July 19, 2019

Report of the Independent Actuary
On The
Proposed Amalgamation
Of
The Great-West Life Assurance Company,
London Life Insurance Company,
The Canada Life Assurance Company,
Canada Life Financial Corporation and
London Insurance Group Inc.

Prepared By:

PAUL DELLA PENNA
FELLOW OF THE CANADIAN INSTITUTE OF ACTUARIES

Table of Contents

1 OPINION AND QUALIFICATIONS OF AUTHOR

1.1 OPINION

London Life Insurance Company (“LLIC”) and The Canada Life Assurance Company (“Canada Life”) are wholly owned subsidiaries of The Great-West Life Assurance Company (“GWL”) – through London Insurance Group Inc., in the case of LLIC and through Canada Life Financial Corporation, in the case of Canada Life. These five companies seek to amalgamate with the approval of the Minister of Finance (Canada) pursuant to section 245 of the Insurance Companies Act (Canada). The amalgamation is to be made by a written amalgamation agreement (“Agreement”) among the five companies. This transaction is planned to take effect on January 1, 2020 and is to be carried out pursuant to the terms of sections 245 through 251 of the Insurance Companies Act (Canada). A report of an independent actuary (“IA”) is required pursuant to section 247(2) of that Act when an amalgamation of insurance companies is contemplated. By letter of engagement dated May 8, 2018, I was engaged to act as IA.

In my investigation, I have followed the standards of the Canadian Institute of Actuaries. I have also complied with the terms of OSFI Guideline E-14 relating to the work of the Independent Actuary, most recently updated in January 2010.

I considered the effect of the proposed transaction on the policyholders of GWL, LLIC and Canada Life, as it relates to:

- their current and future rights (including voting rights), security, interests and benefits;
- their reasonable benefit, cost and dividend expectations;
- the operating rules relating to closed blocks of participating policies and related policyholders’ benefits and expectations; and
- continuing service to all policyholders.

I also considered the tax consequences of the transaction on the policyholders.

Upon investigation based on the information provided, I am of the opinion that the proposed transaction is fair to all policyholders concerned in that, as Guideline E-14 stipulates:

- policyholders’ rights (including voting rights) and interests will be protected by the transaction, recognizing that a policyholder with a vote in more than one of the amalgamating companies will have only one vote in the amalgamated company;
- based on the current financial condition of the transacting companies and the projected condition of the amalgamated company, the security of benefits for all policyholders in the amalgamating companies will remain satisfactory after implementation of the transaction;
- the reasonable service expectations, and the reasonable dividend and other benefit expectations, of participating policyholders are not diminished by the

transaction, including the merger of the open participating accounts of the three amalgamating insurers;

- the reasonable benefit and service expectations of policyholders with non-fully guaranteed policies, are not diminished by the transaction; and
- the benefit and service expectations of non-participating policyholders with fully guaranteed policies will be preserved.

P Della Penna

Paul F. Della Penna, FCIA

July 19, 2019

1.2 QUALIFICATIONS OF THE AUTHOR

I am a Fellow of the Canadian Institute of Actuaries (FCIA) with over 35 years' experience in the life insurance industry as either an officer or a consultant. I am also a Fellow of the Society of Actuaries (FSA) and a Member of the American Academy of Actuaries (MAAA). On several occasions, I have performed work regarding corporate transactions at the request of the vendor or the purchaser. I have also been engaged in external review of actuarial work and have served as independent actuary in other matters like the one described herein. My consulting experience includes assignments involving insurance other than life insurance as well as other areas of actuarial practice.

I have been in solo practice since 2006. I have neither direct nor indirect interest in any of the corporations who are parties to the Agreement or in any other company in the Power Corporation family of companies. In the past five years, I have not done any other work for any Great-West company. I declare that I have carried out my work objectively, in accordance with generally accepted actuarial practice and without regard for potential gain other than compensation for the work undertaken, which is not contingent on whether this transaction proceeds or not.

1.3 RELIANCES AND LIMITATIONS

In the course of my work, I was provided with the documents listed in Appendix 3 and was given ready access to the Appointed Actuary of each of the three insurance companies who are parties to the Agreement (who is the same individual) and to other Great-West[1] officers and staff who were in possession of relevant information. In carrying out my investigation, I relied upon the information so provided and did not independently verify that information.

My investigation of the proposed transaction was limited to a consideration of its effects on policyholders. Nothing in this report should be regarded as providing an opinion on the effectiveness of the proposed transaction for any purpose. Nothing in this report should be construed as the giving of investment advice.

If there is any material change in circumstance or information between the time this report was prepared and the closing date of the Agreement, it is possible that I would need to update this report to reflect that change and my conclusions might be different.

Without my prior written consent, neither my report nor any extract from it may be published, distributed or transmitted in any way to a party not listed below.

1.4 INTENDED USERS

The intended users of this report are:

- The policyholders and shareholders of the parties to the Agreement;
- The management and boards of directors of the parties to the Agreement;
- The Office of the Superintendent of Financial Institutions and the Minister of Finance (Canada); and
- Any of the staff and professional advisors of the above.

I understand that a summary version of this report will be included in the information package sent to policyholders and shareholders as part of the legal process for the approval of the proposed transaction.

[1] In this report, the name "Great-West" is intended to refer to Great-West Lifeco Inc and its subsidiaries.

2 BACKGROUND

2.1 GENERAL CORPORATE INFORMATION

As indicated in the attached organization chart (Appendix 1), the five companies who propose to amalgamate are Canadian companies that are all direct or indirect wholly owned subsidiaries of Great-West Lifeco Inc, itself controlled by Power Financial Corporation, a well-known Canadian multinational diversified management and holding company.

Each of the life insurance companies who are parties to the proposed amalgamation agreement has branches in some foreign countries. The affairs of these branches have been included in my investigation. Each also has numerous subsidiaries – some with branches. None of these has been included in my investigation since the operations of these subsidiaries and their branches are not affected by the proposed amalgamation: they remain a part of Great-West; only their legal entity owner will change.

2.2 RATINGS, CAPITAL RATIOS AND PRO FORMA BALANCE SHEETS

Current agency ratings for Great-West Lifeco and its insurance subsidiaries taken from the company website are provided in Table 1.[2] These are strong ratings and among the strongest in the Canadian industry. It is reasonable to think that the amalgamated company ("Amalco") will have ratings that are as strong as those of GWL since the same management teams and structures will remain in place and since its financial statements are already consolidated, incorporating the results of LLIC and Canada Life.

Table 1 - Current Ratings

Rating Agency		Measurement			
		Great-West Lifeco	GWL	LLIC	Canada Life
A.M. Best Company	Financial Strength		A+	A+	A+
	Issuer Rating	a	aa		
DBRS Limited	Issuer Rating	A (high)			
	Financial Strength		AA	AA	AA
	Senior Debt	A (high)			
	Subordinated Debt				AA (low)
Fitch Ratings	Insurer Financial Strength		AA	AA	AA
	Senior Debt	A			
	Subordinated Debt				A+
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3
Standard & Poor's Ratings Services	Issuer Rating	A+			
	Insurer Financial Strength		AA	AA	AA
	Senior Debt	A+			
	Subordinated Debt				AA-

An important test of the financial strength of a life insurer is the ratio of the company's total available capital to the capital required by the Office of the Superintendent of Financial Institutions (OSFI) pursuant to the relevant capital guidelines.[3] Until the end of 2017, those were the Minimum Continuing Capital and Surplus Requirements (MCCSR) guidelines. Since then, the Life Insurance Capital Adequacy Test (LICAT) guidelines have applied. Historical

[2] The ratings shown in Table 1 are up to date as at May 23, 2019.

[3] The ratio of total available capital to required capital is referred to as the total capital ratio. Unless otherwise specified, wherever the term "capital ratio" appears in this report it refers to the total capital ratio.

December 31 MCCSR ratios, along with 2018Q3 LICAT ratios, are provided in Table 2 for GWL, LLIC and Canada Life as well as the results for all Canadian life insurance companies combined.[4]

Table 2 - Capital Ratios[5]				
	MCCSR			**LICAT**
	2015	2016	2017	2018Q4
GWL	238%	240%	241%	140%
LLIC	226%	217%	225%	134%
Canada Life	260%	275%	284%	143%
Canadian insurers	231%	233%	230%	139%

A MCCSR ratio of 200% or more was well in excess of OSFI's supervisory target of 150%. The corresponding supervisory target LICAT ratio is 100% and most companies are expected to target higher than that.

The ratios in Table 2 indicate that GWL, LLIC and Canada Life have each maintained strong capital positions over the years. In the three years prior to 2018, the MCCSR capital ratios of GWL and Canada Life have exceeded the average among domestic life insurers and have also been well above the supervisory target. LLIC's capital ratios have also been well above the supervisory target even if they have been a bit below the industry average among domestic life insurers. While GWL's 2018Q4 LICAT ratio does not compare as favourably to industry as its MCCSR ratio did in prior years, it is still strong. Furthermore, according to the latest report of the Appointed Actuary on Dynamic Capital Adequacy Testing, GWL's LICAT ratio is forecast to remain at 133% or greater for the next few years, although a share buyback announced in March 2019 is expected to immediately reduce that ratio by a few percentage points, consistent with an expected reduction of seven percentage points immediately following the share buyback.[6]

As can be seen from the figures presented in Appendix 2 had the amalgamation taken place at the end of 2018, the pro forma balance sheets prepared as at that date and the resulting total LICAT capital ratios confirm that the financial position of Amalco at that time would have been the same as that of GWL immediately prior to the amalgamation. Since GWL financial statements and capital returns are already presented on a consolidated basis, there is no reason to believe that the Amalco results will differ materially from those of GWL whenever the proposed amalgamation were to take place. Subsequently, Amalco ratios will depend upon future events, as would those of GWL on a consolidated basis absent the proposed amalgamation.

[4] Canada Life and LLIC are consolidated in the GWL results. Consolidated GWL assets are nearly 25% of the total for all Canadian companies.

[5] Figures taken from Financial Data for Canadian life insurers found on the OSFI website.

[6] Source: Appointed Actuary's July 2018 report on Dynamic Capital Adequacy Testing. See further discussion in section 5 of this report.

3 THE PROPOSED TRANSACTION

3.1 WHOLLY-OWNED SUBSIDIARIES

London Insurance Group Inc., LLIC, Canada Life Financial Corporation and Canada Life are all wholly-owned subsidiaries of GWL so that the consolidated financial results of GWL already fully reflect the financial results of these other companies. As shown in the pro forma balance sheets in Appendix 2, there would be no immediate material change in these results upon amalgamation.

3.2 REASONS FOR THE AMALGAMATION

The proposed transaction is intended to simplify Great-West's operations in Canada especially with the adoption of a single brand for its Canadian operations. By combining these operations, it is expected that Great-West will realize cost savings from the elimination of various duplicate infrastructures, processes, reports, statements and filings required under the Insurance Companies Act, provincial insurance legislation, the Income Tax Act and other provincial and federal regulations. Insofar as multiple branches in foreign countries are concerned, the same is true of foreign legislation and regulations.

The simplification will also facilitate capital management since the current structure requires active management of capital movements within and between five companies, necessitating ongoing management analysis as well as review and approval by the boards of directors. Amalgamating these companies eliminates these requirements for all but one company.

In short, the proposed transaction is expected to produce materially simpler management for capital and to reduce expenses at the Great-West consolidated level. Great-West expects the upfront cost of the proposed amalgamation to be $13 million and the savings to be $19 million per year starting in 2021. Using the expense allocation methodology that would be the same post-amalgamation as pre-amalgamation, the actual cost and savings will be allocated as appropriate to the participating and shareholder accounts. The amounts so allocated would not have a material effect on policyholder dividends.[7]

3.3 AMALGAMATION AGREEMENT

I reviewed the draft of the Amalgamation Agreement that was provided to me in May 2019[8] and that was also sent to OSFI with the application for approval of the proposed transaction, which is proposed to take effect January 1, 2020. The Amalgamation Agreement provides that GWL, LLIC, The Canada Life Assurance Company, London Insurance Group Inc. and Canada Life Financial Corporation agree to amalgamate, subject to the approval of their shareholders and in the case of GWL, LLIC and Canada Life, their policyholders entitled to vote. The amalgamation is also subject to regulatory approval. The effect of the amalgamation is that all the assets and liabilities of each of the five companies become the assets and liabilities of the amalgamated entity, except for those assets and liabilities that result from agreements that are internal among the five companies, which are offsetting and disappear upon amalgamation. In addition, the open par accounts of GWL, LLIC and Canada

[7] To put the amounts in perspective, the policyholder dividends paid by Great-West exceeded $1.3 billion in 2017 and 2018.

[8] The draft is dated May 17, 2019.

Life will be merged.[9] As a result, all policyholders would retain with the amalgamated company (Amalco) the same contractual rights that they have with their respective amalgamating companies. Moreover as the Agreement provides, voting policyholders of the amalgamating companies would continue to have the same voting rights with Amalco as they had with their respective amalgamating companies but allowing for the fact that the companies will have amalgamated For example, a policyholder with a single vote in LLIC would have a single vote in Amalco while a policyholder with a vote in LLIC and a vote in Canada Life would have a single vote in Amalco.

The draft amalgamation agreement also provides for a restructuring of capital in Amalco, which is a matter that I deal with in section 5.2.2.

The business and risk profiles (products, customers, distribution channel) of the three amalgamating insurers are distinct, in Canada as well as in their foreign branches. In amalgamating them, policyholders of one entity become exposed to new and different risks present in the other entities. So while the amalgamation would mean that the policyholders of each amalgamating insurer would be exposed to new risks in Amalco, at the same time they would benefit from being part of a larger insurer with greater diversification of risk. To the extent that the proposed amalgamation affects policyholder benefits and other matters within the scope of my investigation as delineated in Section 1 above, it is discussed in Section 5 of this report.

3.4 CORRESPONDENCE BETWEEN THE COMPANIES AND REGULATORS

I have been provided with copies of the OSFI annual supervisory letters to Great-West for 2017 and 2018. Their contents raise no concern with me about the effects on the policyholders of the proposed amalgamation. The Company also assured me that there has been no correspondence with either OSFI or any non-Canadian regulator that would suggest that there would be any opposition to the amalgamation as it is being proposed.

[9] See section 5.4.1.1.2.1 for a description of the structure of the existing participating funds.

4 FINANCIAL EFFECTS OF THE AGREEMENT

GWL already reports its financial position and results and its regulatory capital position on a consolidated basis, therefore including those of London Insurance Group Inc., LLIC, Canada Life Financial Corporation and Canada Life. As one would expect and as the pro forma balance sheets shown in Appendix 2 confirm, there is no immediate change in these already consolidated figures when the legal amalgamation of these companies is taken into account.

The pro forma balance sheets shown in Appendix 2 were prepared as of the end of 2018. That is, the results of the transaction are shown as if it had taken place at the end of 2018. Since the proposed transaction is not expected to take effect until the beginning of 2020, the financial position of the amalgamated entity and each of its antecedents will be different at that time. But barring significant changes between the end of 2018 and the beginning of 2020 in the economic and business environment or in the Appointed Actuary's approach to the valuation of the policy liabilities for other reasons, I would not expect these differences to change my conclusions.

5 EFFECTS ON THE POLICYHOLDERS

Each of the three life insurance companies party to the proposed amalgamation agreement has both participating and non-participating policyholders. Unless the context requires otherwise, the observations that follow relate to the policyholders of all three companies.

5.1 VOTING AND CONTRACTUAL RIGHTS

Most voting policyholders have participating policies but voting rights also attach to some non-participating policies. The consequences of the proposed amalgamation for all voting policyholders are considered in this section while the consequences for participating and non-participating policyholders are considered separately in section 5.4.

The legal effect of the amalgamation is that all policyholders would retain the same contractual rights in Amalco as they had before the amalgamation. And the proposed amalgamation agreement confirms that all policyholders with voting rights in the existing entities would retain the same voting rights in Amalco but allowing for the fact that the companies will have amalgamated. For example, a policyholder with a single vote in LLIC would have a single vote in Amalco while a policyholder with a vote in LLIC and a vote in Canada Life would have a single vote in Amalco.

Some might be concerned that a dilution of voting rights would result since there will be more voting policyholders in Amalco than in any of the amalgamating insurers. The voting rights provide the policyholder with a vote at the annual meeting and the right to propose agenda items for that meeting; to vote at any meeting called for a special purpose or to request such a meeting; and to vote on the appointment of policyholder directors. In all such circumstances where the policyholder has a vote, the policyholder receives an opportunity to vote in favour of a proposal made by company management, to vote against the proposal or to abstain. In each of the amalgamating insurers, there are many policyholders with the same rights. The fact that there will be more of them in Amalco is, in my opinion, of no consequence but the following table provides information that some might find useful:

Total Eligible Voting Policyholders per Life Company as at June 10, 2019

Company	Total # of Voting Policies	Total # of Voting Policyholders
Canada Life	315,144	250,687
GWL	113,081	88,600
LLIC	1,318,124	875,676
Total (Amalco)	**1,746,349**	**1,214,963**

5.2 SECURITY OF BENEFITS

There is no guarantee that any company will remain in existence indefinitely and be able to meet all its obligations under the insurance and other contracts that it has issued to policyholders. There is also no single measure that could provide such a guarantee but each of the following factors may be considered relevant to the financial security of policyholders.

5.2.1 RATINGS

As is apparent from the information provided in Table 1, found in section 2.2 of this report, several different agencies have assigned high ratings to the financial strength and creditworthiness of GWL, LLIC and Canada Life. These agencies arrive at their ratings for a particular institution on the basis of financial factors and after an assessment of the risks that the institution faces in the markets in which it operates given the nature of its products and the quality and structure of its management. I would expect the Amalco ratings to be no less strong than the GWL ratings: financial results are already consolidated and the management of the amalgamated company will remain in the hands of the same teams operating within the same management structure that is already in place.

5.2.2 REGULATORY CAPITAL STANDARDS

The capital ratios shown in Table 2, also in section 2.2, confirm the financial solidity of these companies and because these are already consolidated in the GWL capital ratio, I would not expect the proposed amalgamation to result in any material difference between the Amalco ratios and the consolidated ratios that would prevail should the proposed amalgamation not go through. That this would be true at the instant of the amalgamation is confirmed in Appendix 2. Furthermore, the projected capital ratios for the amalgamated entity that are discussed in section 5.2.5 indicate that there should be no concern about its financial strength.

Great-West proposes to apply to OSFI for approval of a change in its capital structure and this is provided for in the draft amalgamation agreement. The proposal is to convert some of the common shareholder equity in GWL to preferred shares in Amalco that Amalco would be obliged to redeem after 25 years that would be reported as liabilities but are includable as Tier 2 (i.e., non-core) available capital in the LICAT Guideline and not in Tier 1 (i.e., core) capital. There would be no change in the LICAT total capital ratio at the effective date but there would be a reduction in its core capital ratio.[10]

The only concern I might have about this proposal is that the amount that is includable as available Tier 2 capital under the LICAT Guideline is limited to the amount of Tier 1 capital so that if the margin between the amount of Tier 1 capital and the amount of Tier 2 capital that is includable as available capital turns negative, the amount of includable Tier 2 capital would be reduced accordingly and that would reduce the total LICAT ratio.

[10] As mentioned in section 2.2, the OSFI supervisory target for the total capital ratio is 100%. Its supervisory target for the core capital ratio is 70%. At December 31,2018 GWL's core capital ratio was 104%. The capital restructuring would reduce the core capital ratio to 98% at that date, still well above OSFI's supervisory target. In simple terms, core capital consists of common shares, contributed surplus, par account surplus, retained earnings and accumulated other comprehensive income (AOCI). The preferred shares that would be issued in the contemplated capital restructuring would qualify as available capital but not as core capital.

However as of the effective date of the proposed amalgamation, there would still be a comfortable margin between the amount of Tier 1 and Tier 2 capital should the proposed capital restructuring take place. Subsequently if experience were sufficiently adverse that the entire margin were to be depleted (through a reduction in retained earnings, AOCI or par account surplus), Amalco's total LICAT ratio would fall to 105%. But Great-West's capital management policy provides that should the total LICAT ratio fall below the low end of its internal target range (110%), or is at some point anticipated to fall below that level within the two succeeding years, the Chief Actuary is to notify the Board and propose corrective action that management is to take to ensure that the 110% LICAT ratio is restored or maintained in an appropriate time frame. With this mechanism in place, I am satisfied that there is no material risk that the available capital, and therefore Amalco's total capital position, would be diminished in a material way as a result of the proposed capital restructuring.

5.2.3 Reinsurance Ceded

Reinsurance also has a bearing on policyholder security. The amalgamating insurance companies each have several reinsurance treaties in place. Many of these treaties provide Great-West with recapture rights. A recommendation has been made internally to increase the Board-approved retention limit for life insurance from $30 million to $40 million per life, should the proposed amalgamation go through. With respect to the existing business, a larger retention would permit the recapture of some risk, where reinsurance treaties permit. The Company has assured me that this would only take place after due analysis relating to each reinsurance treaty, consistent with their historical practice, that recapture up to a certain limit was the best approach. The Company has also assured me that the best approach for any given treaty would be that which is best for the policyholders in the case of participating business, and for the shareholders in the case of non-participating business.

Based on that assurance, if such recapture were to take place I am satisfied that there would be no materially adverse consequences to the policyholders affected.

5.2.4 Valuation of Policy Liabilities

Policy and other contract liabilities that are arrived at largely on the basis of actuarial estimates have an important bearing on the financial statements of an insurer. A single Appointed Actuary's report ("AAR") is prepared annually on the valuation of such liabilities of GWL, LLIC and Canada Life. These reports are not publicly available but the reports prepared for the 2017 year-end and the 2018 year-end valuations was provided to me for my investigation. I was also provided with the Appointed Actuary's 2018 report to the Audit Committee of each of GWL, LLIC and Canada Life (the Audit Committee of each of the amalgamating companies has the same members) that provides, among other things, a summary of the changes in the valuation basis for 2018. As one would expect for a company like GWL and its subsidiaries with operations in several countries and lines of business, the AAR is a long and detailed report. I have consulted it as needed, notably regarding participating policies.

The valuation of the policy liabilities is the ultimate responsibility of the Appointed Actuary. He is supported by a team of actuaries who receive the work of actuaries in different countries and lines of business who value these liabilities under his overall control. The calculations and the results of the valuation are routinely subject to extensive review internally – and also externally, as part of the normal insurance regulatory process. The results are also subject to detailed external audit by teams of professionals with access to all the records of these companies. Furthermore, the actuarial reports are subject to external review in their entirety over a three-year period by a firm of actuaries. Consequently, the likelihood is low of there being serious deficiencies in the results of the valuation.

Moreover, none of the valuation functions are organized by legal entity so that after the proposed amalgamation, the same teams as before would be performing the same valuation functions. As mentioned in section 3.2 of this report, the amalgamation is expected to result in reduced expenses to Great-West. If and when these expense synergies materialize, the valuation assumptions for future expenses will be lowered as appropriate, such action creating earnings that will potentially increase capital and surplus. To the extent that these expenses are allocated between the open participating account and the shareholder account and result in distributable earnings, these expense savings will result in positive but immaterial contributions to both policyholder and shareholder dividends.

There is no reason to expect the proposed amalgamation to affect mortality, morbidity or lapse assumptions or changes in policyholder behaviour. Interest rate scenarios to be tested under Canadian actuarial standards would not be affected. Aggregation at the consolidated company level is already considered in testing the interest rate margin for non-participating policies. For participating policies, I would not expect the amalgamation to result in any immediate changes to the policy liabilities although the anticipated reduction in expenses and greater diversification of investment risk that is possible in a larger fund might eventually result in immaterial dividend increases on participating policies compared with those that they would likely receive should the amalgamation not take place.

Based on these considerations, I do not believe that there should be any concern about the valuation of the policy liabilities or how it might change after the amalgamation.

5.2.5 Dynamic Capital Adequacy Testing Analysis

Dynamic Capital Adequacy Testing (DCAT) is performed annually by the Appointed Actuary to assess an insurer's ability to withstand adverse but plausible experience and conditions that are of low probability. DCAT reports are not publicly available but the reports of the past few years were provided to me for my investigation. As is the case with the Appointed Actuary reports on the valuation of the policy liabilities, these reports are subject to external review over a three-year period by a firm of actuaries.

The GWL LICAT ratio of 134% at 2018Q3 is consistent with the 130% reported for year-end 2017 in the 2018 DCAT report. That report also projects a LICAT ratio that gradually improves to the end of 2022 where conditions unfold in line with the Appointed Actuary's assumptions that are consistent with the insurer's business plan. The Appointed Actuary has tested a number of alternative scenarios involving adverse economic conditions and mortality and slower sales – all of which tend to adversely affect financial results. Strong LICAT ratios persist even under the adverse conditions tested in that DCAT throughout the five-year DCAT forecast period.[11]

I have no concern about policyholder security based on the DCAT report.

5.2.6 Risk Management Practices

In addition to these numerical measures, I have also considered information provided by Great-West that relates to its risk management practices and I am satisfied that this is a business enterprise that has established a comprehensive and rigorous framework to identify, measure, manage, monitor and report on the key risks that Great-West companies face, one that incorporates appropriate processes and controls at every level, including independent review. Ultimate responsibility for risk oversight resides with the Board of Directors.[12] Great-West has confirmed that the risk management framework will not change in substance upon the proposed amalgamation and will continue to be administered by the same officers. I do not have a concern about policyholder security based on Great-West's risk-management practices.

5.2.7 Assuris

When Canadian life insurance companies do find themselves unable to meet their contractual obligations – something that has rarely occurred – Assuris provides (Canadian citizen or resident) policyholders who purchase policies in Canada with protections that compensate for some or all of any shortfall, depending on the amount of a policyholder's benefits.[13] The Assuris limits for various types of products are available on the Assuris website. These limits apply to all similar benefits within a single company. So if an individual had two life insurance policies with the same insurer, the guarantee provided by Assuris would be based on the combined death benefits under the two policies. However as explicitly stated on the Assuris website, where companies amalgamate, the policy benefits that were protected by Assuris at the time of the amalgamation continue to be protected after the amalgamation.[14]

5.2.8 Policyholders of Foreign Branches

GWL, LLIC and Canada Life currently have a total of 13 branches in foreign countries. Of these, nine are expected to remain following the proposed amalgamation. The reduction is due to the merger of the two Barbados branches, the two UK branches and the three U.S. branches. Only the GWL U.S. branch has any group insurance on its books. Neither of the UK branches undertakes insurance or is a regulated insurer. The same is true of the Irish branch. The Barbados branches carry on only reinsurance business. For the policyholders in the other

---

[11] The lowest LICAT ratio forecast under an adverse scenario between 2017 and the end of 2022 was 115% at the end of 2021.

[12] Each of the life insurance companies participating in the proposed amalgamation has the same Board of Directors.

[13] For those who are Canadian citizens or residents at the time of purchasing a policy in Canada, the Assuris protection follows them should they move away from Canada.

[14] But note that this feature is not present in the protection provided by the state guaranty associations in the United States.

branches, the same security considerations apply as to Canadian policyholders with the following differences:

- Branches are typically required to maintain assets in the relevant jurisdiction, which provide security for the performance of the insurer's obligations to policyholders in that jurisdiction;
- Policyholders of foreign branches are not covered by Assuris but similar entities exist in the U.S. It is my understanding that those entities do not provide the same post-amalgamation Assuris protection that is referred to in section 5.2.7. However, I would point out that for the six policyholders with policies in more than one of Great-West's US branches that would lose a portion of their guaranty association protection upon amalgamation, the loss of this protection – which is only relevant in the event of an insurer's failure – is not a matter of concern in view of the strength of each of the amalgamating entities and the expected strength of Amalco, as discussed in the preceding subsections of this section 5.2, all of which apply to branch policyholders as well as to the Canadian domestic policyholders.

I have been provided with the pro forma balance sheet as of September 30, 2018 of the U.S. branch of Amalco in comparison to those of the three existing branches and observe that the surplus is unaffected by the proposed amalgamation. The same is true of the Barbados branches where only reinsurance is written. I would also expect that the accounts of the remaining branches would not be affected by the proposed amalgamation and the Company has assured me that that would be the case.

5.2.9 Conclusion Relating to Policyholder Security

Based on all these considerations, I do not believe that policyholders need have any concern for the security of their benefits as a result of the proposed amalgamation.

5.3 SERVICE

5.3.1 Canadian Policyholders

The proposed amalgamation takes place in the context of ongoing efforts to transform Great-West's Canadian operations. Another key element of this strategy is to move to a single brand to replace the three brands (Great-West Life, London Life and Canada Life) attaching to products currently offered by Great-West.[15] These ongoing transformation efforts involve a rationalization and modernization of its entire Canadian operations that is expected to take place over a period of years. While the amalgamation and these transformation efforts could proceed separately, although not as efficiently, I requested and obtained information about the transformation to assist me in understanding how the proposed amalgamation will affect the benefits and other matters of interest to the policyholders of GWL, LLIC and Canada Life that are within the scope of my investigation as summarized in section 1 of this report.

[15] Great-West intends that while the announcement of the single brand will be made prior to the proposed amalgamation, contracts will continue to be made in the names of GWL, LLIC and Canada Life until the proposed amalgamation takes effect, at which time all new contracts issued by Amalco will be in Amalco's name.

Because the existing structure relevant to products and services is primarily delineated by function and not legal entity, there should be no immediate adverse effect on service: the same teams who are administering the policies before the amalgamation will be administering them afterward.

The transformation strategy is an ambitious one designed to better satisfy the needs of customers and advisors while making greater use of paperless and mobile platforms and at the same time streamlining the legacy admin systems of three large life insurers, each of which has been in business for a great many years. This is a project that will unfold over several years. It would be self-defeating for Great-West to set out to reduce the quality of the service to policyholders in the process and nothing that I have seen in the documents causes me a specific concern about policyholder service. But this is a very large enterprise with a large number of diverse products purchased from these three insurers and predecessor companies by individuals and groups in a variety of different circumstances over a long period of time. And no one can predict exactly how these transformation efforts will unfold and affect any one of them. However, it is Great-West's intention to maintain a service hot line dedicated to hearing and addressing the questions, concerns and complaints of policyholders and advisors. Great-West expects that hot line to remain in place for several years. This strikes me as being an excellent way of addressing whatever unpredictable issues might arise as changes brought about by these major initiatives take place over time.

5.3.2 Policyholders of Foreign Branches

I would not expect the service expectations of these policyholders to be affected by the proposed amalgamation. Service is provided in their respective countries or head offices in Canada and while some branches would be merged, service will continue to be provided by the same teams as before the amalgamation. One event that might conceivably cause discontinuity in service to policyholders is a transaction that is in progress and expected to close in 2019 by which GWL and Canada Life will 100% coinsure the directly written business in their non-participating US branch insurance to Protective Life and will also engage Protective Life to provide all the policy administration services relating to both participating and non-participating insurance of their US branches. But in that case, the discontinuity would arise from those transactions and not from the proposed amalgamation.

5.3.3 Conclusion Relating to Service

Based on these considerations, I don't believe that policyholders need be concerned about a deterioration in the quality of the service that they receive in the wake of the proposed amalgamation.

5.4 BENEFIT, COST AND DIVIDEND EXPECTATIONS

My intent in this section is to compare the likely benefits, costs and dividends, where applicable, of policyholders following the proposed amalgamation with those they would likely experience should it not take place.

5.4.1 Canadian Policyholders

5.4.1.1 Individual Customers

5.4.1.1.1 Non-Participating Contracts

5.4.1.1.1.1 Non-Participating Insurance Policies whose elements are fixed from issue

Like their contractual rights, the benefit expectations relating to individual insurance (including both life and accident & sickness) and annuity policies issued on fixed terms by GWL, LLIC or Canada Life continue to be fully guaranteed since the amalgamated entity inherits, as a matter of law, all the rights and obligations of the antecedent legal entities. Given the expected financial strength of the amalgamated entity, there is no reason to believe that there is any additional risk to their benefit expectations as a result of the proposed amalgamation.

Among these policies are some where certain elements are adjusted in relation to an external indicator, e.g., consumer price index or a change in provincial premium tax rates. These changes are not at the discretion of the insurer, which is why I view them as falling within the scope of this section.

5.4.1.1.1.2 Non-Participating Adjustable Insurance Policies

Some of the individual insurance (both life and accident & sickness) policies in force include policy elements that are not fixed from issue. For example, on some insurance policies the insurer reserves the right to increase the premiums or to reduce the benefits or in the case of Universal Life policies, adjust the cost of insurance (mortality or administrative expense) charges that are a part of the policy design. Typically, the insurer's right to increase premiums and cost of insurance charges or reduce benefits is limited by the terms of the policy.

There are policies in force in each of GWL, LLIC and Canada Life that are classified as Adjustable Policies in accordance with section 165 of the *Insurance Companies Act* (Canada). These policies are subject to the public, Board-approved policy "Criteria for Changes to Adjustable Policies", which is identical for the three insurers. As required by law, the Appointed Actuary has opined that the aforementioned policy is fair and as stipulated in the policy document, he also reports annually to the Board that any adjustments in the past year have been made in accordance with this policy. Great-West intends to follow after the proposed amalgamation the same principles, practices and processes in managing the adjustable features of the Adjustable Policies as before. Furthermore, in the "repricing" of these adjustable policies there is only one investment return pricing grid that applies to the three insurers and that would continue to apply after the proposed amalgamation. Furthermore, Great-West has told me that it intends that mortality and other relevant experience factors will continue to be applied in the same way after the proposed amalgamation to existing policies as before. Consequently, I do not believe that the proposed amalgamation will have any adverse effect on the benefits and premiums for these policies.

There are some disability income insurance policies in GWL and Canada Life where the insurer is permitted to adjust the premiums or cancel the coverage. There are also some Critical Illness riders attached to life insurance policies where the insurer is permitted to adjust the premiums. None of these policies or riders are subject to the Adjustable Policy provisions of the Insurance Companies Act (Canada) or related Great-West corporate policies. However, Great-West has assured me that it has no plans to change post-amalgamation its policies and practices with respect to repricing or cancellation of such policies and riders and there is nothing about the proposed amalgamation that causes me to believe that there will be any adverse changes in decisions that are made with respect to repricing or cancellation.

Only one Universal Life policy series is considered to be adjustable within the meaning of the Insurance Companies Act and Great-West corporate policies. Repricing of those policies will not be affected by the amalgamation for the same reasons that are provided above in relation to other adjustable policies.

The remaining Universal Life policies of GWL, LLIC and Canada Life are not considered to be Adjustable because they all have guaranteed cost of insurance and expense charges. These policies involve rates that are credited to the policyholder funds on either a guaranteed basis or a variable basis. The guaranteed basis is structured in a manner similar to a term deposit and the rate is tied to an external benchmark, e.g., a Government of Canada bond of the same term. The rate so determined then remains fixed for that term. Those fixed investment options will not be affected by the proposed amalgamation and policies and contracts will continue to receive the fixed returns already promised. A variable basis depends on the periodic returns on certain reference assets – a mutual fund or an index. The policy or contract where such an investment option has been elected will not be affected by the proposed amalgamation because the reference assets are entirely external to the insurer so their availability is not affected.

5.4.1.1.1.3 Annuities and Wealth Management Contracts

Annuities in payment are fixed by contract, i.e., the periodic payments may not be changed by the insurance company, whether GWL, LLIC or Canada Life. So, the proposed amalgamation would have no effect on those payments.

Wealth management contracts take a form comparable to GICs or are invested in segregated funds. For the GIC-type contracts, the insurer posts a rate for a certain term as an available savings option. At the end of the term, the customer may make a selection among the rates and terms then on offer. It should be noted that the rates and terms on offer are entirely at the discretion of the insurer and I would not expect the proposed amalgamation to result in any change in that respect.

Some wealth management contracts provide for the purchase with policyholder funds of units in one or another segregated fund offered by the insurer. A segregated fund is like a mutual fund except that it incorporates certain guarantees. It relates to assets of the insurer that are segregated from its general fund assets and held exclusively for the benefit of holders of the units of that segregated fund. Each segregated fund of each of the three insurers, GWL, LLIC and Canada Life, will become a segregated fund of Amalco under the proposed amalgamation. The only consequence is that policyholders might have the opportunity to purchase units in different segregated funds post amalgamation. Longer term, the segregated funds on offer by Amalco would be at the discretion of the insurer, just as they would be absent the proposed amalgamation.

5.4.1.1.2 Participating Policies

5.4.1.1.2.1 Structure of the Participating Funds

Participating business in Canada has been written and is currently still being written in each of GWL, LLIC and Canada Life.[16] The par fund structures are as follows.

GWL and LLIC
One participating account is maintained in each insurer in respect of participating life insurance policies and a small block of participating annuities. The accounts are open to new business issued or assumed by the company. Participating business in foreign branches is maintained separately, except for the participating business in the LLIC Bermuda branch, which is managed together with London Life's Canadian participating business and whose supporting assets are part of the Canadian participating asset segments.[17]

Canada Life
The Canadian participating account is maintained in respect of participating life insurance policies and small blocks of participating annuities and disability insurance policies. The account is comprised of three types of sub-accounts:

- Closed block sub-accounts for Canada Life, New York Life and Crown Life containing par policies and riders and supplementary benefits issued or assumed before demutualization. They contain best estimate liabilities.
- Ancillary sub-accounts associated with the Canada Life and New York Life closed block sub-accounts and containing the provisions for adverse deviations that are required to be added to the best estimate liabilities by actuarial standards.[18]
- An open sub-account for Canada Life was established for business written after demutualization and is comprised of the total liabilities plus surplus. It remains open to new business.

Product Types

The following summarizes the types of products in force.

[16] There is no group participating insurance business in any of the companies, but there a few par group annuities in GWL's par account.

[17] Nevertheless, there are assets in the Bermuda branch to support all the Bermuda policy liabilities, both participating and non-participating.

[18] By agreement with OSFI, the Crown Life Ancillary sub-account created at the time of Canada Life's demutualization was made a part of its Shareholder Account.

Basic Products: All three companies have in-force Traditional Individual Life Insurance, Endowments, Term Insurance and Individual Annuities. Canada Life has a very small block of individual disability insurance. GWL has a small block of group annuities.

Dividends are generally annual. There are also some completion/termination dividends (LLIC and New York Life closed block) and mortuary dividends (LLIC). Several dividend options are offered in addition to cash, such as accumulation of dividends at interest and purchase of additions to the face amount.

5.4.1.1.2.2 Management of the Participating Funds

Participating accounts with Sub-accounts

The Canada Life, New York Life and Crown Life closed sub-accounts in Canada Life are maintained in accordance with the operating rules approved by OSFI. These rules govern the management of the various sub-accounts including investment income allocation, mortality costs, expense charges and taxes. No taxes on profits are allocated to the closed block sub-accounts since closed block earnings, as determined under the Closed Block Operating Rules, will cancel out on a cumulative basis over the lifetime of a closed block.

The Canada Life closed sub-account assets are combined with its ancillary sub-account assets and with the Canada Life open sub-account assets in a single investment pool with two segments: one for liabilities and the other for surplus. The New York Life closed sub-account is combined in a single investment pool with its ancillary sub-account. The Crown Life closed sub-account has its own investment pool.

Other Participating Accounts

There is only one par account in each of GWL and LLIC, each with two asset segments: one for liabilities and the other for surplus.

The investment strategies for each of the GWL, LLIC and Canada Life (combined) asset segments are essentially the same with the surplus segments primarily in fixed income investments and the liability segments 75% in fixed income and 25% in non-fixed income investments.[19] An amount equal to twenty-five percent of the present value of the liability cash flows is invested in equities. The liability cash flows with dividend-bearing components for the first 10 years, and all the cash flows without dividend-bearing components, are matched with fixed income investments; for the remainder, a 10-year laddering of 10-year fixed income investments is maintained. The only difference that I noted is that for the LLIC liability segment instead of a 10-year laddering a total return bond fund may be used, which would be retained as part of the Amalco open participating liability ALM segment. Moreover, the Amalco investment guidelines will also incorporate the use of a total return bond fund as an alternative to the 10-year laddering. However, the total return bond pool has been kept constant in the LLIC par account liability segment for many years and has therefore fallen as a proportion of the total par liability segment. It will fall further as a result of the proposed

[19] These percentages reflect the provisions of the latest segmented investment guidelines that were approved in 2018. At this time this report was prepared, the segments are transitioning from the previous 20% equity limit to 25% equities.

amalgamation simply due to the increased size of the open par liability segment. Investment income results are allocated directly to a segment based on the assets allocated to the segment. Expenses are allocated by the area incurring the expense to the appropriate company and line of business. Taxes and tax benefits in each company are allocated according to the appropriate tax base by line and segment.

For each insurer, there are Board-approved policies for the allocation to participating accounts of investment income, expenses and taxes. The Appointed Actuary opines each year that the allocations have been in accordance with these policies.

Dividends[20]

Dividend scale recommendations are made at least annually and are presented separately for GWL, LLIC and each of the originating companies (Canada Life, Crown and New York Life) making up the Canada Life Canadian par business. The dividend scale recommendations are developed component by component (investment, mortality, lapse, expense etc.) for all dividend classes across all three entities, resulting in consistency of treatment. A comprehensive list of experience factors is reviewed and resulting gains and losses, as a matter of published policy, passed through the dividends in keeping with the contributions to the amount to be distributed that arise from each dividend class ("the contribution principle"). In order to avoid undue fluctuations in dividends, highly variable investment income elements such as equity gains and losses are smoothed through the use of Dividend Timing Adjustments (DTAs) in setting the dividend interest rate. The DTAs are booked as (positive or negative) additions to the liabilities and are amortized to the Dividend Scale Interest Rate at the rate of 5% of the existing balance per quarter. The overall pass-through of experience gains and losses is managed through the use of a Dividend Stabilization Reserve (DSR), which may be positive or negative and which is also booked as a liability. In keeping with its intended purpose, the resulting delay in pass-through is so managed as to last only for a short time before the relevant gains and losses are reflected in the dividends of the dividend classes who contributed to them.

The dividend formulas relating to policyholders in the open participating accounts, which are used in both the valuation of the policy liabilities and in the setting of dividends, take into consideration that a portion of the experience gains that emerge from time to time is contributed to surplus and is not included in the distributable amount – which includes both policyholder dividends and the section 461 shareholder transfer referred to below. Under the current financial reporting standards, the value of the future contributions to surplus, net of provisions for adverse deviations, is reflected in the present surplus. So also is the contribution that arises from the current dividend-setting exercise. The level of these contributions to surplus are reviewed and adjusted from time to time to achieve the desired development of surplus. This is true of the open participating accounts of each of the amalgamating insurers.

[20] None of the GWL participating group annuities is still in the accumulation phase, i.e., there are only deferred annuities and annuities-in-payment remaining under these contracts. While they are not currently receiving dividends, they remain eligible to receive dividends in future in the form of increased annuity payments should the portfolio yield increase beyond the applicable guaranteed rate.

Surplus

The surplus in each open participating account is the surplus that results from the dividend-setting process just described. This process would be unaffected by the proposed amalgamation, including the proposed merger of the open par accounts of the three amalgamating insurers.

Per the Participating Account Management Policies, surplus is required for several purposes such as to ensure that the company can meet its obligations to participating policyholders, finance new par business and acquisitions, provide for transitions during periods of major change and to avoid undue fluctuations in dividends. For each of the amalgamating insurers, Great-West performs a pro forma LICAT calculation relating only to the participating account. The resulting pro forma ratio (PFR) is used by the Company to manage its surplus objectives with the same minimum PFR applied to each.

As provided for in the Participating Account Management Policy of each of the amalgamating insurers, the surplus position is reviewed at least annually in the dividend-setting process and, based on that review, contributions to surplus that are reflected in the dividend formulas for open par account policies may be adjusted up or down. This process would not be affected by the proposed amalgamation of the three participating surplus segments. I am advised by Great-West that no changes are proposed to the contributions to surplus by the various participating account cohorts as a result of the proposed merger of the open par accounts. I am further advised that scenarios requiring an increase in the contributions to surplus for any cohort are not expected to arise in the normal course of business for any of the amalgamating insurance companies or Amalco.

It is worth noting here, and it is an important point, that policyholder dividends are not paid out of surplus. Under current financial reporting standards, a provision is made for such dividends in the liabilities.

Section 461 Transfers

Pursuant to section 461 of the Insurance Companies Act, a certain percentage of the distributable profits of a stock life insurer's participating account – that varies with the size of the participating account – may be transferred to the shareholder account. The transfer rate is currently 2.5% for GWL and LLIC and 2.8% for Canada Life. Great-West intends to apply a transfer rate of 2.5% for Amalco and to apply the benefit of the reduction from 2.8% to 2.5% for Canada Life through the Canada Life dividend scales for open par account policyholders.[21]

5.4.1.2 Group Customers

5.4.1.2.1 Insurance

Group insurance policies are similar to policies commonly issued by property & casualty insurance companies in that they are issued for a short term and are renewable with the mutual consent of the both insurer and the policyholder. Post amalgamation, renewal would be offered by Amalco. Any long-term liabilities arising under such a policy with one of the current insurers, such as paid-up life benefits, long term disability benefits or post-retirement

[21] The reduction in the shareholder transfer rate also affects participating policyholders in Canada Life branches.

benefits would remain in place and would become the responsibility of Amalco. I would not anticipate any increase in costs on renewal because of the proposed amalgamation since it is reasonable to anticipate some expense synergies. But in any case, a group policyholder always has the right to seek coverage elsewhere if renewal is offered on terms that it considers unfavourable.

5.4.1.2.2 Annuities and Wealth Management Contracts

Considerations for Group annuities and wealth management contracts are the same as for similar individual contracts. See section 5.4.1.1.1.3.

5.4.1.3 Reinsurance Customers

None of GWL, LLIC and Canada Life currently write any reinsurance business in Canada although there are some legacy reinsurance contracts in force with Canada Life. As corporate clients they are able to see to their own interests should they perceive that the proposed amalgamation affects them adversely in any way.

5.4.1.4 Effects of the Proposed Transaction

Great-West intends that while the announcement of the single brand will be made ahead of time, contracts will continue to be made in the names of GWL, LLIC and Canada Life until the proposed amalgamation takes effect, at which time the single brand will apply to Amalco contracts.

5.4.1.4.1 Non-Participating Policies and Contracts

The proposed amalgamation would have no effect on non-participating insurance and wealth management contracts, whether with individual or group customers. The insurer cannot make any changes to life insurance policies whose elements are fixed from issue or to vested annuities, whether deferred or in payment. For wealth management contracts where credited rates may change from time to time in accordance with the investment choices made by the customer, Amalco would be able to make changes in the investment choices on offer only to the extent that GWL, LLIC or Canada Life, as the case may be, may do so prior to the proposed amalgamation. For insurance contracts where the insurer is permitted to make certain changes in the premiums or other elements of the contract, Great-West does not intend to amend its current policies and practices with respect to these policies which also remain subject to the terms of the insurance policies themselves.

5.4.1.4.2 Participating Policies and Contracts

In conjunction with the proposed amalgamation, it is Great-West's intention to merge the open par accounts of Canada Life, GWL and LLIC in a single Amalco par account. This account would be open to new business and would be supported by two investment pools, one for the account liabilities and one for the account surplus. There would be no change in the account structure relating to the Canada Life, New York Life and Crown Life closed sub-accounts. The New York Life and the Crown Life sub-accounts would retain their separate investment pools, but the Canada Life closed and ancillary sub-accounts will share the investment experience of the investment pool for the liabilities of the Amalco open par account, just as they currently share the investment experience of the investment pool for liabilities of the Canada Life open par account. The only other alternative, in light of the proposed merger of the open par accounts of the three amalgamating insurers, would be to maintain a distinct asset segment for the Canada Life closed and ancillary sub-accounts. In my opinion, the operation of a distinct asset segment would be detrimental to these closed block policyholders. That is without the flow of investible new funds arising from future business, there would be, among other things, diminished capacity to take advantage of opportunities to invest in new assets, the need to maintain a greater degree of liquidity in the portfolio, and asset risks (credit risk and asset appreciation risk) would become more prominent in comparison to the total size of the portfolio. As the closed block eventually shrinks over time, these factors would become more pronounced

Merging the three open par accounts raises the question of how the post-amalgamation treatment of the policyholders of each amalgamating insurer compares to their pre-amalgamation treatment. That is, with the proposed merger of the open par accounts would the dividends of some policyholders, in at least some circumstances, be lower than were the merger not to take place. This can arise in three ways, as I observe in the following paragraphs.

- Lower Dividends from Worse Experience

The largest contributor to experience gains and losses is the investment experience and since, as I have already pointed out, the par account investment strategies of each of the amalgamating insurers are essentially the same, the relative effect of poorer investment experience is not likely to be different for a given class of policies than it would be were the proposed merger of the open par accounts not to take place. The remaining experience factors are dividend class dependent and these will not be affected by the amalgamation.

Moreover the 2018 DCAT analysis, supplemented in the same year by an analysis focused the participating accounts, demonstrates that for each of the three amalgamating insurers under all the adverse scenarios tested, each of which in accordance with Canadian actuarial guidance is highly unlikely without being implausible, there would be sufficient room with respect to each dividend class to reduce the dividends in line with the adverse experience, without it being necessary for the insurer to resort to cross-subsidization or drawing down par surplus or shareholders equity. If that is true for each of the amalgamating insurers, it must also be true of Amalco.

- Lower Dividends arising from Cross-Subsidization

OSFI guidance (Guideline E-16) for participating account management includes a list of general principles for deciding on fairness for participating dividends that includes the caution that there should be no material, planned or systemic cross-subsidization of one cohort by another. I am advised by the Appointed Actuary that Great-West’s current practice has been consistent with that guidance and that it is Great-West’s intention that it will continue to be. But suppose that circumstances were to arise where as a result of investment and other experience, dividends hit zero in one or more cohorts (that is, the calculated dividends of some cohorts would otherwise have been negative but for the fact that dividends, by their nature, cannot be negative) but not in all. How would the insurer avoid reducing the dividends in the remaining cohorts (which would amount to cross-subsidization) in order to meet the cost of providing zero dividends among the aforementioned cohorts? There are only two possibilities: either the shareholders would be charged with that cost or participating account surplus would be charged with it.[22]

The need to meet out of participating account surplus the cost of having no dividends to some cohorts that might otherwise have been negative (were that possible) raises another question. Would using the par account surplus in this way diminish the reasonable expectations of policyholders to receive dividends from par account surplus?

Policyholders reasonable expectations arise from the insurer's past actions and communications, including its written policies.

As far as past actions are concerned, during the time that the three amalgamating insurers have been under common management, I am advised that it has not been Great-West's practice to track contributions to participating surplus back to specific dividend classes. Nor is it their practice to use participating account surplus in any manner in the regular dividend-setting process. The adjustment of the contributions to surplus, even if they might be reduced, do not involve removing surplus and refunding it to any policyholders. Nor has there been a one-time distribution of open par account surplus. Furthermore, Great-West management is not aware of there having been such a practice or such an event prior to that time.

In terms of written policies and other communications, the Par Account Management policies state that one of the purposes of surplus is to avoid undue fluctuations in dividend scales. In my opinion, this is not enough to create a basis for policyholder reasonable expectations to a distribution of surplus. It leaves open the questions of how much would it be reasonable to expect and under what circumstances? There is nothing in Great-West's written policies that addresses either point and after inquiry, I have not been made aware of any other written communication or Great-West publication that does so. And as I pointed out earlier, current financial reporting standards require that any such reasonable expectation to receive dividends is to be reflected in the liabilities, not provided for in surplus. Moreover, Great-West tells me that the reference in the Par Account Management policies to avoiding undue fluctuations in dividends is intended to refer to extreme situations where experience on its own would not justify the payment of policyholder dividends. I conclude from this that there should be no reasonable expectation on the part of participating policyholders to receive any amount by way of distribution from participating account surplus.

- Other Distributions to Policyholders from Par Account Surplus

But let us postulate that regardless of how remote it might be, the possibility exists that an insurer might some day, for example if an open participating account were to be closed to new business, make a deliberate distribution of the participating account surplus to some participating policyholders, on some basis. And because the level of surplus in each of the three amalgamating insurers is not the same, the policyholders of an insurer with a greater level of surplus might in that process be disadvantaged in comparison to what they might

[22] Having the shareholders bear that cost is not a concern for me; my report focuses on the consequences of the proposed transaction as they relate to the policyholders.

have received had the merger of the open participating accounts not taken place. I would observe that whether and when such a distribution (i.e., of open par account surplus) might be made is at the discretion of the insurer (subject to the legislation, regulations and regulatory guidance prevailing at the time that such a distribution were contemplated) and that would continue to be true after the proposed amalgamation. I am advised by Great-West that none of the amalgamating insurers currently has the intention of making any such distribution and that I can assume that the same will be true of Amalco. Therefore, in my opinion the likelihood and the results of such a distribution are so uncertain, whether or not the proposed amalgamation goes through, that this is not a matter that should be of concern to the participating policyholders.

Summary of Considerations affecting Participating Policyholders

In summing up, I would make the following observations with respect to the effects of the proposed amalgamation on Canadian participating policies and contracts:

- All policies in the sub-accounts to be combined would be supported by an asset segment that will include the effect of future new business, as at present.
- Closed blocks are currently governed by the operating rules established at demutualization. I am advised that Great-West will be requesting OSFI's permission to change these operating rules so that the allocation of investment income to the Canada Life closed block, while retaining its closed block identity, will be based in the merged Amalco open par account assets instead of the Canada Life open par account assets, as is the case today. For the reasons stated in the third following bullet point, I do not expect this to have an adverse impact on the reasonable dividend expectations of the affected policyholders
- Dividend setting principles would remain unchanged and are currently the same in all three companies. The Dividend Policies of each of GWL, LLIC and Canada Life are materially the same but not identical in that those of GWL and LLIC do not require mention of separate sub-accounts relating to the Canada Life demutualization. Great-West intends to apply the same principles to the new dividend policy that would be required for Amalco. The same is true of the Participating Account Management Policies of the three companies while the surplus policy, which is already a single policy, would remain unchanged.
- Great-West has told me that, while its policies for allocation of expense and taxes would be updated to reflect the proposed amalgamation, it does not intend to make any changes to the methodology used. The combining of the open sub-accounts is expected to produce neither significant additional costs nor significant future gains. The projections indicate a small initial cost relating to the proposed transaction, recovered over a two- or three-year period, followed by immaterial annual savings. With respect to taxes, no meaningful tax differences exist among the three companies. As a result of the proposed amalgamation, a small benefit from intercompany balances will cease to exist. Some of this will be allocated to participating business, but to surplus rather than dividends.

- As a result of harmonized investment strategies, gross investment yields for the current GWL, LLIC and Canada Life (other than Crown Life and New York Life) par asset segments are currently very similar, except for some amounts of historical experience now incorporated in Dividend Timing Adjustments that are part of the Great-West dividend-setting framework and that will continue to be reflected in dividends. It is Great-West's plan to eliminate those differences at a certain rate over a certain period of years to be determined at the time of the proposed amalgamation.[23] The investment strategies for the three accounts are materially the same, and I have reviewed modelling provided by Great-West that indicates that projected yields in the combined account would be similar, assuming a similar growth rate in the liabilities, to those in the existing three accounts that are already very similar, despite the total return bond fund investment in the LLIC liability segment. In addition, a larger more robust account will allow for greater diversification of investment risk, less volatility and more stable returns over time.
- With respect to the other experience factors reflected in dividends, amounts to be distributed are tracked and allocated to the dividend classes generating them. For existing in-force policies the existing dividend classes and methods of allocation would continue to be maintained. For new business, new dividend classes would be considered as determined to be appropriate according to existing processes for establishing such classes.
- Dividend scales for a particular dividend class may also be increased or decreased based on consideration of the rate of its contributions to surplus. This is a part of the regular dividend-setting process, as described in section 5.4.1.1.2.2 since contributions to participating account surplus are included in Great-West's dividend formulas. All three companies have robust current and projected participating surplus ratios. Should this situation change, any increase or decrease would be made by management in accordance with the Par Account Management Policy.
- As mentioned in section 5.4.1.1.2.2 of this report, Section 461 of the Insurance Companies Act, permits transfers to be made from the participating to the shareholder account. Following the proposed amalgamation, the rate would be harmonized at 2.5%. Great-West has told me that the benefit of the lower transfer rate for Canada Life policyholders would be passed on to those policyholders in proportion to their dividends otherwise determined.
- The possible increase in retention limit alluded to in section 5.2.3 may present the opportunity for Great-West, where permitted by treaty, to recapture risk that has been

[23] Dividend Timing Adjustments ("DTAs") are used to smooth out the recognition of potentially highly variable components of investment income in arriving at dividend scale interest rates. They form part of the policy liabilities. Great-West's existing practice is to amortize the DTAs into dividends at the rate of 5% per quarter of whatever the DTA balance is from time to time. The differences mentioned here will be fixed for each insurer at the time of amalgamation and run off at the same rate except for a final adjustment when the balance becomes immaterial. Had the proposed amalgamation taken effect December 31, 2017, Great-West estimates that it would have taken seven years or less for this process to run its course, depending on the insurance company of origin. Depending on movements in financial markets before the proposed amalgamation takes place, the process might take more or less than seven years.

ceded. Due to the significant decreases in mortality rates generally in the past half-century or more, reinsurance terms negotiated many years ago provide for reinsurance charges that are higher than the expected mortality experience, and this to a greater and greater extent. Recapture would offer the possibility of transferring the benefit of that excess from the affected reinsurer to Amalco, after taking into account any recapture penalty provided for in the relevant treaty. This would have the effect of reducing the net mortality charge to Great-West and to the extent that the affected business includes participating policies, some portion of the benefits would flow through policyholder dividends. The Company has assured me that any such increase in the retention limit would only take place after due analysis relating to each reinsurance treaty, consistent with their historical practice, that recapture up to a certain limit was the best approach. The Company has also assured me that the best approach for any given treaty would be that which is best for the policyholders in the case of participating business, and for the shareholders in the case of non-participating business.

Based on these considerations, I do not believe that there will be any adverse effect from the proposed transaction on the reasonable expectations of Canadian participating policyholders with respect to the dividends to be paid to them. There are likely to be immaterial increases resulting from the proposed amalgamation compared to what policyholders would have received were the amalgamation not to take place. These are due to anticipated expense synergies in the near term, although these would not affect closed par account policyholders in Canada Life. In the longer term, it is reasonable to believe that Amalco, because larger and more diversified, would deliver improved and more stable investment returns that would affect all the Canadian par policyholders, but these are impossible to quantify at this time. At the same time we can be more certain in saying that, compared to the dividends they will receive should the amalgamation not go through, there would be an improvement in the dividends paid post-amalgamation to Canada Life open par account policyholders. This is due to the decrease in the shareholder transfer rate already mentioned, the benefit of which it is Great-West's intention to pass through the dividend scales as described above. The resulting dividend increase on Canada Life open par account policies is expected by Great-West to be 0.3%.

5.4.2 Policyholders of Foreign Branches

GWL, LLIC and Canada Life currently have a total of 13 branches in foreign countries. Of these, 9 would remain following the proposed amalgamation. The reduction is due to the merger of two Barbados branches, two UK branches and three U.S. branches. The two UK branches and the Ireland branch have no insurance or annuity business in force. The two Barbados branches engage only in reinsurance activities (see section 5.4.2.3). Apart from the reinsurance activities of LLIC and Canada Life, the only new business being written is through the Bermuda branch of LLIC. While the policy liabilities in the Bermuda branch accounts are not required by the local regulator to be broken down between participating and non-participating business, the participating business is managed as part of LLIC's Canadian participating account and the non-participating business is reflected in LLIC's shareholders account, so at that level the participating and non-participating business are accounted for separately. Participating business in other foreign branches, all with Canada Life, is accounted for separately. All but one of those is in a closed block that is managed in accordance with the provisions established upon the demutualization of Canada Life. These include a closed block for Hong Kong policies and one for Macau policies. The only other block relates to other Pacific Rim that is managed from Canada. There are about 200 policyholders in that block and it is not open to new business.

5.4.2.1 Individual Customers

The policies sold in LLIC's Bermuda branch are the same ones that are and have been sold by LLIC in Canada and the Bermuda participating policies are currently part of the LLIC Canadian par account and receive the same dividends as the corresponding Canadian policies. Comments relating to Canadian policyholders in section 5.4.1 for different types of policies would apply equally to the Bermuda policyholders of the same type of policies.

The Canada Life branches in Hong Kong, Macau, the Bahamas and Cuba are not affected by the amalgamation since they will not be merging with any other branch. After the proposed amalgamation, dividends on participating policies in these branches would continue to be determined according to the same practices and subject to the same policies and operating rules (in the case of closed blocks) as before with investment returns determined based on their respective branch participating accounts, where applicable.[24]

The only one of the three U.S. branches with participating business is the Canada Life branch. For these policies, distinct participating branch accounts are maintained and after the proposed amalgamation will continue to be maintained and the dividends managed in the same way, according to the same principles and by the same teams as before. The same is true of South American business which is administered by Canada Life's U.S. branch and with investment returns determined based on a distinct investment portfolio for those policies. This structure would be retained in Amalco. The only other effect of the proposed amalgamation is the positive effect on the Canada Life participating business of the reduction in the shareholder transfer rate from 2.8% to 2.5%.

Dividends on participating policies in other Pacific Rim countries are not part of any branch. They are considered to reside in the Canada Life Canadian par account and because there are few of them, no separate experience analysis is performed in arriving at dividends. Instead, the same dividends are paid on these policies as on those in the Hong Kong branch. These practices will not change after the proposed amalgamation.

For non-participating policies although the products differ from those relating to the Canadian business similar considerations apply as discussed in section 5.4.1.1 except that, where relevant, the financial strength of the relevant branch is an additional factor. The only Amalco branch where individual policies are involved that will result from an amalgamation of existing branches is the U.S. branch. See my comments in section 5.2.8.

[24] The branches in the Bahamas and Cuba are managed differently, but I am advised that they will continue to be managed in the same way after the proposed amalgamation as before.

5.4.2.2 Group Customers

Similar considerations apply as discussed in section 5.4.1.2 except the financial strength of the branch and of Amalco's U.S. branch is an additional factor.

5.4.2.3 Reinsurance Customers

Great-West's Reinsurance Division provides reinsurance solutions with its primary operations in the U.S., Barbados and Ireland. The reinsurance products are underwritten by the LLIC or Canada Life branches or their subsidiaries. The business written by subsidiaries is not expected to change as a result of the proposed amalgamation. The branches of the companies that are used to write reinsurance business are Canada Life U.S., Canada Life Barbados, LLIC U.S. and LLIC Barbados. All their activities are carried out through the shareholder accounts of their respective companies.

Great-West does not expect the proposed amalgamation to have any significant effect on these activities, apart from the fact that the U.S. branches of Canada Life, LLIC and GWL would merge as will the Barbados branches of Canada Life and LLIC and the activities would thereafter be carried on by Amalco. For the reasons already provided in sections 5.2 and 5.3 of this report, I would not expect there to be any adverse effects on the security or service provided to their insurance company clients. As for their benefits and costs, I would expect that as corporate clients they are able to see to their own interests should they perceive that the proposed amalgamation affects them adversely in any way.

5.4.2.4 Effects of the Proposed Transaction

Based on the foregoing considerations, it is my opinion that the proposed transaction would not have any adverse effect on the benefit, cost or dividend expectations of customers of GWL, LLIC and Canada Life branches.

6 IMPACT ON OTHER PARTIES

6.1 PREFERRED SHAREHOLDERS

Canada Life has one class of preferred shares outstanding, class A. All preferred shares are held by its parent company, CLFC which is also one of the amalgamating companies. As a result, CLFC is expected to approve the amalgamation in its capacity as the sole common and preferred shareholder of Canada Life. There are no other preferred shareholders to consider.

6.2 REINSURERS

Great-West has ceded some risks to various unrelated reinsurance companies. For existing reinsurance, it intends to continue that insurance as before with Amalco replacing the existing Great-West insurance company. For new business to be issued after the proposed amalgamation, Great-West will be considering what reinsurance arrangements are appropriate for Amalco.

6.2.1 GREAT-WEST COMPANIES AS REINSURERS

See section 5.4.2.3.

7 TAX CONSEQUENCES

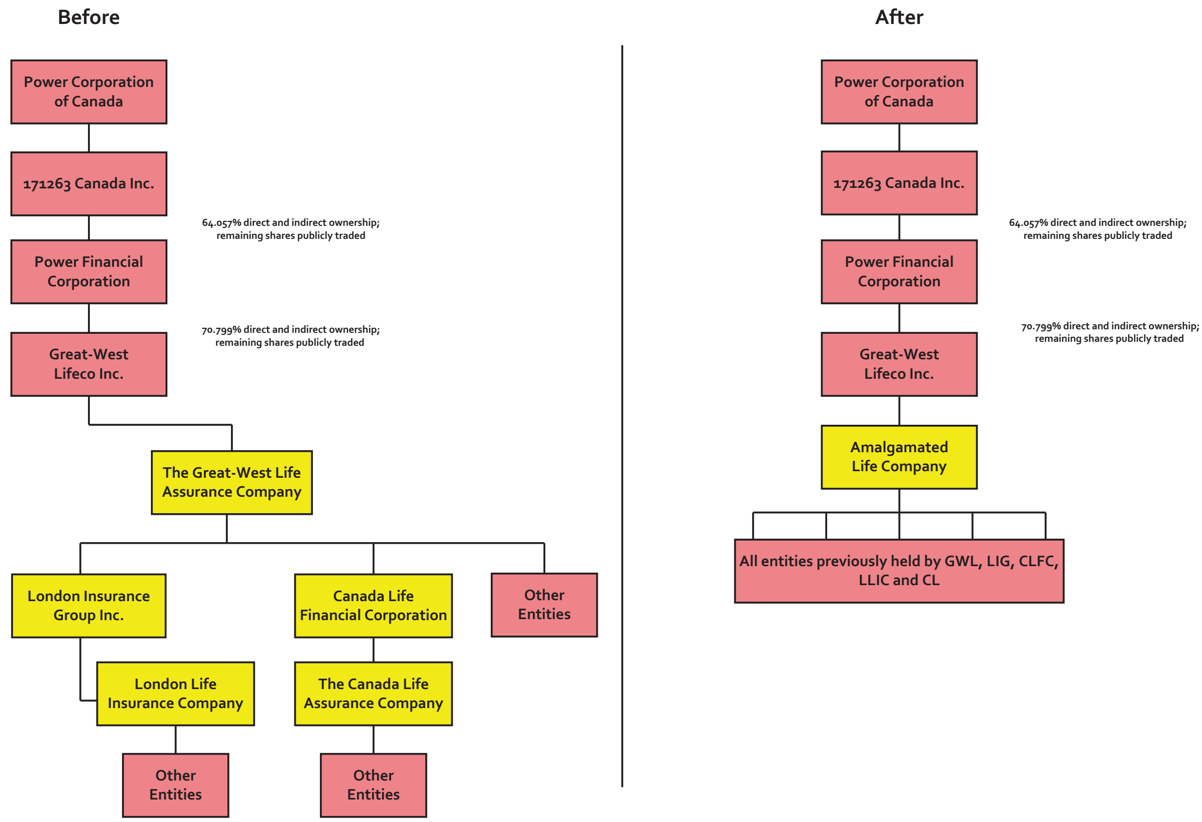
The proposed amalgamation would have no effect on either the taxation of policyholders, which is based on the specifics of each policy, or on the calculation of the investment income tax which also depends on external factors and is an expense borne by the insurer that is taken into account in the valuation of the policy liabilities.

The information provided to me indicates that there are some modest negative corporate income tax implications of the amalgamation, a portion of which will affect the participating account surplus to an immaterial extent.

APPENDIX 1

Simplified Organization Chart

Proposal is to amalgamate the five companies highlighted in yellow into a single legal entity.



APPENDIX 2

Unaudited Pro Forma Consolidated Balance Sheet
As at December 31, 2018
(in Canadian $ millions)

	Canada Life	London Life	Great-West Life	Amalco
Assets				
Invested assets	$83,431	$34,324	$132,512	$132,512
Assets held for sale	897	0	897	897
Goodwill and intangible assets	1,549	88	8,389	8,389
Other assets	23,192	4,007	23,778	23,778
Investments on account of segregated fund policyholders	107,323	58,270	177,711	177,711
Investments on account of segregated fund policyholders held for sale	3,319	0	3,319	3,319
Total assets	$219,711	$96,689	$346,606	$346,606
Liabilities				
Insurance and investment contract liabilities	$85,773	$32,210	$130,218	$130,218
Liabilities held for sale	897	0	897	897
Other liabilities	9,866	1,952	10,502	11,502*
Investment and insurance contracts on account of segregated fund policyholders	107,323	58,270	177,711	177,711
Investment and insurance contracts on account of segregated fund policyholders held for sale	3,319	0	3,319	3,319
Total liabilities	207,178	92,432	322,647	323,647
Equity				
Participating account surplus	288	1,827	2,723	2,723
Non-controlling interests	119	0	21	21
Shareholder's equity	12,126	2,430	21,215	20,215*
Total equity	12,533	4,257	23,959	22,959
Total liabilities and equity	$219,711	$96,689	$346,606	$346,606
Available capital	11,694	4,010	16,141	16,141
Surplus allowance and eligible deposits	7,521	1,901	10,665	10,665
Base solvency buffer	13,460	4,412	19,165	19,165
Life Insurance Capital Adequacy Test (LICAT) ratio:	143%	134%	140%	140%

* The balance sheets presented for each of Canada Life, London Life and Great-West Life are unchanged from those issued in each of the companies' 2018 annual reports. Since Canada Life and London Life are already wholly-owned subsidiaries of Great-West Life, the pro forma balance sheet for Amalco is the same as that for Great-West Life consolidated, adjusted only for the proposed restructuring step as follows.

Subject to board approval, existing common shares of Great-West Life held by Great-West Lifeco Inc. will be converted into common and new preferred shares of Amalco on the effective date of the amalgamation.

APPENDIX 3

List of Documents Considered

Document	Company	Year
Financial Reports		
Financial Statements	GW consolidated, LLIC, Canada Life	2017,2018
Life-1 Interim Filing	GWL, LLIC, Canada Life	2018
Life-1 Filing	GWL, LLIC, Canada Life, CLFC	2016,2017
MCCSR filing	GWL, LLIC, Canada Life	2017
LICAT info - Q1 2018	GW consolidated	2018
Pro Forma Balance sheets (US branches)		
Actuarial reports		
Appointed Actuary's Report	GW consolidated	2017,2018
Appointed Actuary's Report to the Audit Committee		2018
DCAT Reports	GW consolidated, LLIC, Canada Life	2017,2018
E-15 External Peer Review Report	GW consolidated	2016,2017
E-16 Par Account Reviews - several	Canada Life	2012
Adjustable Policies Fairness Opinion	GWL, LLIC, Canada Life	2017
Dividend Scale Actuarial Report	GWL, LLIC, Canada Life	2017
Par Dividend Scale Recommendations - Board Presentation	GWL, LLIC, Canada Life	2016,2017,2018
Corporate Policies and Guidelines		
Adjustable Policies Criteria Policy	GWL, LLIC, Canada Life	
File documenting all plans classified as Adjustable	Great-West	
Par Dividend Policy	GWL, LLIC, Canada Life	
Par Account Management Policy	GWL, LLIC, Canada Life	
Par Expense Allocation Policy	Common to all insurance entities	
Par Tax Allocation Policy	Common to all insurance entities	
Par Investment Income Allocation Policy	Common to all insurance entities	
Par Surplus Policy	Common to all insurance entities	
Segmented Investment Guidelines – Canada 2018-2019	Common to all insurance entities	
Capital Management Policy 2018	Common to all insurance entities	
Other Documents relevant to Participating Insurance		
GWL Responses to OSFI Requests 201902	GW consolidated, LLIC, Canada Life	
Approach used to calculate Pro Forma LICAT Ratio for Open Par Accounts	GW consolidated, LLIC, Canada Life	
Policyholder Guide - CLAC Demutualization	Canada Life	
Demutualization Conversion Proposal	Canada Life	

Par Closed Blocks Operating Rules	Canada Life	
Standard of Practice for Par Earnings Recognition	Common to all insurance entities	
Practical Considerations re Par Earnings Recognition	Common to all insurance entities	
SLE* Par Options for IA		
Par Yields 2013-2018	GWL, LLIC, Canada Life	
Par post-amalgamation recommendations – final (2018.11.27)		
Current and projected par account yields (Excel)	GWL, LLIC, Canada Life, Amalco	
Canadian open par interest rate guarantee summary	GWL, LLIC, Canada Life	
Summary of Cdn open par dividend sensitivities to Dividend Scale Interest Rate decreases	GWL, LLIC, Canada Life	
Canadian par accounts statistics (2015, 2016,2017)	GWL, LLIC, Canada Life	
Far eastern par accounts statistics (2015, 2016,2017)	GWL, LLIC, Canada Life	
LL-GWL Par Class Action re-hearing summary		
LL-GWL Par Class Action summary		
2018 DCAT CL Par final		
2018 DCAT LL Par final		
2018 DCAT GWL Par final		

Documents relevant to the broader transformation strategy for Canada

Canada Transformation Oversight Committee Charter
Cda Transformation update for IA meeting with Stefan Kristjanson
Cda Transformation Board update - Q1 2018
SLE Impact Assessment Responses
Strategy overview for IA - Aug 18, 2018
Lifeco Board Strategy Session - Canada component (Sept 2018)
Project SLE - Status Update edited for IA (Apr 12, 2018)
Project SLE - Board Update edited for IA (Apr 25, 2018)
Project SLE Steerco material (Jul 10, 2018)

Other

Corporate ownership charts including branches	Great-West	
Foreign Branch Summary	Great-West	2018
Enterprise Risk Management - Directors Orientation		
OSFI Annual Supervisory Letter	GW consolidated	2017,2018
Draft Amalgamation Agreement (#25865789v6)		
Draft Joint Management Proxy Circular (Sep 19, 2018)		

*Internally, the amalgamation project was referred to as the SLE project