

	September 30 2021	December 31 2020
Cash and cash equivalents	\$ 11,796	\$ 15,352
Bonds	34,326	34,396
Mortgage loans	2,497	2,686
Stocks and units in unit trusts	125,733	112,652
Mutual funds	42,151	39,181
Investment properties	12,551	12,430
	<u>229,054</u>	<u>216,697</u>
Accrued income	315	314
Other liabilities	(3,409)	(2,451)
Non-controlling mutual funds interest	3,093	1,490
Total	<u><u>\$ 229,053</u></u>	<u><u>\$ 216,050</u></u>

(b) Investment and insurance contracts on account of segregated fund policyholders

	For the nine months ended September 30	
	2021	2020
Balance, beginning of year	\$ 216,050	\$ 199,589
Additions (deductions):		
Policyholder deposits	17,436	14,653
Net investment income	522	782
Net realized capital gains on investments	7,495	3,927
Net unrealized capital gains (losses) on investments	7,239	(7,273)
Unrealized gains (losses) due to changes in foreign exchange rates	(5,328)	4,955
Policyholder withdrawals	(15,969)	(12,874)
Change in General Fund investment in Segregated Fund	(15)	235
Net transfer from General Fund	20	1
Non-controlling mutual funds interest	1,603	(140)
Total	<u>13,003</u>	<u>4,266</u>
Balance, end of period	<u><u>\$ 229,053</u></u>	<u><u>\$ 203,855</u></u>

9. Segregated Funds (cont'd)

(c) Investments on account of segregated fund policyholders by fair value hierarchy level (note 7)

	September 30, 2021			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 148,573	\$ 69,785	\$ 13,576	\$ 231,934

⁽¹⁾ Excludes other liabilities, net of other assets, of \$2,881.

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 137,712	\$ 67,058	\$ 13,556	\$ 218,326

⁽¹⁾ Excludes other liabilities, net of other assets, of \$2,276.

During the first nine months of 2021, certain foreign stock holdings valued at \$504 have been transferred from Level 1 to Level 2 (\$3,190 were transferred from Level 1 to Level 2 at December 31, 2020) primarily based on the Company's change in use of inputs in addition to quoted prices in active markets for certain foreign stock holdings. Level 2 assets include those assets where fair value is not available from normal market pricing sources, where inputs are utilized in addition to quoted prices in active markets and where the Company does not have access to the underlying asset details within an investment fund.

The following presents additional information about the Company's investments on account of segregated fund policyholders for which the Company has utilized Level 3 inputs to determine fair value:

	September 30 2021	December 31 2020
Balance, beginning of year	\$ 13,556	\$ 13,988
Total gains included in segregated fund investment income	206	78
Purchases	276	167
Sales	(462)	(712)
Transfers into Level 3	—	35
Transfers out of Level 3	—	—
Balance, end of period	\$ 13,576	\$ 13,556

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

10. Share Capital

	For the nine months ended September 30			
	2021		2020	
	Number	Carrying value	Number	Carrying value
Classified as liabilities:				
Preferred shares				
Class A, Series 6, 6.25% Cumulative First Preferred Shares	40,000,000	\$ 1,000	40,000,000	\$ 1,000
Classified as equity:				
Preferred shares				
Class A, Series 1, Non-Cumulative	18,000	\$ —	18,000	\$ —
Common shares				
Balance, beginning of year	2,407,384	\$ 7,884	2,407,385	\$ 8,884
Common shares converted to preferred share liability	—	—	—	(1,000)
Common shares donated by parent and cancelled	—	—	(1)	—
Balance, end of period	2,407,384	\$ 7,884	2,407,384	\$ 7,884

11. Capital Management

(a) Policies and Objectives

Managing capital is the continual process of establishing and maintaining the quantity and quality of capital appropriate for the Company and ensuring capital is deployed in a manner consistent with the expectations of the Company's stakeholders. For these purposes, the Board considers the key stakeholders to be the Company's shareholders, policyholders and holders of subordinated liabilities in addition to the relevant regulators in the various jurisdictions where the Company and its subsidiaries operate.

The Company manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of the Company's capital management strategy are:

- 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;
- to maintain strong credit and financial strength ratings of the Company ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholders' value in the context of the Company's operational risks and strategic plans.

The capital planning process is the responsibility of the Company's Chief Financial Officer. The capital plan is approved by the Company's Board of Directors on an annual basis. The Board of Directors reviews and approves all capital transactions undertaken by management.

The target level of capitalization for the Company and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to the Company, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of the Company with a high degree of confidence.

11. Capital Management (cont'd)

(b) Regulatory Capital

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries.

The Life Insurance Capital Adequacy Test (LICAT) Ratio compares the regulatory capital resources of a company to its required capital, defined by OSFI, as the aggregate of all defined capital requirements. The total capital resources are provided by the sum of Available Capital, Surplus Allowance and Eligible Deposits.

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

	September 30	December 31
	2021	2020
Tier 1 Capital	\$ 12,578	\$ 11,593
Tier 2 Capital	4,224	4,568
Total Available Capital	16,802	16,161
Surplus Allowance & Eligible Deposits	13,409	14,226
Total Capital Resources	\$ 30,211	\$ 30,387
Required Capital	\$ 24,520	\$ 23,607
Total LICAT Ratio (OSFI Supervisory Target = 100%)⁽¹⁾	123 %	129 %

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

Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions.

12. Pension Plans and Other Post-Employment Benefits

The total pension plans and other post-employment benefits expense included in operating expenses and other comprehensive income are as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
Pension plans				
Service costs	\$ 45	\$ 43	\$ 133	\$ 128
Net interest costs	4	3	12	13
Curtailments	(1)	(9)	(1)	(10)
Settlements	(57)	—	(57)	—
	(9)	37	87	131
Other post-employment benefits				
Net interest costs	3	3	7	8
Pension plans and other post-employment benefits (income) expense - Consolidated Statements of Earnings	(6)	40	94	139
Pension plans - re-measurements (gain) loss				
Actuarial (gain) loss	12	160	(451)	348
Return on assets (greater) less than assumed	(59)	(97)	(176)	(84)
Change in the asset ceiling	2	(26)	13	(10)
Pension plans re-measurement (gain) loss	(45)	37	(614)	254
Other post-employment benefits - re-measurements				
Actuarial (gain) loss	(8)	4	(35)	20
Pension plans and other post-employment benefits re-measurements - other comprehensive (income) loss	(53)	41	(649)	274
Total pension plans and other post- employment benefits (income) expense including re-measurements	\$ (59)	\$ 81	\$ (555)	\$ 413

The following sets out the weighted average discount rate used to re-measure the defined benefit obligation for pension plans and other post-employment benefits at the following dates:

	September 30		December 31	
	2021	2020	2020	2019
Weighted average discount rate	2.8 %	2.3 %	2.1 %	2.6 %

13. Income Taxes

(a) Income Tax Expense

Income tax expense (recovery) consists of the following:

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
Current income taxes	\$ 114	\$ 71	\$ 91	\$ 124
Deferred income taxes	(5)	(84)	176	(86)
Total income tax expense (recovery)	\$ 109	\$ (13)	\$ 267	\$ 38

(b) Effective Income Tax Rate

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

The overall effective income tax rate for the three months ended September 30, 2021 was 10.4% compared to negative 1.6% for the three months ended September 30, 2020. The effective income tax rate for the three months ended September 30, 2021 was higher than the effective income tax rate for the three months ended September 30, 2020 primarily due to changes in certain tax estimates as well as a non-taxable gain on the disposal of the shares of IPSI during the third quarter of 2020.

The overall effective income tax rate for the nine months ended September 30, 2021 was 9.8% compared to 1.8% for the nine months ended September 30, 2020. The effective income tax rate for the nine months ended September 30, 2021 was higher than the effective income tax rate for the nine months ended September 30, 2020 primarily due to the same reasons discussed for the in-quarter overall effective income tax rate results.

The effective income tax rate for the shareholder account for the three months ended September 30, 2021 was 8.9% compared to 1.5% for the three months ended September 30, 2020.

The effective income tax rate for the shareholder account for the nine months ended September 30, 2021 was 11.1% compared to 3.2% for the nine months ended September 30, 2020.

14. Segmented Information

Consolidated Net Earnings

For the three months ended September 30, 2021

	Shareholder				Participating		
	Canada	Europe	Capital and Risk Solutions	Corporate	Total	Total	Total Company
Income							
Total net premiums	\$ 2,107	\$ 1,941	\$ 8,540	\$ 928	\$ 13,516	\$ 1,210	\$ 14,726
Net investment income							
Regular net investment income	291	326	51	2	670	434	1,104
Changes in fair value through profit or loss	(325)	(210)	(72)	1	(606)	(7)	(613)
Total net investment income (loss)	(34)	116	(21)	3	64	427	491
Fee and other income	494	352	2	14	862	—	862
	2,567	2,409	8,521	945	14,442	1,637	16,079
Benefits and expenses							
Paid or credited to policyholders	1,459	1,611	8,351	930	12,351	1,281	13,632
Other ⁽¹⁾	692	359	50	12	1,113	219	1,332
Financing charges	—	—	2	25	27	—	27
Amortization of finite life intangible assets	16	14	—	6	36	3	39
Earnings (loss) before income taxes	400	425	118	(28)	915	134	1,049
Income taxes	97	42	(9)	(49)	81	28	109
Net earnings before non-controlling interests	303	383	127	21	834	106	940
Non-controlling interests	—	—	—	—	—	—	—
Net earnings	303	383	127	21	834	106	940
Net earnings - participating policyholder	—	—	—	—	—	106	106
Net earnings - common shareholder	\$ 303	\$ 383	\$ 127	\$ 21	\$ 834	\$ —	\$ 834

⁽¹⁾ Includes commissions, operating and administrative expenses, and premium taxes.

14. Segmented Information (cont'd)

For the three months ended September 30, 2020

	Shareholder				Participating		Total Company
	Canada	Europe	Capital and Risk Solutions	Corporate	Total	Total	
Income							
Total net premiums	\$ 2,072	\$ 534	\$ 4,470	\$ 152	\$ 7,228	\$ 1,177	\$ 8,405
Net investment income							
Regular net investment income	288	389	67	14	758	441	1,199
Changes in fair value through profit or loss	96	103	55	6	260	403	663
Total net investment income	384	492	122	20	1,018	844	1,862
Fee and other income	430	342	3	14	789	—	789
	<u>2,886</u>	<u>1,368</u>	<u>4,595</u>	<u>186</u>	<u>9,035</u>	<u>2,021</u>	<u>11,056</u>
Benefits and expenses							
Paid or credited to policyholders	1,944	594	4,378	155	7,071	1,816	8,887
Other ⁽¹⁾	625	399	53	19	1,096	205	1,301
Financing charges	—	—	2	26	28	—	28
Amortization of finite life intangible assets	17	13	—	5	35	3	38
Earnings (loss) before income taxes	300	362	162	(19)	805	(3)	802
Income taxes	45	14	(6)	(41)	12	(25)	(13)
	<u>255</u>	<u>348</u>	<u>168</u>	<u>22</u>	<u>793</u>	<u>22</u>	<u>815</u>
Net earnings before non-controlling interests	255	348	168	22	793	22	815
Non-controlling interests	—	1	—	—	1	—	1
Net earnings	255	347	168	22	792	22	814
Net earnings - participating policyholder	—	—	—	—	—	22	22
Net earnings - common shareholder	<u>\$ 255</u>	<u>\$ 347</u>	<u>\$ 168</u>	<u>\$ 22</u>	<u>\$ 792</u>	<u>\$ —</u>	<u>\$ 792</u>

⁽¹⁾ Includes commissions, operating and administrative expenses, and premium taxes.

14. Segmented Information (cont'd)

For the nine months ended September 30, 2021

	Shareholder				Participating		Total Company
	Canada	Europe	Capital and Risk Solutions	Corporate	Total	Total	
Income							
Total net premiums	\$ 6,239	\$ 3,819	\$ 22,239	\$ 2,568	\$ 34,865	\$ 3,598	\$ 38,463
Net investment income							
Regular net investment income	897	982	162	36	2,077	1,261	3,338
Changes in fair value through profit or loss	(1,669)	(1,598)	(287)	8	(3,546)	541	(3,005)
Total net investment income (loss)	(772)	(616)	(125)	44	(1,469)	1,802	333
Fee and other income	1,424	1,051	6	46	2,527	—	2,527
	6,891	4,254	22,120	2,658	35,923	5,400	41,323
Benefits and expenses							
Paid or credited to policyholders	3,668	2,017	21,526	2,573	29,784	4,387	34,171
Other ⁽¹⁾	2,053	1,249	153	86	3,541	677	4,218
Financing charges	—	—	6	76	82	—	82
Amortization of finite life intangible assets	54	41	—	15	110	9	119
Earnings (loss) before income taxes	1,116	947	435	(92)	2,406	327	2,733
Income taxes	182	141	(4)	(53)	266	1	267
Net earnings (loss) before non-controlling interests	934	806	439	(39)	2,140	326	2,466
Non-controlling interests	—	2	—	—	2	—	2
Net earnings (loss)	934	804	439	(39)	2,138	326	2,464
Net earnings - participating policyholder	—	—	—	—	—	326	326
Net earnings (loss) - common shareholder	\$ 934	\$ 804	\$ 439	\$ (39)	\$ 2,138	\$ —	\$ 2,138

⁽¹⁾ Includes commissions, operating and administrative expenses, and premium taxes.

14. Segmented Information (cont'd)

For the nine months ended September 30, 2020

	Shareholder				Participating		Total Company
	Canada	Europe	Capital and Risk Solutions	Corporate	Total	Total	
Income							
Total net premiums	\$ 6,120	\$ 2,253	\$ 13,993	\$ 1,166	\$ 23,532	\$ 3,497	\$ 27,029
Net investment income							
Regular net investment income	923	1,037	208	46	2,214	1,279	3,493
Changes in fair value through profit or loss	1,172	1,092	239	29	2,532	478	3,010
Total net investment income	2,095	2,129	447	75	4,746	1,757	6,503
Fee and other income	1,251	1,015	8	44	2,318	—	2,318
	9,466	5,397	14,448	1,285	30,596	5,254	35,850
Benefits and expenses							
Paid or credited to policyholders	6,583	3,359	13,833	1,175	24,950	4,564	29,514
Other ⁽¹⁾	1,900	1,252	146	55	3,353	646	3,999
Financing charges	—	—	8	76	84	—	84
Amortization of finite life intangible assets	53	37	—	14	104	8	112
Earnings (loss) before income taxes	930	749	461	(35)	2,105	36	2,141
Income taxes	121	(7)	4	(50)	68	(30)	38
Net earnings before non-controlling interests	809	756	457	15	2,037	66	2,103
Non-controlling interests	—	2	—	—	2	—	2
Net earnings	809	754	457	15	2,035	66	2,101
Net earnings - participating policyholder	—	—	—	—	—	66	66
Net earnings - common shareholder	\$ 809	\$ 754	\$ 457	\$ 15	\$ 2,035	\$ —	\$ 2,035

⁽¹⁾ Includes commissions, operating and administrative expenses, and premium taxes.



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100 Osborne Street North
Winnipeg Manitoba Canada R3C 1V3

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