canada life™

The Canada Life Assurance Company

Management's discussion and analysis

Second quarter results

For the period ended June 30, 2023

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS - QUARTERLY HIGHLIGHTS

FOR THE PERIOD ENDED JUNE 30, 2023

DATED: AUGUST 8, 2023

This Interim Management's Discussion and Analysis - Quarterly Highlights (MD&A - Quarterly Highlights) for the three and six months ended June 30, 2023 provides material updates to the business operations, liquidity and capital resources of Canada Life since March 31, 2023. This Interim MD&A - Quarterly Highlights has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. This Interim MD&A - Quarterly Highlights should be read in conjunction with the Company's condensed consolidated interim unaudited financial statements for the periods ended June 30, 2023. Also refer to the consolidated annual audited financial statements of Canada Life for the year ended December 31, 2022 and the notes thereto, available under the Company's profile at www.sedar.com. The condensed consolidated interim unaudited financial statements of the Company, which are the basis for data presented in this Interim MD&A - Quarterly Highlights, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and reflect the adoption of IFRS 17, Insurance Contracts, and IFRS 9, Financial Instruments that resulted in the restatement of certain comparative amounts. Figures are presented in millions of Canadian dollars unless otherwise indicated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "will", "may", "expects", "anticipates", "intends", "plans", "believes", "estimates", "objective", "target", "potential" and other similar expressions or negative versions thereof. Forward-looking information includes, without limitation, statements about the Company and its operations, business (including business mix), financial condition, expected financial performance (including revenues, earnings or growth rates and medium-term financial objectives), ongoing business strategies or prospects, climate-related and diversity-related measures, objectives and targets, anticipated global economic conditions and possible future actions by the Company, including statements made with respect to the expected costs, benefits, timing of integration activities and timing and extent of revenue and expense synergies of acquisitions and divestitures (including but not limited to the proposed acquisition of Investment Planning Counsel (IPC), the proposed acquisition of Value Partners Group Inc. (Value Partners), and the proposed sale of Canada Life U.K.'s individual onshore protection business), value creation and realization, growth opportunities, expected capital management activities and use of capital, estimates of risk sensitivities affecting capital adequacy ratios, expected dividend levels, expected cost reductions and savings, expected expenditures or investments (including but not limited to investment in technology infrastructure and digital capabilities and solutions and investments in strategic partnerships), the timing and completion of the proposed acquisitions of IPC and Value Partners and Canada Life U.K.'s individual onshore protection business, and the impact of regulatory developments on the Company's business strategy and growth objectives.

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

The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in Canada Life's 2022 Annual MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", which, along with other filings, is available for review at www.sedar.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking information.

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

Important Note Regarding Sustainability Disclosure
Certain forward-looking statements in this MD&A relate to the Company's climate-related and diversity-related measures, objectives, priorities, strategies and commitments or actions that will be taken to achieve them. The climate-related statements include statements with respect to reducing the Company's greenhouse gas (GHG) emissions related to its own activities and energy consumption and achieving net-zero GHG emissions for its operating and financing activities by 2050, the causes and potential impacts of climate change globally, and the Company's approach to identifying and managing climate-related risks and opportunities. The diversity-related statements include statements with respect to growing representation of women and underrepresented minorities in management. The forward-looking climate-related and diversity-related information in this MD&A is presented for the purpose of assisting our stakeholders in understanding how we intend to address climate-related governance, strategy, risks, opportunities, and objectives, and may not be appropriate for other purposes.

Any commitments, goals or targets discussed in this MD&A, including but not limited to the Company's net-zero related commitments and diversity-related measures, are aspirational and may need to be changed or recalibrated as data improve and as climate science, regulatory requirements and market practices regarding standards, methodologies, metrics and measurements evolve. Our climate risk analysis and net-zero strategy remain under development, and the data underlying our analysis and strategy remain subject to evolution over time. We are also continuing to develop our diversity-related data. There is a strong possibility that our expectations, forecasts, estimates, predictions and conclusions may not prove to be accurate and our assumptions may prove to be incorrect, and there is a material risk we will not achieve our climate-related and diversity-related objectives, priorities, strategies and commitments. In addition, many of the assumptions, standards, metrics and measurements used in preparing these forward-looking statements are not audited or independently verified, have limited comparability and continue to evolve.

There are limitations and uncertainties inherent in climate science, climate risk analysis and reporting. There are many factors that are the subject of ongoing climate science and that we cannot foresee or accurately predict, which will impact the Company's ability to achieve its climate-related objectives, priorities, strategies and commitments. There are also many factors which will impact the Company's ability to achieve its diversity-related objectives, priorities, strategies and commitments. These factors include, without limitation, the transition to a low-carbon economy, the need for more and better climate data and standardization of climate-related measurement methodologies, our ability to gather and verify data, our ability to develop indicators to effectively monitor our advancements and assess and manage climate-related risks, the need for active and continued action by stakeholders (including governmental and non-governmental organizations, our counterparties and other businesses and individuals), compliance with our policies and procedures, our ability to recruit and retain key personnel in a competitive environment for talent, technological advancements, the evolution of consumer behaviour, varying decarbonization efforts across economies, the challenges of balancing emission reduction objectives with an orderly, just and inclusive transition and geopolitical factors that impact global energy needs, the legal and regulatory environment, and regulatory compliance considerations.

CAUTIONARY NOTE REGARDING NON-GAAP FINANCIAL MEASURES AND RATIOS

This MD&A contains some non-Generally Accepted Accounting Principles (GAAP) financial measures as defined in National Instrument 52-112 “Non-GAAP and Other Financial Measures Disclosure”. Terms by which non-GAAP financial measures are identified include, but are not limited to "assets under management" and "assets under administration". Non-GAAP financial measures are used to provide management and investors with additional measures of performance to help assess results where no comparable GAAP (IFRS) measure exists. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP (IFRS) and are not directly comparable to similar measures used by other companies. Refer to the "Non-GAAP Financial Measures" section in this Interim MD&A - Quarterly Highlights for the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP as well as additional details on each measure.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information
(in Canadian $ millions)

	As at or for the three months ended			For the six months ended	
	June 30 2023	March 31 2023	June 30 2022 (Restated)	**June 30 2023**	June 30 2022 (Restated)
Earnings					
Participating account	**$ 24**	$ (21)	$ 2	**3**	27
Common shareholder	**463**	542	867	**1,005**	2,127
Total net earnings	**$ 487**	$ 521	$ 869	**$ 1,008**	$ 2,154
Insurance service result	**$ 686**	$ 683	$ 784	**$ 1,369**	$ 1,458
Net investment result	**(33)**	1	322	**(32)**	1,251
Fee and other income	**543**	512	493	**1,055**	997
Total assets per financial statements	**$ 392,573**	$ 390,614			
Total assets under management[1]	**466,031**	462,866			
Total assets under administration[1]	**504,948**	501,733			
Total contractual service margin (net of reinsurance)	**$ 12,520**	$ 12,417			
Participating account surplus	**$ 2,761**	$ 2,775			
Non-controlling interests	**16**	16			
Shareholder's equity	**19,310**	19,680			
Total equity	**$ 22,087**	$ 22,471			
LICAT Ratio[2]	**126 %**	127 %			

1 This metric is a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures and Ratios" section of this document for additional details.
2 The Life Insurance Capital Adequacy Test (LICAT) Ratio is calculated in accordance with the Office of Superintendent of Financial Institutions' guideline - Life Insurance Capital Adequacy Test. Refer to the "Capital Management and Adequacy" section of this document for additional details.

DEVELOPMENTS

- The Company has adopted and successfully implemented IFRS 17, Insurance Contracts and IFRS 9, Financial Instruments effective January 1, 2023.[1] The new reporting regime provides improved visibility as to the strong underlying economics and diversification of the Company's portfolio through enhanced disclosures and metrics. These new standards do not have a material financial impact or result in a material change in the level of invested assets, nor do they change the underlying economics of the Company’s business activities or change the Company's business strategy.
- On April 3, 2023, Canada Life announced an agreement to acquire Investment Planning Counsel Inc. (IPC), a leading independent wealth management firm, from IGM Financial Inc. (IGM). This acquisition accelerates Canada Life's strategy of building a leading platform for independent advisors in Canada. With this acquisition, Canada Life will be one of the largest non-bank wealth management providers in Canada. Canada Life will acquire IPC for a total cash consideration of $575 million, subject to adjustments. Transaction and integration costs of $25 million pre-tax are expected over 18 months after the deal is closed. IGM is an affiliated company and a member of the Power Corporation group of companies. The transaction is expected to close in the fourth quarter of 2023 and is subject to customary closing conditions including regulatory approvals.

1 Refer to the "Accounting Policies" section of this document and to notes 2 and 3 of the Company’s condensed consolidated interim unaudited financial statements for the period ended March 31, 2023 for further details.

- On June 13, 2023, Canada Life announced an agreement to acquire Value Partners Group Inc. (Value Partners), a fast-growing Winnipeg-based investment firm serving clients with complex and sophisticated wealth needs. This acquisition accelerates Canada Life's strategy of building a leading wealth management platform for independent advisors. The acquisition will be financed with existing resources and is not expected to have a material impact on Canada Life's financial position. The transaction is expected to close by the end of 2023 and is subject to customary closing conditions including regulatory approvals (including from the Toronto Stock Exchange).
- Canada Life was awarded the Federal Government Dental Care benefits program in June 2023. This win extends a decades-long relationship in retaining the Public Service Dental Care Plan (PSDCP) for active employees and expands to include the retiree plan effective July 1, 2024. Overall, the program represents approximately $550 million in annual paid claims and supports the same 1.7 million Canadians as the Public Service Health Care Plan (PSHCP) onboarded on July 1, 2023.
- In June 2023, AIB Life, the joint venture between Allied Irish Banks plc (AIB) and Canada Life Irish Holding Company Limited, officially launched. This new company uses modern technology that is fully cloud-based and integrated with AIB’s digital banking platform to help customers plan for and secure their financial futures.
- On May 16, 2023, Canada Life U.K. announced an agreement to sell its individual onshore protection business to Countrywide Assured plc (Countrywide), a subsidiary of Chesnara plc. Approximately 47,000 customer policies will transfer to Countrywide in 2024, subject to the completion of a court-approved transfer. This follows the Canada Life U.K. announcement that it closed onshore individual protection insurance to new business in November 2022.
- In May 2023, Irish Life’s flagship Multi Asset Portfolios (MAPS) celebrated its 10-year anniversary, managing over €7 billion on behalf of 96,000 customers. MAPS is an Article 8 offering which has weathered the markets over the past decade by providing investors with diversified portfolio options.
- In May 2023, Canada Life U.K. wrote over £100 million of Individual Annuity new business (including Fixed Term Annuities). This was the strongest month for sales since the U.K. government implemented pension changes to provide greater pension freedom and flexibility in 2015. Annuity rates have improved in line with increases in interest rates which has made this product a more attractive option for retirement customers.
- During the second quarter of 2023, Irish Life's EMPOWER Master Trust reached €4 billion in assets under management. The master trust is the largest in Ireland, benefiting over 95,000 members by delivering a best-in-class member engagement program, responsible investment strategies and independent governance.
- The Capital and Risk Solutions segment continued to grow by providing tailored solutions to customers while increasing diversification within the portfolio. In the second quarter of 2023, the Capital and Risk Solutions segment expanded its international presence in targeted new markets, including two transactions in Italy.

Macroenvironmental Risks

Many factors continue to extend economic uncertainty and global financial markets continue to be volatile. The environment is displaying elevated levels of inflation and tighter financial conditions, and there have been increased liquidity concerns with respect to certain U.S. and European banks. Central banks are weighing these factors in consideration of interest rate decisions in many of the countries in which the Company operates. The outlook for financial and real estate markets over the short and medium-term remains highly uncertain and the Company actively monitors events and information globally.

Throughout 2022 and into 2023, commercial real estate office markets in Europe and North America showed signs of slowdown due to dampened demand from a continued lag faced by employers on return-to-office plans, leading to higher vacancy rates and deteriorating operating performance, driven as well by challenging economic and capital market conditions. This has resulted in certain valuation reductions reflecting the current outlook for office properties. As market conditions evolve, the Company may be required to apply further valuation reductions.

The Company's strategies are resilient and flexible, positioning it to navigate current market conditions and continue to identify and pursue opportunities, including organic growth and acquisition activities, while supporting customers and employees in an evolving environment.

NET EARNINGS

Net earnings

	For the three months ended			For the six months ended	
	June 30 2023	March 31 2023	June 30 2022 (Restated)	**June 30 2023**	June 30 2022 (Restated)
Net earnings					
Canada	**$ 144**	$ 221	373	**$ 365**	$ 813
Europe	**129**	64	272	**193**	836
Capital and Risk Solutions	**173**	217	180	**390**	408
Corporate	**17**	40	42	**57**	70
Net earnings - common shareholders	**$ 463**	$ 542	$ 867	**$ 1,005**	$ 2,127
Net earnings - participating account	**$ 24**	$ (21)	$ 2	**$ 3**	$ 27
Total net earnings	**$ 487**	$ 521	$ 869	**$ 1,008**	$ 2,154

Net earnings attributable to the common shareholder

For the three months ended June 30, 2023, net earnings attributable to the common shareholder (net earnings) were $463 million, down from $867 million from the same period in 2022. Business growth in Capital and Risk Solutions was offset by less favourable health and disability claims experience in Europe and strong group morbidity results in 2022 that did not repeat in Canada. Net earnings included realized other comprehensive income (OCI) losses of $121 million related to asset rebalancing to shorter duration assets in the Europe surplus account. The asset rebalancing capitalized on higher short-term interest rates and had a favourable impact on LICAT interest rate capital requirements and reduces future interest rate sensitivity. Net earnings were impacted by lower net investment result compared to the same period in 2022 driven by interest rate movements, including spread movements, in the second quarter of 2023. The rise in interest rates within the U.K. led to a positive earnings impact as liabilities decreased by more than their supporting assets, whereas the interest rate movements within Canada led to a negative earnings impact as liabilities decreased by less than their supporting assets.

For the six months ended June 30, 2023, net earnings attributable to the common shareholder (net earnings) were $1,005 million, down from $2,127 million from the same period in 2022, primarily due to the same reasons discussed for the in-quarter results.

Net earnings attributable to the participating account
For the three months ended June 30, 2023, net earnings attributable to the participating account were $24 million compared to net earnings of $2 million in the same quarter last year. The increase was primarily due to changes to certain tax estimates, partially offset by lower earnings on surplus.

For the six months ended June 30, 2023, net earnings attributable to the participating account were $3 million compared to net earnings of $27 million for the same period in 2022. The decrease was primarily due to lower earnings on surplus.

Market Experience Relative to Expectations
In the regions where the Company operates, average equity market indices for the three months ended June 30, 2023 were up by 3% in the U.S. (as measured by S&P 500), down 2% in Canada (as measured by S&P TSX), up 3% in the U.K. (as measured by FTSE 100) and 17% in broader Europe (as measured by EURO STOXX 50) compared to the same period in 2022. The major equity indices finished the second quarter of 2023 up 2% in broader Europe and 8% in the U.S., unchanged in Canada and down 1% in the U.K. compared to March 31, 2023.

Market experience relative to expectations, which are reflected in the net investment result of the Company's consolidated statement of earnings, negatively impacted net earnings by $75 million in the second quarter of 2023 (positive impact of $77 million in the second quarter of 2022), reflecting the impact of lower returns than expected on real estate assets and public equity assets held in Canada. There were offsetting impacts in net earnings arising from interest rate movements, including spread movements, in the second quarter of 2023. The rise in interest rates within the U.K. led to a positive earnings impact as liabilities decreased by more than their supporting assets, whereas the interest rate movements within Canada led to a negative earnings impact as liabilities decreased by less than their supporting assets.

For the six months ended June 30, 2023, market experience relative to expectations negatively impacted net earnings by $230 million (positive impact of $757 million year-to-date in 2022). The 2023 year-to-date negative impact was primarily due to lower returns than expected on real estate assets and public equity assets held in Canada, as well as interest rate movements in Canada, partially offset by the rise in interest rate movement within the U.K.

In order to mitigate the Company's exposure to interest rate fluctuations, the Company follows disciplined processes for matching asset and liability cash flows. As a result, the impact of changing interest rates is mostly mitigated in the current period, with the impact of changes in fair values of bonds backing insurance contract liabilities mostly offset by a corresponding change in the insurance contract liabilities. However, differences in the interest rate sensitivity in the value of assets and the value of insurance and investment contract liabilities leads to a sensitivity to interest rate movements in net earnings under IFRS 17 and IFRS 9, due to the Company’s asset liability management strategies and accounting policy choices. These choices include consideration of the impact on regulatory capital, which can result in increased net earnings sensitivity, but decreased capital sensitivity. For example, the Company’s asset liability management strategy uses equities and other non-fixed income assets as a component of general fund assets supporting liabilities, which leads to interest rate exposure in the net earnings; and the classification of financial assets under IFRS 9, for example, mortgage assets which are valued at amortized cost and held in the general fund assets supporting liabilities, also contributes to interest rate exposure in net earnings. Furthermore, sensitivities to interest rate movements vary depending upon the geography where the changes occur and the level of change in interest rates by term.

For a further description of the Company's sensitivity to equity market and interest rate fluctuations, including expanded sensitivity disclosure as a result of current market conditions, refer to "Financial Instruments Risk Management", note 6 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2023.

Assumption Changes and Management Actions
Under IFRS 17, non-financial assumption changes and management actions on medium to long-term insurance contracts directly impact CSM, where CSM is held on the underlying contracts. There can also be net earnings impact from assumption changes and management actions, which can arise from financial assumption changes on

certain products, non-financial assumption changes on group insurance and other short-term insurance contracts, and from interest rate effects arising from assumption changes and management actions which impact CSM.

For the three months ended June 30, 2023, assumption changes and management actions resulted in a negative net earnings impact of $4 million reflecting minor model refinements. This compares to a positive impact of $7 million for the previous quarter.

For the six months ended June 30, 2023, assumption changes and management actions resulted in a positive net earnings impact of $3 million, compared to negative $33 million for the same period in 2022.

Foreign Currency

The average currency translation rate for the second quarter of 2023 increased for the U.S. dollar, the euro, and the British pound compared to the second quarter of 2022. The overall impact of currency movement on the Company's net earnings for the three months ended June 30, 2023 was an increase of $13 million (increase of $25 million year-to-date) compared to translation rates a year ago.

From March 31, 2023 to June 30, 2023, the market rates at the end of the reporting period used to translate the U.S. dollar and euro assets and liabilities to the Canadian dollar decreased, while the British pound increased. The movements in end-of-period exchange rates impact the translation of foreign operations, including related hedge activities, resulting in post-tax unrealized foreign exchange losses of $92 million in-quarter ($50 million net unrealized gains year-to-date) recorded in other comprehensive income.

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

STATEMENT OF EARNINGS

The following discussion sections reflect the statement of earnings presentation under IFRS 17 which provides a picture of profit sources. For insurance contracts, at a high level, the impacts of insurance performance are presented separately from financial risks and investment income, through the Insurance Service Result and Net Investment Result, respectively.

INSURANCE SERVICE RESULT

Insurance service result depicts the profit earned from providing insurance coverage and comprises the combined impact of insurance revenue, insurance expenses and net expenses from reinsurance contracts held. Insurance revenue reflects the consideration to which the insurer expects to be entitled in exchange for insurance services provided on an earned basis. Insurance expenses include incurred claims and other operating expenses directly attributable to the insurance contracts the Company issues. Net expenses from reinsurance contracts held represents the combined impact of allocated reinsurance premiums paid to and amounts recovered from reinsurers by the Company.

Insurance service result

	For the three months ended			For the six months ended	
	June 30 2023	March 31 2023	June 30 2022 (Restated)	**June 30 2023**	June 30 2022 (Restated)
Insurance service result					
Canada	**$ 320**	$ 307	$ 360	**$ 627**	$ 640
Europe	**132**	183	189	**315**	364
Capital and Risk Solutions	**195**	155	198	**350**	386
Corporate	**2**	1	5	**3**	6
Insurance service result - common shareholder	**$ 649**	$ 646	$ 752	**$ 1,295**	$ 1,396
Insurance service result - participating account	**$ 37**	$ 37	$ 32	**$ 74**	$ 62
Total insurance service result	**$ 686**	$ 683	$ 784	**$ 1,369**	$ 1,458

Insurance service result for the second quarter of 2023 of $686 million decreased by $98 million compared to the second quarter of 2022. The decrease was primarily due to strong group health morbidity experience in 2022 in Canada that did not repeat and less favourable claims experience in Europe. The decrease was partially offset by increased earnings from structured reinsurance business in Capital and Risk Solutions.

For the six months ended June 30, 2023, insurance service result of $1,369 million decreased by $89 million compared to the same period in 2022. The decrease was primarily due to the same reasons discussed for the in-quarter results.

NET INVESTMENT RESULT

Net investment result can be analyzed in three parts in the table below:

Net investment income - investment income earned from managing the Company’s invested assets net of expenses, allowances for credit losses and realized gains (losses);

Changes in fair value through profit and loss (FVTPL) - change of the carrying value of invested assets measured at FVTPL on the balance sheet; and

Net finance income/(expense) from insurance and reinsurance contracts and changes in investment contract liabilities - changes in insurance, reinsurance, and investment contract liabilities on the balance sheet due to financial risks. This includes the effect of the passage of time (interest accretion), changes in the time value of money and the effect of financial risk and changes in financial risk, including the effects of discount rates and other financial assumptions on valuing the Company's insurance and investment contract liabilities.

Net investment result

	For the three months ended			For the six months ended	
	June 30 2023	March 31 2023	June 30 2022 (Restated)	**June 30 2023**	June 30 2022 (Restated)
Investment income earned (net of investment properties expenses)	**$ 1,313**	$ 1,179	$ 1,286	**$ 2,492**	$ 2,425
Net allowances for credit losses	**—**	1	(11)	**1**	(11)
Net realized gains (losses)	**(169)**	(34)	(11)	**(203)**	(15)
Regular investment income	**$ 1,144**	$ 1,146	$ 1,264	**$ 2,290**	$ 2,399
Investment expenses	**(21)**	(30)	(50)	**(51)**	(97)
Net investment income	**$ 1,123**	$ 1,116	$ 1,214	**2,239**	2,302
Changes in fair value through profit or loss	**(1,719)**	2,238	(9,232)	**519**	(17,016)
Total net investment income	**$ (596)**	$ 3,354	$ (8,018)	**$ 2,758**	$ (14,714)
Net finance expenses from insurance contracts	**571**	(3,428)	8,825	**(2,857)**	16,796
Net finance income from reinsurance contracts	**—**	131	(540)	**131**	(1,005)
Changes in investment contract liabilities	**(8)**	(56)	55	**(64)**	174
Total net investment result	**$ (33)**	$ 1	$ 322	**$ (32)**	$ 1,251
Business units:					
Canada	**$ (139)**	$ (30)	$ 123	**$ (169)**	$ 440
Europe	**68**	(59)	176	**9**	706
Capital and Risk Solutions	**17**	80	24	**97**	108
Corporate	**33**	59	20	**92**	31
Net investment result - common shareholder	**$ (21)**	$ 50	$ 343	**$ 29**	$ 1,285
Net investment result - participating account	**$ (12)**	$ (49)	$ (21)	**$ (61)**	$ (34)
Total net investment result	**$ (33)**	$ 1	$ 322	**$ (32)**	$ 1,251

Total net investment result in the second quarter of 2023 decreased by $355 million compared to the same quarter last year. Net investment income decreased primarily due to net realized OCI losses from asset rebalancing in Europe, partially offset by higher income earned on bond and mortgage investments.

There were partially offsetting impacts on assets and liabilities that are reflected in net earnings arising from interest rate movements, including spread movements, in the second quarter of 2023. The rise in interest rates within the U.K. led to a positive earnings impact as liabilities decreased by more than their supporting assets, whereas the interest rate movements within Canada led to a negative earnings impact as liabilities decreased by less than their supporting assets.

For the six months ended June 30, 2023, total net investment result decreased by $1,283 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Credit Markets
In the second quarter of 2023, the impact to common shareholders' net earnings from expected credit losses was negligible.

For the six months ended June 30, 2023, the Company experienced net recoveries on expected credit losses, including dispositions, which positively impacted common shareholders' net earnings by $1 million, due to the net remeasurement of allowance for credit losses on mortgage loans.

FEE AND OTHER INCOME

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

Fee and other income

	For the three months ended			For the six months ended	
	June 30 2023	March 31 2023	June 30 2022 (Restated)	**June 30 2023**	June 30 2022 (Restated)
Canada	**$ 332**	$ 318	$ 294	**$ 650**	$ 596
Europe	**200**	186	190	**386**	383
Capital and Risk Solutions	**4**	2	2	**6**	3
Corporate	**7**	6	7	**13**	15
Total fee and other income	**$ 543**	$ 512	$ 493	**$ 1,055**	$ 997

Fee and other income for the second quarter of 2023 of $543 million increased by $50 million compared to the same quarter last year, primarily due to growth in fees related to ASO contracts and increases in assets related to the wealth business in the Canada segment and increases in group insurance fees in the Europe segment related to Workplace Solutions.

For the six months ended June 30, 2023, fee and other income increased by $58 million to $1,055 million, primarily due to the same reasons discussed for the in-quarter results.

INCOME TAXES

The Company's effective income tax rate is generally lower than the statutory income tax rate of 28.0% due to benefits related to non-taxable investment income and lower income tax in certain foreign jurisdictions.

In the second quarter of 2023, the effective income tax rate on net earnings for the common shareholders of 9.2% was down from 15.8% in the second quarter of 2022, primarily due to higher non-taxable investment income and jurisdictional mix on earnings.

For the six months ended June 30, 2023, the effective income tax rate on net earnings for the common shareholders of 7.2% was down from 15.2% for the same period last year primarily due to the same reasons discussed for the in-quarter results.

In the second quarter of 2023, the overall effective income tax rate on net earnings of 4.3% was down from 15.0% in the second quarter of 2022, primarily due to higher non-taxable investment income and jurisdictional mix of earnings.

For the six months ended June 30, 2023, the overall effective income tax rate on net earnings of 3.5% was down from 13.7% for the same period last year primarily due to the same reasons discussed for the in-quarter results.

Refer to note 16 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2023 for further details.

In December 2021, the Organization for Economic Co-operation and Development (OECD) published model rules outlining a structure for a new global minimum tax regime to be implemented by participating countries at an agreed future date, currently expected (for most countries) to be 2024. Detailed commentary on the rules was released by the OECD during 2022. In the March 2023 federal budget, the Canadian government confirmed its commitment to implement the global minimum tax with effect for fiscal years that begin on or after December 31, 2023. In December 2022, the European Union adopted a directive that member countries must enact the 15% minimum tax into their national laws by end of 2023. In June 2023, the U.K. substantively enacted legislation to implement the minimum tax effective for 2024. At this point, the countries where the Company currently operates, other than the U.S., have all indicated their participation. A number of these countries currently operate at a lower tax rate than the proposed minimum and when legislation is enacted the Company expects an increase in the effective income tax rate. The Company is awaiting the legislation and detailed guidance to assess the full implications of the minimum tax regime.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration[1]

		As at June 30, 2023		As at Dec. 31, 2022 (Restated)
Assets				
Invested assets	$	**134,590**	$	133,545
Goodwill and intangible assets		**8,870**		8,842
Insurance contract assets		**818**		886
Reinsurance contract held assets		**6,423**		6,709
Other assets		**8,114**		7,064
Investments on account of segregated fund policyholders		**233,758**		221,608
Total assets		**392,573**		378,654
Other assets under management[2]		**73,458**		65,410
Total assets under management[1]		**466,031**		444,064
Other assets under administration[2]		**38,917**		37,689
Total assets under administration[1]	$	**504,948**	$	481,753

1 This metric is a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures and Ratios" section of this document for additional details.
2 Refer to the "Glossary" section of this document for additional details on the composition of this measure.

Total assets under administration (AUA) at June 30, 2023 increased by $23.2 billion to $504.9 billion compared to December 31, 2022, primarily due to market movement and new business growth, partially offset by impact of currency movement.

INVESTED ASSETS

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

Single family residential mortgages

Region		As at June 30, 2023			As at Dec. 31, 2022 (Restated)	
Ontario	$	**908**	**55 %**	$	954	55 %
Quebec		**292**	**18**		306	18
Saskatchewan		**92**	**6**		96	6
Alberta		**82**	**5**		86	5
Newfoundland		**64**	**4**		69	4
British Columbia		**60**	**4**		63	4
New Brunswick		**57**	**3**		60	3
Manitoba		**54**	**3**		55	3
Nova Scotia		**40**	**2**		43	2
Other		**6**	**—**		6	—
Total	$	**1,655**	**100 %**	$	1,738	100 %

During the six months ended June 30, 2023, single family mortgage originations, including renewals, were $67 million, of which 19% were insured (18% for the year ended December 31, 2022). Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfill their mortgage obligations. Loans that are insured are subject to the requirements of the mortgage default insurance provider. The weighted average remaining amortization period for the single family residential mortgage portfolio was 21 years as at June 30, 2023 (21 years as at December 31, 2022).

LIABILITIES

Total liabilities

	As at June 30, 2023	As at Dec. 31, 2022 (Restated)
Insurance contract liabilities	**$ 122,431**	$ 120,503
Reinsurance contract held liabilities	**445**	326
Investment contract liabilities	**4,822**	4,672
Other general fund liabilities	**8,030**	7,757
Preferred shares	**1,000**	1,000
Insurance contracts on account of segregated fund policyholders	**46,646**	45,409
Investment contracts on account of segregated fund policyholders	**187,112**	176,199
Total	**$ 370,486**	$ 355,866

Total liabilities increased by $14.6 billion to $370.5 billion at June 30, 2023 from December 31, 2022.

Insurance contract liabilities increased by $1.9 billion. The increase was primarily due to market movements, partially offset by normal business movements.

Investment contract liabilities increased by $0.2 billion. The increase was primarily due to normal business activity.

Insurance and Investment contracts on account of segregated fund policyholders increased by $12.2 billion, primarily due to the combined impact of market value gains and investment income of $10.6 billion, the impact of currency movement of $0.9 billion as well as net deposits of $1.8 billion, partially offset by the negative impact of non-controlling mutual funds interest of $1.2 billion.

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

Insurance Contract Liabilities

When significant insurance risk exists, the Company’s products are classified at contract inception as insurance contract liabilities in accordance with IFRS 17, *Insurance Contracts* (IFRS 17). Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to note 2 of the Company’s condensed consolidated interim unaudited financial statements for the period ended June 30, 2023 and the "Risk Management" section of the Company's 2022 annual Management's Discussion and Analysis for a discussion of insurance risk.

Contracts with coverage periods of one year or less and those that are relatively stable and have low variability in fulfillment cashflows are measured under the more simplified premium allocation approach (PAA). Low variability in fulfillment cash flows indicates that no significant difference in measurement exists when compared to the general measurement model (GMM). All other contracts are measured under the GMM or for those with direct participating features, the variable fee approach (VFA). Refer to note 2 of the Company’s condensed consolidated interim unaudited financial statements for the period ended June 30, 2023 for a discussion of IFRS 17 measurement models.

For contracts not measured under the PAA, the Company measures a group of insurance contracts as the total of the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and the contractual service margin. Refer to note 2 of the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2023 for a discussion of initial and subsequent measurement of insurance contract liabilities.

Insurance contract liabilities and assets[1]

	As at June 30, 2023					
	Insurance contracts not under PAA method					
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin	Total	Contracts under PAA method	Total net insurance contract liabilities
Canada	$ 92,159	$ 1,864	$ 6,366	$ 100,389	$ 8,928	$ 109,317
Europe	36,774	1,067	4,333	42,174	3,498	45,672
Capital and Risk Solutions	1,478	1,948	1,688	5,114	256	5,370
Corporate	1,773	16	133	1,922	—	1,922
Total	$ 132,184	$ 4,895	$ 12,520	$ 149,599	$ 12,682	$ 162,281

	As at December 31, 2022					
	Insurance contracts not under PAA method					
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin	Total	Contracts under PAA method	Total net insurance contract liabilities
Canada	$ 89,109	$ 1,826	$ 6,519	$ 97,454	$ 8,685	$ 106,139
Europe	36,081	1,075	4,163	41,319	3,490	44,809
Capital and Risk Solutions	1,823	1,944	1,726	5,493	229	5,722
Corporate	1,868	17	88	1,973	—	1,973
Total	$ 128,881	$ 4,862	$ 12,496	$ 146,239	$ 12,404	$ 158,643

[1] Insurance contract liabilities and assets presented in the above tables also include insurance contracts on account of segregated fund policyholders and reinsurance held assets and liabilities.

At June 30, 2023, total net insurance contract liabilities were $162.3 billion, an increase of $3.6 billion from December 31, 2022. The increase in net insurance contract liabilities was primarily due to market movements, partially offset by normal business movements.

Contractual Service Margin (CSM)

The CSM of a group of insurance contracts represents the unearned profit that the Company expects to recognize in the future as it provides services under those contracts. On initial recognition of a group of insurance contracts, if the total of the fulfilment cash flows, any derecognized assets for insurance acquisition cash flows and any cash flows arising at that date is a net inflow, then the group is classified as non-onerous. For non-onerous contracts, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

If the total is a net outflow, then the group of insurance contracts is onerous. In this case, the net outflow is recognized as a loss in the current period. A loss component is created to depict any losses recognized in the current period, which determines the amounts that are subsequently recognized in future periods as reversals on onerous groups.

Contractual service margin (CSM) continuity[1]

	As at June 30, 2023		
	Non-Par	Par	Total
CSM beginning of period, December 31, 2022	$ 9,006	$ 3,490	**$ 12,496**
Impact of new insurance business	234	54	**288**
Expected movements from asset returns & locked-in rates	183	101	**284**
CSM recognized for services provided	(458)	(68)	**(526)**
Insurance experience gains/losses	(40)	1	**(39)**
Organic CSM movement	$ (81)	$ 88	**$ 7**
Impact of markets	165	(230)	**(65)**
Impact of change in assumptions	36	—	**36**
Currency impact	48	(2)	**46**
Total CSM movement	$ 168	$ (144)	**$ 24**
CSM end of period, June 30, 2023	$ 9,174	$ 3,346	**$ 12,520**

[1] The CSM shown in the above table is presented net of reinsurance held and includes CSM attributed to insurance contract assets and insurance contract liabilities.

At June 30, 2023, total contractual service margin was $12.5 billion, an increase of $24 million from December 31, 2022. The impact of changes in assumptions includes a $57 million increase in CSM following a reclassification of liabilities between CSM and estimates of present value of future cashflows. The reclassification has no net impact to total insurance contract liabilities.

EQUITY

The Company is a wholly-owned subsidiary of Great-West Lifeco Inc. (Lifeco). The Company’s share capital consists of common shares and preferred shares issued by the Company. At June 30, 2023, there were 2,407,384 common shares of the Company issued and outstanding with a stated value of $7,884 million (2,407,384 and $7,884 million as at December 31, 2022).

Participating account surplus and shareholder's equity

As at June 30, 2023, the Company's total participating account surplus and shareholder's equity was $22.1 billion compared to $22.8 billion at December 31, 2022. The decrease was primarily due to dividends paid on common shares of $1.7 billion, partially offset by net earnings of $1.0 billion as well as other comprehensive income of $0.1 billion.

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY

Liquidity risk is assessed and mitigated through prudent product design and contract terms; and by maintaining a high quality, diversified investment portfolio with sufficient liquidity to meet policyholder and financing obligations under normal and stress conditions.

Total Liquid Assets

	As at June 30, 2023		
	On-balance sheet assets	**Non-liquid/ Pledged**	**Net liquid assets**
Cash, cash equivalents and short-term bonds			
Cash and cash equivalents[1]	$ 3,563	$ 7	$ 3,556
Short-term bonds[2]	3,364	—	3,364
Sub-total	$ 6,927	$ 7	$ 6,920
Other assets and marketable securities			
Government bonds[2]	$ 33,610	$ 9,269	$ 24,341
Corporate bonds[2]	49,477	22,878	26,599
Stocks[1]	13,052	1,968	11,084
Mortgage loans[1]	23,338	20,475	2,863
Sub-total	$ 119,477	$ 54,590	$ 64,887
Total	$ 126,404	$ 54,597	$ 71,807

	As at December 31, 2022 (Restated)		
	On-balance sheet assets	Non-liquid/ Pledged	Net liquid assets
Cash, cash equivalents and short-term bonds			
Cash and cash equivalents[1]	$ 3,761	$ 31	$ 3,730
Short-term bonds	4,068	—	4,068
Sub-total	$ 7,829	$ 31	$ 7,798
Other assets and marketable securities			
Government bonds	$ 34,887	$ 9,406	$ 25,481
Corporate bonds	46,992	21,353	25,639
Stocks[1]	12,679	1,754	10,925
Mortgage loans[1]	22,843	19,856	2,987
Sub-total	$ 117,401	$ 52,369	$ 65,032
Total	$ 125,230	$ 52,400	$ 72,830

[1] Refer to the consolidated balance sheet in the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2023 for on-balance sheet amounts.

[2] Total short-term bonds, government bonds and corporate bonds as at June 30, 2023 was $86.5 billion. Refer to consolidated balance sheet in the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2023 for on-balance sheet bonds amounts.

The Company's liquidity requirements are largely self-funded, with short-term obligations being met by internal funds and maintaining levels of liquid investments adequate to meet anticipated liquidity needs. At June 30, 2023, the Company and its operating subsidiaries held liquid cash, cash equivalents and short-term bonds of $6.9 billion ($7.8 billion at December 31, 2022) and other liquid assets and marketable securities of $64.9 billion ($65.0 billion at December 31, 2022). In addition, the Company maintains committed lines of credit with Canadian chartered banks for potential unanticipated liquidity needs, if required.

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

The Company's ability to pay dividends and, in part, its ability to deploy capital is dependent upon the Company receiving dividends from its subsidiaries. The Company's subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the subsidiaries to pay dividends to the Company.

CASH FLOWS

Cash flows

	For the three months ended June 30		For the six months ended June 30	
	2023	2022 (Restated)	**2023**	2022 (Restated)
Cash flows relating to the following activities:				
Earnings after-tax	**$ 359**	$ 923	**$ 840**	$ 2,336
Fair value changes and other	**1,568**	281	**1,421**	(315)
Operations	**1,927**	1,204	**2,261**	2,021
Financing	**(752)**	(325)	**(1,727)**	(896)
Investment	**(1,137)**	(1,129)	**(744)**	(785)
	38	(250)	**(210)**	340
Effects of changes in exchange rates on cash and cash equivalents	**(14)**	(51)	**12**	(135)
Increase (decrease) in cash and cash equivalents in the period	**24**	(301)	**(198)**	205
Cash and cash equivalents, beginning of period	**3,539**	3,777	**3,761**	3,271
Cash and cash equivalents, end of period	**$ 3,563**	$ 3,476	**$ 3,563**	$ 3,476

The principal source of funds for the Company on a consolidated basis is cash provided by operating activities, including insurance revenue, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. The operations category on the statement of cash flows also includes transfers and withdrawals by clients that are funded in part by the sale of assets for cash reflected in the investments category. Cash flows generated by operations are mainly invested to support future liability cash requirements. Cash flows related to financing activities include the issuance and repayment of capital instruments and associated dividends and interest payments.

In the second quarter of 2023, cash and cash equivalents increased by $24 million from March 31, 2023. Cash flows provided by operations during the second quarter of 2023 were $1,927 million, an increase of $723 million compared to the second quarter of 2022, primarily due to positive fair value changes in the current period. Cash flows used by financing activities of $752 million were primarily used for the payment of dividends to common shareholders. For the three months ended June 30, 2023, cash flows of $1,137 million were used to acquire additional investment assets.

For the six months ended June 30, 2023, cash and cash equivalents decreased by $198 million from December 31, 2022. Cash flows provided by operations were $2,261 million, an increase of $240 million compared to the same period in 2022, primarily due to the same reason discussed for the in-quarter results. Cash flows used by financing activities of $1,727 million were primarily used for the same reason discussed for the in-quarter results. For the six months ended June 30, 2023, cash flows were used by the Company to acquire an additional $744 million of investment assets.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations have not changed materially from December 31, 2022.

CAPITAL MANAGEMENT AND ADEQUACY

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

In Canada, OSFI has established a regulatory capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test (LICAT). The LICAT Ratio is calculated in accordance with the 2023 OSFI Guideline - Life Insurance Capital Adequacy Test.

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

OSFI has established a Supervisory Target Total Ratio of 100% and a Supervisory Minimum Total Ratio of 90%. The Company is operating well above these supervisory ratios.

The LICAT Ratio at June 30, 2023 of Canada Life was 126%.

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

LICAT Ratio	**June 30 2023**	March 31 2023	Dec. 31 2022 (Restated)
Tier 1 Capital	**$ 18,028**	$ 18,523	
Tier 2 Capital	**5,433**	5,225	
Total Available Capital	**23,461**	23,748	
Surplus Allowance & Eligible Deposits	**5,176**	5,322	
Total Capital Resources	**$ 28,637**	$ 29,070	
Required Capital	**$ 22,791**	$ 22,926	
Total Ratio (OSFI Supervisory Target = 100%)[1]	**126 %**	127 %	
Proforma IFRS 17 Total Ratio (OSFI Supervisory Target = 100%)[1,2]			130 %

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

2 Proforma estimates of the Canada Life consolidated LICAT ratio are estimated based on the retrospective application of the 2023 LICAT Guideline to 2022 financial results which have been restated to reflect the adoption of IFRS 17 and IFRS 9. Proforma LICAT ratios are intended only to provide an estimate of the direction and magnitude of the impact of adopting the 2023 LICAT Guideline under IFRS 17. Refer to the Cautionary Notes at the beginning of this document for additional information on the use of proforma estimates

The LICAT Ratio decreased by one point in the quarter from 127% at March 31, 2023 to 126% in June 30, 2023. The one point decrease is partially attributed to the impact of higher interest rates in-quarter with some offset from surplus asset rebalancing in Europe which achieved lower interest rate risk regulatory capital requirements.

LICAT Interest Rate Scenario Shift

There was no new shift in the interest rate scenario applied in the LICAT calculation this quarter. Previous interest rate scenario shifts have now been fully smoothed into the Canada Life LICAT result.

LICAT Sensitivities

Caution Related to Sensitivities

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

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

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

LICAT sensitivities are rounded to the nearest point and have been prepared on an IFRS 17 basis under the LICAT 2023 OSFI Guideline.

Publicly Traded Common Stocks

The following table sets out the estimated immediate impact to Canada Life's consolidated LICAT Ratio of certain changes in publicly traded common stock values as at June 30, 2023. These sensitivity estimates assume instantaneous shocks. The sensitivity estimates relate to publicly traded common stocks and do not cover other non-fixed income assets. These estimates are illustrative as actual equity exposures may vary due to active management of the public stock portfolios.

Immediate change in publicly traded common stock values	**June 30, 2023**			
	20% increase	**10% increase**	**10% decrease**	**20% decrease**
Potential increase (decrease) on LICAT Ratio	0 point	0 point	0 point	(2 points)

Interest Rates

Canada Life's consolidated LICAT Ratio will generally reduce in an environment of rising interest rates and benefit from declining rates. Higher interest rates will decrease the value of the Company's surplus assets and the value of the provision for non-financial risk included in the Surplus Allowance. These reductions will be partially offset by increased earnings that result from higher interest rates. While the value of capital resources reduce as interest rates rise, the LICAT Guideline uses static interest rates for the calculation of insurance risk capital requirements, and hence these capital requirements do not change with interest rate movements. This means that while rising interest rates are generally favourable for the Company, they will lead to a decrease in the calculated LICAT ratio.

The sensitivity estimates shown here are illustrative. The impacts shown are based on a parallel shift in the interest rate yield curve across all geographies. Actual movement in credit spreads or government treasury rates may produce different movements in Canada Life's consolidated LICAT Ratio. Sensitivity to interest rates is dependent on many factors and may result in non-linear impacts to the LICAT Ratio. These sensitivities do not include a change in the ultimate interest rate or the impact of a LICAT interest rate risk scenario shift.

Immediate parallel shift in yield curve	June 30, 2023	
	50 bps increase	50 bps decrease
Potential increase (decrease) on LICAT Ratio	< 1 pt decrease	< 1 pt increase

OSFI Regulatory Capital Initiatives

OSFI is developing a new approach, planned to be implemented in 2025, to determine capital requirements for Segregated Fund Guarantee Risk. The Company will continue to participate in future public consultations relating to this and other developments.

RISK MANAGEMENT AND CONTROL PRACTICES

The Company’s Enterprise Risk Management (ERM) Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to potential losses and risk. The Company’s Risk Function is responsible for developing and maintaining the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company’s operations. The Board of Directors is ultimately accountable and responsible for the Company's risk governance and associated risk policies. These include the ERM Policy, which establishes the guiding principles of risk management, and the RAF, which reflects the levels and types of risk that the Company is willing to accept to achieve its business objectives.

During the second quarter of 2023, there were no significant changes to the Company's risk management and control practices. Refer to the Company's 2022 Annual MD&A for a detailed description of the Company's risk management and control practices.

ACCOUNTING POLICIES

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenue and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing market conditions related to global credit, equities, investment properties and foreign exchange and prevailing health and mortality experience. The fair value of portfolio investments, the valuation of goodwill and other intangible assets, the valuation of insurance contract liabilities and the recoverability of deferred tax asset carrying values reflect management’s judgement based on current expectations but could be impacted in the future depending on current market developments.

Updated significant accounting estimates reflecting the implementation of IFRS 17 and IFRS 9 are referenced below. For additional detail, refer to the Company’s condensed consolidated interim unaudited financial statements for the period ended June 30, 2023 and the Company's 2022 annual MD&A.

Fair Value Measurement

Under IFRS 9, a financial asset is measured at fair value on initial recognition and is classified and subsequently measured as fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost based upon the Company’s business model for managing its assets and the contractual cash flow characteristics of the asset.

The Company’s business models are determined at the level that reflects how its groups of financial assets are managed together to achieve business objectives.

Refer to note 7 in the Company’s condensed consolidated interim unaudited financial statements for the period ended June 30, 2023 for disclosure of the Company's financial instruments fair value measurement by hierarchy level as at June 30, 2023.

The following is a description of the methodologies used to value instruments carried at fair value:

Bonds - FVTPL and FVOCI

Fair values for bonds measured as FVTPL or FVOCI are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. Where prices are not quoted in an active market, fair values are determined by valuation models. The Company maximizes the use of observable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure bonds at fair value in its FVTPL and FVOCI portfolios.

The Company estimates the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as, yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Mortgages - FVTPL and FVOCI

There are no market observable prices for mortgages; therefore fair values for mortgages are determined by discounting expected future cash flows using current market rates for similar instruments. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

Equity Release Mortgages - FVTPL

There are no market observable prices for equity release mortgages; therefore an internal valuation model is used for discounting expected future cash flows and includes consideration of the embedded no-negative equity guarantee. Inputs to the model include market observable inputs such as benchmark yields and risk-adjusted spreads. Non-market observable inputs include property growth and volatility rates, expected rates of voluntary redemptions, death, moving to long term care and interest cessation assumptions and the value of the no negative equity guarantee.

Stocks - FVTPL

Fair values for stocks traded on an active market are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movement relative to the market and utilization of information provided by the underlying investment manager. The Company maximizes the use of observable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure stocks at fair value in its fair value through profit or loss portfolio.

Hedge Accounting

The Company elected to continue to apply the hedge accounting principles under IAS 39 instead of those under IFRS 9. Refer to note 2 in the Company’s consolidated annual audited financial statements for the year ended December 31, 2022 for disclosure of the Company's policy for hedge accounting.

Expected credit losses (ECL)

Under IFRS 9, expect credit loss (ECL) allowances are recognized on all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI. The ECL model under IFRS 9 replaces the incurred loss model under IAS 39.

The Company measures loss allowances at either a 12-month ECL or lifetime ECL. A 12-month ECL results from any default events that could potentially occur within the 12 months following the reporting date. A 12-month ECL is calculated for financial assets that are determined to have low credit risk or the credit risk has not increased significantly since initial recognition. A lifetime ECL results from all possible default events over the expected life of the financial asset, which is the maximum contractual period over which the Company is exposed to the credit risk. A lifetime ECL is recognized for financial assets that have experienced a significant increase in credit risk since initial recognition or when there is objective evidence of impairment.

The ECL allowance is based on a probability-weighted estimate of credit losses expected as a result of defaults over the relevant time period as prescribed under the ECL model. The measurement of ECL for a financial asset is based primarily on the exposure at default, the probability of default, and the loss given default. The measurement of ECL allowances requires the use of judgment and assumptions.

For performing financial assets, the ECL is calculated as the present value of all cash shortfalls which are the difference between cash flows due to the Company and the cash flows expected to be received. For financial assets that are impaired, the ECL is calculated as the difference between the carrying value of the asset and the present value of estimated future cash flows. Financial assets that are subject to ECL allowances are categorized into three stages:

Performing financial assets that have not experienced a significant increase in credit risk since initial recognition or have low credit risk are categorized into stage 1. A 12-month ECL allowance is calculated for stage 1 financial assets.

Performing financial assets that have experienced a significant increase in credit risk since initial recognition are categorized into stage 2. A lifetime ECL allowance is calculated for stage 2 financial assets.

Impaired financial assets are categorized into stage 3 and require a lifetime ECL allowance.

Insurance, reinsurance held and investment contract liabilities

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

The Company measures the estimates of the present value of future cash flows for reinsurance held using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer.

Investment contract liabilities are measured at fair value determined using discount rates derived from a reference portfolio or stochastic modeling at end of the reporting period. The Company's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

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

<u>Updated Annual Assumptions and Sensitivities Disclosures</u>

The assumptions and sensitivities below have historically been updated in the Company's Annual MD&A. However, with the adoption of IFRS 17 and IFRS 9, the sensitivities as at December 31, 2022 have been restated to include the impact on the Company’s net earnings and CSM balances. These assumptions and sensitivities will be included in all 2023 interim MD&As as shown below and will be updated in the Company’s 2023 Annual MD&A.

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

Morbidity – The Company uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly, and emerging experience is factored into the current valuation.

Expenses – Expenses for certain items, such as sales commissions and policy taxes and fees are either contractual or specified by law, and so they are only reflected on a best estimate basis in the liability. Operating expenses, such as policy and claims administration as well as overhead, are more variable. The Company produces expense studies for operating expenses regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. An inflation assumption is incorporated in the estimate of future operating expenses held within the liability.

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

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

Updated Interim Disclosures

With the adoption of IFRS 17 and IFRS 9, the sensitivities below now include the impact on the Company's net earnings. These assumptions and sensitivities will be updated quarterly.

***Investment return*s** – Interest rate risk is managed by investing in assets that are suitable for the products sold. The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.

The impact to net earnings from changes in the interest rates would be largely offset by changes in the value of financial assets supporting the liabilities. However, differences in the interest rate sensitivity in the value of assets and the value of insurance and investment contract liabilities leads to a sensitivity to interest rate movements in net earnings under IFRS 17 and IFRS 9. The Company’s asset liability management strategy uses equities and other non-fixed income assets as a component of general fund assets supporting liabilities, which leads to interest rate exposure in the net earnings. Further, the classification of financial assets under IFRS 9, for example, mortgage assets which are valued at amortized cost and held in the general fund assets supporting liabilities, also contributes to interest rate exposure in net earnings.

A way of measuring the interest rate risk is to determine the net effect on the value of assets relative to insurance and investment contract liabilities that impact the shareholders' net earnings of the Company from immediate change in interest rates.

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

Some insurance and investment contract liabilities with long-tail cash-flows are supported by publicly traded common stocks and investments in other non-fixed income assets, primarily comprised of investment properties, real estate funds, private stocks, and equity release mortgages. Net earnings will reflect changes in the values on non-fixed income assets. However, in most cases the value of the liabilities will not fluctuate with changes in the value of the non-fixed income assets.

The liabilities for other products such as segregated fund products with guarantees also fluctuate with equity values. Under current market conditions, there are no earnings impacts to the Company on segregated fund business that it does not hedge, as changes in the cost of guarantees are fully offset within the CSM. For segregated fund business that the Company hedges, there is a limited earnings impact with respect to the change in liability compared to the change in hedge assets.

For a further description of the Company's sensitivity to equity market, interest rate and other fluctuations, refer to "Financial Instruments Risk Management" note 6 in the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2023.

Risk adjustment

The risk adjustment for non-financial risk represents the compensation that the Company requires for bearing uncertainty in the amount and timing of insurance contract cash flows due to non-financial risk. Non-financial risks are insurance risks such as life mortality, annuity mortality and morbidity, and other non-financial risks such as expense and lapse. The risk adjustment is calculated by applying a margin to non-financial assumptions and discounting the resulting margin cash flows at the same discount rates as the best estimate cash flows. The margins applied reflect diversification benefits across all non-financial risks in Lifeco.

Discount rates

The Company measures time value of money using discount rates that are consistent with observable market prices and reflect the liquidity characteristics of the insurance contracts. They exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts (e.g., credit risk).

The Company applies the top-down approach for insurance contract liabilities with backing assets. Under this approach, discount rates are estimated by starting from the yield curve implied in a reference portfolio of assets that closely reflects the duration, currency, and liquidity characteristics of the insurance cash flows, and then excluding the effects of risks (e.g., credit risk) present in the cash flows from the financial instruments that are part of the reference portfolio, but not in the insurance contracts cash flows. The Company uses the fixed-income assets supporting the insurance contract liabilities as the reference portfolio to determine the discount rates, in the observable period, while the discount rates in the unobservable period are based on an ultimate investment rate. In situations where the fixed-income assets supporting the insurance contract liabilities do not appropriately reflect the illiquidity characteristics of the liability, an additional adjustment is made to the discount rate.

In cases where there are no backing assets, the Company applies the bottom-up approach to set the discount rate. This approach uses a risk-free rate, plus a spread to reflect the liquidity characteristics of the liability. Risk-free rates are determined by reference to highly liquid government securities in the currency of the insurance contract liability, and the spread is derived from an external benchmark.

The following table provides the lower and upper end of the range of the spot rates used by the Company to discount liability cash flows by major currency:

As at June 30, 2023		Year 1	Year 5	Year 10	Year 20	Year 30	Year 50
CAD	**Lower**	**6.6 %**	**5.0 %**	**4.7 %**	**4.6 %**	**4.5 %**	**4.8 %**
	Upper	**7.0 %**	**5.4 %**	**5.1 %**	**5.1 %**	**4.9 %**	**5.0 %**
USD	**Lower**	**6.7 %**	**5.4 %**	**5.1 %**	**5.5 %**	**5.1 %**	**4.9 %**
	Upper	**7.0 %**	**5.8 %**	**5.4 %**	**5.8 %**	**5.4 %**	**5.1 %**
EUR	**Lower**	**3.6 %**	**2.8 %**	**2.6 %**	**2.7 %**	**3.0 %**	**4.3 %**
	Upper	**5.3 %**	**4.4 %**	**4.3 %**	**4.4 %**	**4.4 %**	**4.6 %**
GBP	**Lower**	**6.0 %**	**5.3 %**	**4.9 %**	**5.1 %**	**4.9 %**	**4.0 %**
	Upper	**7.1 %**	**6.4 %**	**6.0 %**	**6.2 %**	**6.0 %**	**5.2 %**

As at December 31, 2022		Year 1	Year 5	Year 10	Year 20	Year 30	Year 50
CAD	Lower	5.9 %	4.8 %	4.8 %	4.9 %	4.7 %	5.0 %
	Upper	6.3 %	5.3 %	5.3 %	5.3 %	5.2 %	5.1 %
USD	Lower	5.9 %	5.3 %	5.1 %	5.6 %	5.2 %	4.9 %
	Upper	6.3 %	5.7 %	5.5 %	6.0 %	5.6 %	5.0 %
EUR	Lower	2.5 %	2.8 %	2.8 %	2.9 %	3.1 %	4.3 %
	Upper	4.2 %	4.5 %	4.5 %	4.6 %	4.5 %	4.6 %
GBP	Lower	4.0 %	4.2 %	4.3 %	4.6 %	4.4 %	3.8 %
	Upper	5.3 %	5.4 %	5.5 %	5.9 %	5.7 %	5.1 %

The spot rates in the table above are calculated based on prevailing interest rates observed in their respective markets. When interest rates are not observable, the yield curve to discount cash flows transitions to an ultimate rate composed of a risk-free rate and illiquidity premium. These amounts are set based on historical data.

The Company disclosed forward rates in note 2 of its March 31, 2023 interim unaudited financial statements. The Company now presents spot rates to better illustrate the discount rates applied. There is no impact to the calculation of insurance contract liabilities.

EXPOSURES AND SENSITIVITIES

Insurance and Investment Contract Liabilities

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

The earnings and CSM sensitivities illustrated in the table below represent impacts as at December 31, 2022 under the Company's current accounting policies as at June 30, 2023, including accounting for insurance contracts under IFRS 17 and financial instruments under IFRS 9. A description of the methodologies used to calculate the Company's insurance risk sensitivities is included in the "Summary of Critical Accounting Estimates" section of this document. The Company’s insurance risk sensitivities at June 30, 2023 have not changed significantly from the amounts disclosed in the table below.

Non-Financial Exposures and Sensitivities

	Increase (decrease) in net earnings	**Increase (decrease) in CSM**
	Dec. 31 2022 (Restated)	Dec. 31 2022
2% Life mortality increase	**$ 25**	**$ (300)**
2% Annuity mortality decrease	**200**	**(650)**
5% Morbidity adverse change	**(100)**	**(125)**
5% Expense increase	**—**	**(175)**
10% Adverse change in policy termination and renewal	**150**	**(1,050)**

The following table illustrates the approximate impact to the Company's net earnings that would arise as a result of changes to management's best estimate of certain assumptions. A description of the methodologies used to calculate the Company's financial risk sensitivities is included in the "Summary of Critical Accounting Estimates" section of this document. For changes in asset-related assumptions, the sensitivity is shown net of the corresponding impact on earnings of the change in the value of the assets supporting liabilities.

Financial Exposures and Sensitivities

	Increase (decrease) in net earnings	
	June 30 2023	Dec. 31 2022 (Restated)
Investment returns:		
Change in valuation curves (market yield curves)		
50 basis points increase	**$ 100**	$ 100
50 basis points decrease	**(150)**	(125)
Change in publicly traded common stock values		
20% increase	**150**	150
10% increase	**75**	75
10% decrease	**(75)**	(75)
20% decrease	**(175)**	(150)
Change in other non-fixed income asset values		
10% increase	**375**	400
5% increase	**200**	200
5% decrease	**(200)**	(200)
10% decrease	**(400)**	(425)

Actual impacts of interest rate changes will vary depending upon the geography where the changes occur. Net earnings are positively impacted by a parallel increase in interest rates in Canada and the U.K., and are positively impacted by a parallel decrease in interest rates in the eurozone. Actual impacts of interest rate changes also vary by the level of change in interest rates by term. Therefore, actual impacts from interest rate changes may differ from the estimated impact of parallel movements in all geographies, which is presented above.

The potential impact on shareholders' net earnings of the Company does not take into account any future potential changes to the Company's ultimate investment rate (UIR) assumptions. As at both December 31, 2022 and June 30, 2023, the sensitivity of shareholders' net earnings of the Company to a 10 basis point increase or decrease in the UIR in all geographies would be an increase of $25 million or a decrease of $25 million post-tax, respectively.

Refer to the "Accounting Policies - Summary of Critical Accounting Estimates" section of this document for additional information on earnings sensitivities.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Due to the evolving nature of IFRS, there are a number of IFRS changes impacting the Company in 2023, as well as standards that could impact the Company in future reporting periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

For additional detail, refer to notes 2 and 3 of the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2023.

TRANSITION TO IFRS 17 AND IFRS 9

The Company has adopted IFRS 17, *Insurance Contracts* (IFRS 17) replacing IFRS 4, *Insurance Contracts* (IFRS 4) effective January 1, 2023. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. Under IFRS 17, groups of contracts are measured at the estimate of the present value of fulfilment cash flows, adjusted for an explicit risk adjustment for non-financial risk and the Contractual Service Margin (CSM). While the new standard changes the measurement and timing of recognition of insurance contracts and the corresponding presentation and disclosures in the Company's financial statements, it does not have a material impact on the Company or change the Company's underlying business strategy.

The impacts of the adoption of IFRS 17 include:

- January 1, 2022 shareholder's equity decreased by 12% on the adoption of IFRS 17 on January 1, 2023 in line with original expectations, primarily due to the establishment of the contractual service margin (CSM), partially offset by the removal of provisions no longer required under IFRS 17.
- The CSM established for in-force contracts as at January 1, 2022 was $5.8 billion associated with the shareholder's account and $2.5 billion associated with the participating account. This does not include the CSM on in-force segregated fund business which does not have a material impact on capital or opening equity.
- Financial strength has been maintained with a positive impact of approximately 10 points to the December 31, 2022 proforma Canada Life consolidated LICAT Ratio as a result of the adoption of IFRS 17 and IFRS 9. Tier 1 available capital under the 2023 LICAT Guideline includes the CSM, other than the CSM associated with segregated fund guarantees.

Transition to IFRS 9

The Company adopted IFRS 9, *Financial Instruments* (IFRS 9) to replace of IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39) on its effective date of January 1, 2023. The Company elected to present comparative information for its financial assets as if the classification and measurement requirements of IFRS 9 had been applied in the comparative period (IFRS 9 overlay), as permitted by the amendment to IFRS 17 published by the IASB in December 2021. Differences in asset classification under IAS 39 at December 31, 2022 and IFRS 9 at January 1, 2023 are outlined below.

Transition to IFRS 9

	Classification	
	IAS 39	**IFRS 9**
Financial Assets		
Bonds		
	FVTPL (designated)	FVTPL (designated)
	FVTPL (designated)	FVOCI[1]
	FVTPL (classified)	FVTPL (mandatory)
	Available-for-Sale (AFS)	FVTPL (mandatory)
	AFS	FVOCI[1]
	Loans & Receivables (L&R)	FVTPL (designated)
	L&R	FVOCI[1]
	L&R	Amortized Cost[1]
Mortgage loans		
	FVTPL (designated)	FVTPL (mandatory)
	AFS	FVTPL (mandatory)
	L&R	FVTPL (designated)
	L&R	FVOCI[1]
	L&R	Amortized Cost[1]
Stocks		
	FVTPL (designated)	FVTPL (mandatory)
	AFS	FVTPL (mandatory)
	AFS, at cost	FVTPL (mandatory)

[1] Under IFRS 9, allowances for expected credit loss (ECL) are recognized on all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI.

The transition from IAS 39 to IFRS 9 results in a significantly larger portion of the Company's bond and mortgage portfolios being measured at fair value under IFRS 9. Based on January 1, 2023 balances, the transition to IFRS 9 leads to 100% of the bond portfolio and 82% of the mortgage portfolio being measured at fair value, compared to 80% and 14%, respectively, under IAS 39 which is expected to result in greater net earnings volatility.

Transitional Impacts on Equity

The resulting changes in accounting policies from the adoption of IFRS 17 and IFRS 9 had an impact on the Company's opening equity balances.

The adoption of IFRS 17 and the IFRS 9 overlay resulted in an overall reduction to total assets of $9.7 billion, total liabilities of $7.0 billion, and total equity of $2.7 billion on the transition balance sheet as at January 1, 2022.

Asset and liability reclassifications were driven by changes to the groupings of certain assets and liabilities. Significant reclassifications included $3.5 billion of loans to policyholders, $7.6 billion of funds held by ceding insurers, and $2.3 billion of premiums in the course of collection reclassified to insurance contract liabilities. In addition, $2.9 billion of insurance contract liabilities were reclassified to investment contract liabilities, and insurance contract assets of $1.3 billion and reinsurance contract held liabilities of $1.0 billion were established. The presentation of liabilities on account of segregated fund policyholders was separated between insurance and investment contract liabilities.

IFRS 9 adjustments primarily resulted in an increase to total assets of $2.3 billion due to a change in designation of certain bonds and mortgages held at amortized cost under IAS 39 to FVTPL under IFRS 9.

IFRS 17 adjustments mainly resulted in an increase to insurance contract liabilities of $6.8 billion, which is primarily the result of the establishment of CSM for in-force contracts of $5.8 billion associated with the shareholder's account and $2.5 billion associated with the participating account, partially offset by the transition of risk adjustments from IFRS 4 to IFRS 17. This does not include the CSM on in-force segregated fund business which does not have a material impact on capital.

Total equity decreased by $2.7 billion, split $2.6 billion for the shareholder's account accumulated surplus and $0.1 billion for the participating account surplus.

Shareholder’s account accumulated surplus decreased by $2.6 billion primarily due to the establishment of the CSM of $5.8 billion and the adjustment for differences in the discount rate of $1.5 billion, offset by increases due to the transition of risk adjustments from IFRS 4 to IFRS 17 of $2.0 billion and the impact of the initial application of the IFRS 9 overlay of $1.8 billion. All other impacts, including taxes, adjustments for non-attributable expenses and from reclassifications totaled an increase of $0.9 billion.

Observations from 2022 Restated Comparative Results

For businesses more impacted by IFRS 17, the main drivers of the change in earnings relate to the introduction of the contractual service margin (CSM) and the removal of the direct link between assets and liabilities.

The CSM leads to more stable insurance results as gains on new business, certain non-financial experience (e.g., longevity) and non-financial assumption changes are recognized in the CSM, to the extent possible, and then recognized into earnings as services are provided over the life of the insurance contract. However, certain non-financial experience (e.g., mortality impact on life insurance contracts) is immediately recognized in earnings. This can lead to a difference in the earnings recognition while not impacting Canada Life's regulatory capital (LICAT) position. Canada Life's diverse portfolio continues to minimize the impact on capital from changes in mortality as the increased CSM balances on the longevity blocks provide an increase to Tier 1 available capital for LICAT which mitigates the immediate earnings recognition on the mortality blocks. This capital treatment is more reflective that the underlying economics of these blocks of business have not changed, rather only the timing of how experience is reflected in earnings has changed.

The removal of the direct link between assets and liabilities led to increased volatility in net earnings as the impact of trading activity on certain lines of business is deferred rather than immediately reflected into earnings. The Company elected to use a top-down, own assets reference portfolio approach to set liability discount rates for fulfillment cashflows for most portfolios of business. For other lines of business, as the Company rebalances fixed income investments within the reference portfolio, this can change the top-down discount rates used to measure insurance contract liabilities which leads to trading activity being recognized in earnings immediately.

There is also greater earnings volatility under IFRS 17 due to the removal of the direct link between assets and liabilities resulting in differences in the change in liabilities compared to the change in supporting assets. The Company reviewed its asset liability management and accounting policy decisions with the transition to IFRS 17, with the focus of maintaining Canada Life's regulatory capital (LICAT) stability.

- For example, in instances where investment strategy uses equities or other non-fixed income (NFI) assets, or mortgage assets which are valued at amortized cost, as a component of general fund assets supporting liabilities, interest rate exposure arises in the net earnings under IFRS 17. However, this additional earnings volatility offsets other LICAT impacts leading to greater LICAT stability.
- As equity and real estate markets move up or down, the change in the asset carrying values (marked-to-market movements) are now recognized in earnings as opposed to being offset in the Canadian Asset Liability Management (CALM) process under IFRS 4. However, this additional earnings volatility leads to a limited LICAT impact due to the limited use of NFI assets.

Over the 2022 comparative period, the Company observed an increase in net earnings volatility due to market experience that was a result of the heightened market volatility within 2022; however, the Company’s financial strength and the Canada Life proforma LICAT ratio was stable over 2022.

OTHER INFORMATION

NON-GAAP FINANCIAL MEASURES

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

Assets under management (AUM) and assets under administration (AUA)

Assets under management and assets under administration are non-GAAP measures that provide an indicator of the size and volume of the Company's overall business. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

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

Assets under administration

	June 30 2023	March 31 2023
Total assets per financial statements	**$ 392,573**	$ 390,614
Other AUM	**73,458**	72,252
Total AUM	**$ 466,031**	$ 462,866
Other AUA	**38,917**	38,867
Total AUA	**$ 504,948**	$ 501,733

GLOSSARY

- **Assumption changes and management actions** - The net earnings impact of: (i) revisions to the methodologies and assumptions used in the measurement of the Company’s assets, insurance contract liabilities and investment contract liabilities, and (ii) actions taken by management in the current reporting period which include, but are not limited to, changes in in-force product features (including prices), and new or revised reinsurance deals on in-force business. Assumption changes and management actions are excluded from base earnings.
- **Common shareholder's equity** - A financial measure comprised of the following items from the Company's balance sheet: share capital - common shares, accumulated surplus, accumulated other comprehensive income and contributed surplus.

- **Impact of currency movement (constant currency basis) -** Items impacting the Company's Consolidated Statements of Earnings, such as income and benefits and expenses and net earnings, are translated into Canadian dollars at an average rate for the period. These measures highlight the impact of changes in currency translation rates on Canadian dollar equivalent IFRS results and have been calculated using the average rates, as shown below, in effect at the date of the comparative period. These measures provide useful information as it facilitates the comparability of results between periods.

	Period ended	
	June 30, 2023	June 30, 2022
United States dollar	**1.34**	1.28
British pound	**1.68**	1.60
Euro	**1.46**	1.36

- **Market experience relative to expectations** - The net earnings impact related to the direct equity and interest rate market impacts on insurance and investment contract liabilities, net of hedging, and related deferred tax liabilities, which includes:
  - the impact of hedge ineffectiveness related to segregated fund guarantee liabilities that are hedged and the performance of the related hedge assets;
  - the impact on segregated fund guarantee liabilities not hedged;
  - the market-related impacts that are different than expectations on surplus assets, general account assets and the insurance and investment contract liabilities they support;
  - other market impacts on general account assets and the insurance and investment contract liabilities they support that cannot be attributed to expectations within the period.
- **Office of the Superintendent of Financial Institutions Canada (OSFI)** - Is an independent Canadian federal government agency that regulates and supervises federally regulated financial institutions and pension plans to determine whether they are in sound financial condition and meeting their requirements.
- **Other assets under management** - Includes external client funds where the Company has oversight of the investment policies. Services provided in respect of proprietary mutual funds and institutional assets include the selection of investments, the provision of investment advice and discretionary portfolio management on behalf of clients.

  Other assets under administration - Includes assets where the Company only provides administration services for which the Company earns fees and other income. These assets are beneficially owned by the clients and the Company does not direct the investing activities. Services provided relating to assets under administration include recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.
- **Sales** - Sales are measured according to product type:
  - For risk-based insurance and annuity products, sales include 100% of single premium and annualized premiums expected in the first twelve months of the plan.
  - Group insurance and ASO sales reflect annualized premiums and premium equivalents for new policies and new benefits covered or expansion of coverage on existing policies.
  - For individual wealth management products, sales include deposits on segregated fund products, proprietary mutual funds and institutional accounts as well as deposits on non-proprietary mutual funds.
  - For group wealth management products, sales include assets transferred from previous plan providers and the expected annual contributions from the new plan.

TRANSACTIONS WITH RELATED PARTIES

On April 3, 2023, the Company announced that it had reached an agreement to acquire Investment Planning Counsel Inc., a leading independent wealth management firm, from IGM Financial Inc. (IGM) for total cash consideration of $575 million, subject to adjustments. The acquisition extends the Company's wealth management reach and capabilities. IGM is an affiliated company and a member of the Power Corporation group of companies. Therefore, the transaction was reviewed and approved by the Conduct Review Committee of each of the Company and Lifeco. The transaction is expected to close in the fourth quarter of 2023, subject to regulatory and customary closing conditions.

Otherwise, related party transactions have not changed materially from December 31, 2022.

TRANSLATION OF FOREIGN CURRENCY

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

Translation of foreign currency **Period ended**	**June 30 2023**	Mar. 31 2023	Dec. 31 2022	Sept. 30 2022	June 30 2022	Mar. 31 2022
United States dollar						
Balance sheet	**$ 1.32**	$ 1.35	$ 1.35	$ 1.38	$ 1.29	$ 1.25
Income and expenses	**$ 1.34**	$ 1.35	$ 1.36	$ 1.31	$ 1.28	$ 1.27
British pound						
Balance sheet	**$ 1.68**	$ 1.67	$ 1.64	$ 1.54	$ 1.57	$ 1.64
Income and expenses	**$ 1.68**	$ 1.64	$ 1.59	$ 1.54	$ 1.60	$ 1.70
Euro						
Balance sheet	**$ 1.45**	$ 1.47	$ 1.45	$ 1.35	$ 1.35	$ 1.38
Income and expenses	**$ 1.46**	$ 1.45	$ 1.39	$ 1.31	$ 1.36	$ 1.42

ADDITIONAL INFORMATION

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

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

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