



The Canada Life Assurance Company

# Financial statements

**First Quarter Results**

For the period ended March 31, 2020

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

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

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

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

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

	<b>For the three months ended</b>		
	<b>March 31 2020</b>	December 31 2019	March 31 2019
<b>Income</b>			
Premium income			
Gross premiums written	\$ 9,980	\$ 10,122	\$ 9,538
Ceded premiums	(986)	(1,249)	(1,127)
Total net premiums	<u>8,994</u>	<u>8,873</u>	<u>8,411</u>
Net investment income (note 5)			
Regular net investment income	1,021	1,127	1,007
Changes in fair value through profit or loss	(3,104)	(1,710)	3,738
Total net investment income (loss)	<u>(2,083)</u>	<u>(583)</u>	<u>4,745</u>
Fee and other income	776	837	820
	<u>7,687</u>	<u>9,127</u>	<u>13,976</u>
<b>Benefits and expenses</b>			
Policyholder benefits			
Gross	8,649	9,596	8,174
Ceded	(727)	(723)	(672)
Total net policyholder benefits	<u>7,922</u>	<u>8,873</u>	<u>7,502</u>
Changes in insurance and investment contract liabilities			
Gross	(2,625)	(2,252)	4,052
Ceded	183	86	(106)
Total net changes in insurance and investment contract liabilities	<u>(2,442)</u>	<u>(2,166)</u>	<u>3,946</u>
Policyholder dividends and experience refunds	360	348	393
Total paid or credited to policyholders	<u>5,840</u>	<u>7,055</u>	<u>11,841</u>
Commissions	520	538	488
Operating and administrative expenses	760	747	739
Premium taxes	113	125	120
Financing charges	28	12	13
Amortization of finite life intangible assets	35	37	32
<b>Earnings before income taxes</b>	<u>391</u>	<u>613</u>	<u>743</u>
Income taxes (recovery) (note 13)	(19)	(63)	91
<b>Net earnings before non-controlling interests</b>	<u>410</u>	<u>676</u>	<u>652</u>
Attributable to non-controlling interests	1	—	—
<b>Net earnings</b>	<u>409</u>	<u>676</u>	<u>652</u>
Net earnings (loss) - participating account	10	(30)	(10)
<b>Net earnings - common shareholder</b>	<u>\$ 399</u>	<u>\$ 706</u>	<u>\$ 662</u>

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

	<b>For the three months ended</b>		
	<b>March 31 2020</b>	<b>December 31 2019</b>	<b>March 31 2019</b>
<b>Net earnings</b>	<b>\$ 409</b>	<b>\$ 676</b>	<b>\$ 652</b>
<b>Other comprehensive income (loss)</b>			
<b>Items that may be reclassified subsequently to Consolidated Statements of Earnings</b>			
Unrealized foreign exchange gains (losses) on translation of foreign operations	<b>396</b>	375	(146)
Unrealized gains (losses) on available-for-sale assets	<b>62</b>	(88)	115
Income tax (expense) benefit	<b>(13)</b>	16	(20)
Realized (gains) losses on available-for-sale assets	<b>(31)</b>	(23)	(4)
Income tax expense (benefit)	<b>2</b>	1	—
Non-controlling interests	<b>(1)</b>	(1)	1
<b>Total items that may be reclassified</b>	<b>415</b>	280	(54)
<b>Items that will not be reclassified to Consolidated Statements of Earnings</b>			
Re-measurements on defined benefit pension and other post-employment benefit plans (note 12)	<b>407</b>	156	(113)
Income tax (expense) benefit	<b>(101)</b>	(37)	26
<b>Total items that will not be reclassified</b>	<b>306</b>	119	(87)
<b>Total other comprehensive income (loss)</b>	<b>721</b>	399	(141)
<b>Comprehensive income</b>	<b>\$ 1,130</b>	<b>\$ 1,075</b>	<b>\$ 511</b>

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

	March 31 2020	December 31 2019
<b>Assets</b>		
Cash and cash equivalents	\$ 3,271	\$ 3,236
Bonds (note 5)	94,850	95,141
Mortgage loans (note 5)	21,288	20,716
Stocks (note 5)	9,323	10,035
Investment properties (note 5)	5,833	5,884
Loans to policyholders	3,469	3,383
	<u>138,034</u>	<u>138,395</u>
Funds held by ceding insurers	8,580	8,714
Reinsurance assets (note 8)	8,534	8,255
Goodwill	6,393	6,300
Intangible assets	2,106	2,069
Derivative financial instruments	456	315
Owner occupied properties	547	537
Fixed assets	310	310
Other assets	1,752	1,662
Premiums in course of collection, accounts and interest receivable	4,699	4,079
Current income taxes	119	179
Deferred tax assets	203	260
Investments on account of segregated fund policyholders (note 9)	182,185	199,589
<b>Total assets</b>	<u>\$ 353,918</u>	<u>\$ 370,664</u>
<b>Liabilities</b>		
Insurance contract liabilities (note 8)	\$ 134,625	\$ 135,458
Investment contract liabilities (note 8)	1,745	1,656
Debentures and other debt instruments	768	751
Preferred shares (note 10)	1,000	—
Funds held under reinsurance contracts	2,034	2,025
Derivative financial instruments	2,645	1,335
Accounts payable	1,718	1,816
Other liabilities	3,147	3,428
Current income taxes	312	366
Deferred tax liabilities	814	879
Investment and insurance contracts on account of segregated fund policyholders (note 9)	182,185	199,589
<b>Total liabilities</b>	<u>330,993</u>	<u>347,303</u>
<b>Equity</b>		
Participating account surplus	2,833	2,745
Non-controlling interests	23	21
Shareholders' equity		
Share capital (note 10)		
Common shares	7,884	8,884
Accumulated surplus	11,241	11,411
Accumulated other comprehensive income (loss)	531	(112)
Contributed surplus	413	412
<b>Total equity</b>	<u>22,925</u>	<u>23,361</u>
<b>Total liabilities and equity</b>	<u>\$ 353,918</u>	<u>\$ 370,664</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY** *(unaudited)*  
*(in Canadian \$ millions)*

March 31, 2020								
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Participating account surplus	Total equity
<b>Balance, beginning of year</b>	\$ 8,884	\$ 412	\$ 11,411	\$ (112)	\$ 20,595	\$ 21	\$ 2,745	\$ 23,361
Net earnings	—	—	399	—	399	1	10	410
Other comprehensive income	—	—	—	643	643	1	78	722
	<b>8,884</b>	<b>412</b>	<b>11,810</b>	<b>531</b>	<b>21,637</b>	<b>23</b>	<b>2,833</b>	<b>24,493</b>
Dividends to common shareholder	—	—	(569)	—	(569)	—	—	(569)
Share-based payments	—	1	—	—	1	—	—	1
Conversion of common shares to preferred share liability (note 10)	(1,000)	—	—	—	(1,000)	—	—	(1,000)
<b>Balance, end of period</b>	<b>\$ 7,884</b>	<b>\$ 413</b>	<b>\$ 11,241</b>	<b>\$ 531</b>	<b>\$ 20,069</b>	<b>\$ 23</b>	<b>\$ 2,833</b>	<b>\$ 22,925</b>

March 31, 2019								
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Participating account surplus	Total equity
Balance, beginning of year	\$ 8,883	\$ 409	\$ 11,656	\$ 267	\$ 21,215	\$ 21	\$ 2,723	\$ 23,959
Change in accounting policy	—	—	(93)	—	(93)	—	—	(93)
Revised balance, beginning of year	8,883	409	11,563	267	21,122	21	2,723	23,866
Net earnings (loss)	—	—	662	—	662	—	(10)	652
Other comprehensive income (loss)	—	—	—	(165)	(165)	(1)	25	(141)
	8,883	409	12,225	102	21,619	20	2,738	24,377
Dividends to common shareholder	—	—	(502)	—	(502)	—	—	(502)
Share-based payments	—	1	—	—	1	—	—	1
<b>Balance, end of period</b>	<b>\$ 8,883</b>	<b>\$ 410</b>	<b>\$ 11,723</b>	<b>\$ 102</b>	<b>\$ 21,118</b>	<b>\$ 20</b>	<b>\$ 2,738</b>	<b>\$ 23,876</b>

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

	For the three months ended March 31	
	2020	2019
<b>Operations</b>		
Earnings before income taxes	\$ 391	\$ 743
Income taxes paid, net of refunds received	(109)	(73)
Adjustments:		
Change in insurance and investment contract liabilities	(2,606)	4,245
Change in funds held by ceding insurers	163	79
Change in funds held under reinsurance contracts	(57)	5
Change in reinsurance assets	187	(140)
Changes in fair value through profit or loss	3,104	(3,738)
Other	(398)	(468)
	675	653
<b>Financing Activities</b>		
Dividends paid on common shares	(569)	(502)
<b>Investment Activities</b>		
Bond sales and maturities	4,094	5,069
Mortgage loan repayments	501	355
Stock sales	905	514
Investment property sales	1	7
Change in loans to policyholders	(59)	(40)
Business acquisitions, net of cash and cash equivalents acquired	(29)	—
Changes in cash and cash equivalents classified as assets held for sale	—	31
Investment in bonds	(2,682)	(4,293)
Investment in mortgage loans	(1,011)	(934)
Investment in stocks	(1,890)	(466)
Investment in investment properties	(13)	(214)
	(183)	29
Effect of changes in exchange rates on cash and cash equivalents	112	(32)
<b>Increase in cash and cash equivalents</b>	<b>35</b>	<b>148</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,236</b>	<b>2,911</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,271</b>	<b>\$ 3,059</b>
<b>Supplementary cash flow information</b>		
Interest income received	\$ 924	\$ 985
Interest paid	20	5
Dividend income received	73	66

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## CONDENSED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(unaudited)*

*(in Canadian \$ millions except per share amounts)*

### 1. Corporate Information

Effective January 1, 2020, The Great-West Life Assurance Company (Great-West Life) and its subsidiaries, London Insurance Group Inc., London Life Insurance Company, Canada Life Financial Corporation, and The Canada Life Assurance Company amalgamated into one company (the Amalgamation): The Canada Life Assurance Company (Canada Life or the Company). The December 31, 2019 consolidated annual financial statements of Great-West Life represent the financial results of the Company prior to the Amalgamation. Comparative figures presented by the Company as at and for the three months ended March 31, 2019 are those of Great-West Life.

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

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

The condensed consolidated interim unaudited financial statements (financial statements) of the Company as at and for the three months ended March 31, 2020 were approved by the Board of Directors on May 6, 2020.

### 2. Basis of Presentation and Summary of Accounting Policies

These financial statements should be read in conjunction with the consolidated annual audited financial statements of Canada Life Financial Corporation for the year ended December 31, 2019 and the notes thereto, available under the Company's profile at [www.sedar.com](http://www.sedar.com). Comparative amounts presented and disclosed have previously been reported in the consolidated financial statements of Great-West Life, as published on the Company's website at [www.canadalife.com](http://www.canadalife.com).

The financial statements of the Company at March 31, 2020 have been prepared in compliance with the requirements of International Accounting Standard (IAS) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) using the same accounting policies and methods of computation followed in the consolidated annual audited financial statements for the year ended December 31, 2019 except as described below.

Operating segments have been identified based on internal reports that are regularly reviewed by the Company's Chief Executive Officer to allocate resources and assess performance of segments and for which discrete financial information is available. The Company's operating segments are the participating and shareholder operations of the Company. Effective January 1, 2020, the business units within these segments are Canada, Europe, Capital and Risk Solutions, and Corporate. As a result of strategic operational changes, the Company divided its Europe/ Reinsurance business unit into two separate business units - Europe and Capital and Risk Solutions. The realignment resulted in a change to comparative figures within these business units (note 14). Reinsurance, which had previously been reported as part of the Europe/Reinsurance business unit, is reported in the Capital and Risk Solutions business unit. The Company's other business unit - Corporate - is unchanged. Business activities and transactions that are not associated with the specific business units are attributed to Corporate.



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

Changes in Accounting Policies

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

The Company actively monitors changes in IFRS, both proposed and released, by the IASB for potential impact on the Company. The following sets out standards released and updates to the Company's analysis since the year ended December 31, 2019:

New Standard	Summary of Future Changes
IFRS 17 - <i>Insurance Contracts</i>	<p>On June 26, 2019, the IASB issued an exposure draft covering targeted amendments to IFRS 17, <i>Insurance Contracts</i>. On March 17, 2020, the IASB deferred the effective date of the standard by one year until January 1, 2023. In addition, the IASB extended to January 1, 2023, the exemption for insurers to apply the financial instruments standard, IFRS 9, <i>Financial Instruments</i>, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB is planning to issue the final amendments to IFRS 17 in mid-2020.</p> <p>IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the Consolidated Statements of Earnings, in particular the timing of earnings recognition for insurance contracts. As a result of the new valuation methodologies required under IFRS 17, the Company expects its insurance contract liabilities to increase upon adoption. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the consolidated financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. The Company is also actively monitoring potential impacts on regulatory capital and the associated ratios and disclosures. The Company continues to assess all these impacts through its global implementation plan.</p>

Use of Significant Judgments, Estimates and Assumptions

In preparation of these financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are further described in the relevant accounting policies as described in note 2 of the Company's December 31, 2019 consolidated annual audited financial statements and notes thereto.

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

Beginning in January 2020, the outbreak of a virus known as COVID-19 and ensuing global pandemic have resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and significant market uncertainty. Global financial markets have experienced material and rapid declines and continue to experience significant volatility. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions.

The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

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

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

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

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

3. **Disposals and Other Transactions**

(a) **U.S. Individual Life Insurance and Annuity Business Reinsurance Agreement**

On January 24, 2019, Great-West Life & Annuity Insurance Company (GWL&A), a wholly-owned subsidiary of the Company's parent Lifeco, announced that it had entered into an agreement with Protective Life Insurance Company (Protective Life) to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business in the United States within the Company's Corporate business unit. The transaction was completed on June 1, 2019.

The liabilities transferred and ceding commission received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided the Company with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, the Company formally objected to these proposed adjustments. The Master Transaction Agreement requires the parties to attempt to resolve these differences in an informal manner and that process is ongoing. Based on the information presently known, it is difficult to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the consolidated financial position of the Company.

(b) **Sale of Irish Progressive Services International Limited**

On February 10, 2020, Irish Life announced the sale of Irish Progressive Services International Limited, a wholly-owned subsidiary whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The proposed transaction will be subject to customary closing conditions including receipt of required regulatory approvals and is expected to be completed in the second quarter of 2020 subject to regulatory approval. The Company expects to recognize a gain related to this transaction. The carrying value and earnings of the business are immaterial to the Company.

4. **Restructuring Expenses**

United Kingdom Business Transformation

At March 31, 2020, the Company has a restructuring provision of \$37 remaining in other liabilities. The change in the restructuring provision for the United Kingdom Business Transformation is set out below:

	<b>March 31</b>	December 31
	<b>2020</b>	2019
<b>Balance, beginning of year</b>	<b>\$ 39</b>	\$ 61
Amounts used	<b>(2)</b>	(21)
Changes in foreign exchange rates	—	(1)
<b>Balance, end of period</b>	<b>\$ 37</b>	<b>\$ 39</b>

## 5. Portfolio Investments

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

	March 31, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
<b>Bonds</b>				
Designated fair value through profit or loss <sup>(1)</sup>	\$ 68,957	\$ 68,957	\$ 69,761	\$ 69,761
Classified fair value through profit or loss <sup>(1)</sup>	1,802	1,802	1,717	1,717
Available-for-sale	9,929	9,929	9,976	9,976
Loans and receivables	14,162	15,372	13,687	15,367
	<b>94,850</b>	<b>96,060</b>	95,141	96,821
<b>Mortgage loans</b>				
Residential				
Designated fair value through profit or loss <sup>(1)</sup>	1,433	1,433	1,314	1,314
Loans and receivables	7,486	7,860	7,500	7,748
	<b>8,919</b>	<b>9,293</b>	8,814	9,062
Commercial				
	<b>12,369</b>	<b>13,070</b>	11,902	12,466
	<b>21,288</b>	<b>22,363</b>	20,716	21,528
<b>Stocks</b>				
Designated fair value through profit or loss <sup>(1)</sup>	8,857	8,857	9,566	9,566
Available-for-sale	7	7	10	10
Available-for-sale, at cost <sup>(2)</sup>	28	28	41	41
Equity method	431	293	418	410
	<b>9,323</b>	<b>9,185</b>	10,035	10,027
<b>Investment properties</b>				
	<b>5,833</b>	<b>5,833</b>	5,884	5,884
<b>Total</b>	<b>\$ 131,294</b>	<b>\$ 133,441</b>	<b>\$ 131,776</b>	<b>\$ 134,260</b>

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

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

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

5. Portfolio Investments (cont'd)

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

	March 31 2020	December 31 2019
Impaired amounts by classification		
Fair value through profit or loss	\$ 5	\$ 5
Available-for-sale	2	2
Loans and receivables	26	29
<b>Total</b>	<b>\$ 33</b>	<b>\$ 36</b>

The carrying amount of impaired investments includes \$7 bonds and \$26 mortgage loans at March 31, 2020 (\$7 bonds and \$29 mortgage loans at December 31, 2019). The above carrying values for loans and receivables are net of allowances of \$49 at March 31, 2020 and \$51 at December 31, 2019.

(c) Net investment income comprises the following:

For the three months ended March 31, 2020	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 724	\$ 185	\$ 79	\$ 105	\$ (31)	\$ 1,062
Net realized gains						
Available-for-sale	31	—	1	—	—	32
Other classifications	1	6	—	—	—	7
Net allowances for credit losses on loans and receivables	—	(9)	—	—	—	(9)
Other income (expenses)	—	—	—	(31)	(40)	(71)
	<b>756</b>	<b>182</b>	<b>80</b>	<b>74</b>	<b>(71)</b>	<b>1,021</b>
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	14	—	—	—	—	14
Designated fair value through profit or loss	(1,069)	(99)	(1,775)	—	(65)	(3,008)
Recorded at fair value through profit or loss	—	—	—	(110)	—	(110)
	<b>(1,055)</b>	<b>(99)</b>	<b>(1,775)</b>	<b>(110)</b>	<b>(65)</b>	<b>(3,104)</b>
<b>Total</b>	<b>\$ (299)</b>	<b>\$ 83</b>	<b>\$ (1,695)</b>	<b>\$ (36)</b>	<b>\$ (136)</b>	<b>\$ (2,083)</b>

5. Portfolio Investments (cont'd)

For the three months ended March 31, 2019	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 717	\$ 178	\$ 64	\$ 87	\$ 15	1,061
Net realized gains						
Available-for-sale	—	—	4	—	—	4
Other classifications	2	3	—	—	—	5
Net allowances for credit losses on loans and receivables	—	(3)	—	—	—	(3)
Other income (expenses)	—	—	—	(28)	(32)	(60)
	719	178	68	59	(17)	1,007
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	38	—	—	—	—	38
Designated fair value through profit or loss	2,669	55	858	—	123	3,705
Recorded at fair value through profit or loss	—	—	—	(5)	—	(5)
	2,707	55	858	(5)	123	3,738
Total	\$ 3,426	\$ 233	\$ 926	\$ 54	\$ 106	\$ 4,745

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

6. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks. The Company's approach to risk management has not substantially changed from that described in the Company's 2019 Annual Report. Certain risks have been outlined below. For a discussion of the Company's risk governance structure and risk management approach, see the "Financial Instruments Risk Management" note in the Company's December 31, 2019 consolidated annual audited financial statements.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

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

**(a) Credit Risk**

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments when due.

Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. No significant changes have occurred from the year ended December 31, 2019.

**(b) Liquidity Risk**

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

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

**(c) Market Risk**

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

Caution Related to Risk Sensitivities

These consolidated financial statements include estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons including:

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

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

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6. Financial Instruments Risk Management (cont'd)

(i) Currency Risk

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company has net investments in foreign operations. The Company's debt obligations are denominated in Canadian dollars and euros. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total equity. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

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

(ii) Interest Rate Risk

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

Projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk.

The total provision for interest rate risk considers the Canadian Institute of Actuaries prescribed scenarios:

- At March 31, 2020 and December 31, 2019, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At March 31, 2020 and December 31, 2019, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios. The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually.

An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions.

6. Financial Instruments Risk Management (cont'd)

If sustained however, the parallel shift could impact the Company's range of scenarios covered. The following table provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions. The sensitivities in the table include the impact of a parallel shift in ultimate interest rates outlined in actuarial standards.

	March 31, 2020		December 31, 2019	
	1% increase	1% decrease	1% increase	1% decrease
<b>Change in interest rates</b>				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (311)	\$ 769	\$ (298)	\$ 792
Increase (decrease) in net earnings	\$ 238	\$ (588)	\$ 229	\$ (604)

(iii) Equity Risk

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

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

There may be additional market and liability impacts as a result of changes in the value of publicly traded common stocks and other non-fixed income assets that will cause the liabilities to fluctuate differently than the equity values. This means that the relative impact on liabilities of falls in market values increases with larger falls.

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

	March 31, 2020				December 31, 2019			
	20% increase	10% increase	10% decrease	20% decrease	20% increase	10% increase	10% decrease	20% decrease
<b>Change in publicly traded common stock values</b>								
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (203)	\$ (160)	\$ 174	\$ 387	\$ (63)	\$ (33)	\$ 45	\$ 223
Increase (decrease) in net earnings	\$ 163	\$ 128	\$ (139)	\$ (311)	\$ 54	\$ 27	\$ (39)	\$ (182)



6. Financial Instruments Risk Management (cont'd)

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

	<b>March 31, 2020</b>		<b>December 31, 2019</b>	
	<b>10% increase</b>	<b>10% decrease</b>	<b>10% increase</b>	<b>10% decrease</b>
<b>Change in other non-fixed income asset values</b>				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (84)	\$ 187	\$ (74)	\$ 117
Increase (decrease) in net earnings	\$ 66	\$ (142)	\$ 60	\$ (90)

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

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

	<b>March 31, 2020</b>		<b>December 31, 2019</b>	
	<b>1% increase</b>	<b>1% decrease</b>	<b>1% increase</b>	<b>1% decrease</b>
<b>Change in best estimate return assumptions</b>				
Increase (decrease) in non-participating insurance contract liabilities	\$ (751)	\$ 879	\$ (645)	\$ 752
Increase (decrease) in net earnings	\$ 595	\$ (687)	\$ 509	\$ (585)

## 7. Fair Value Measurement

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

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

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

Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single broker quotes, internal pricing models, or external appraisers. Assets and liabilities utilizing Level 3 inputs generally include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties and equity release mortgages.

7. Fair Value Measurement (cont'd)

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

Assets measured at fair value	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,271	\$ —	\$ —	\$ 3,271
Financial assets at fair value through profit or loss				
Bonds	—	70,691	68	70,759
Mortgage loans	—	—	1,433	1,433
Stocks	7,800	—	1,057	8,857
Total financial assets at fair value through profit or loss	7,800	70,691	2,558	81,049
Available-for-sale financial assets				
Bonds	—	9,929	—	9,929
Stocks	2	—	5	7
Total available-for-sale financial assets	2	9,929	5	9,936
Investment properties	—	—	5,833	5,833
Funds held by ceding insurers	206	6,231	—	6,437
Derivatives <sup>(1)</sup>	3	453	—	456
Reinsurance assets	—	156	—	156
Other assets - trading account assets	118	—	—	118
<b>Total assets measured at fair value</b>	<b>\$ 11,400</b>	<b>\$ 87,460</b>	<b>\$ 8,396</b>	<b>\$ 107,256</b>
<b>Liabilities measured at fair value</b>				
Derivatives <sup>(2)</sup>	\$ 14	\$ 2,631	\$ —	\$ 2,645
Investment contract liabilities	—	1,745	—	1,745
<b>Total liabilities measured at fair value</b>	<b>\$ 14</b>	<b>\$ 4,376</b>	<b>\$ —</b>	<b>\$ 4,390</b>

<sup>(1)</sup> Excludes collateral received from counterparties of \$9.

<sup>(2)</sup> Excludes collateral pledged to counterparties of \$1,600.

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

7. Fair Value Measurement (cont'd)

Assets measured at fair value	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,236	\$ —	\$ —	\$ 3,236
Financial assets at fair value through profit or loss				
Bonds	—	71,411	67	71,478
Mortgage loans	—	—	1,314	1,314
Stocks	8,889	—	677	9,566
Total financial assets at fair value through profit or loss	8,889	71,411	2,058	82,358
Available-for-sale financial assets				
Bonds	—	9,976	—	9,976
Stocks	6	—	4	10
Total available-for-sale financial assets	6	9,976	4	9,986
Investment properties	—	—	5,884	5,884
Funds held by ceding insurers	216	6,445	—	6,661
Derivatives <sup>(1)</sup>	—	315	—	315
Reinsurance assets	—	127	—	127
Other assets - trading account assets	135	—	—	135
Total assets measured at fair value	\$ 12,482	\$ 88,274	\$ 7,946	\$ 108,702
Liabilities measured at fair value				
Derivatives <sup>(2)</sup>	\$ 3	\$ 1,332	\$ —	\$ 1,335
Investment contract liabilities	—	1,656	—	1,656
Total liabilities measured at fair value	\$ 3	\$ 2,988	\$ —	\$ 2,991

<sup>(1)</sup> Excludes collateral received from counterparties of \$38.

<sup>(2)</sup> Excludes collateral pledged to counterparties of \$580.

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

7. Fair Value Measurement (cont'd)

The following presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	March 31, 2020					
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks <sup>(3)</sup>	Available- for-sale stocks	Investment properties	Total Level 3 assets
<b>Balance, beginning of year</b>	\$ 67	\$ 1,314	\$ 677	\$ 4	\$ 5,884	\$ 7,946
Total gains (losses)						
Included in net earnings	(3)	(90)	7	—	(110)	(196)
Included in other comprehensive income <sup>(1)</sup>	4	12	—	—	47	63
Purchases	—	—	51	1	13	65
Issues	—	217	—	—	—	217
Sales	—	—	(35)	—	(1)	(36)
Settlements	—	(20)	—	—	—	(20)
Transfers into Level 3 <sup>(2)</sup>	—	—	357	—	—	357
Transfers out of Level 3 <sup>(2)</sup>	—	—	—	—	—	—
<b>Balance, end of period</b>	<b>\$ 68</b>	<b>\$ 1,433</b>	<b>\$ 1,057</b>	<b>\$ 5</b>	<b>\$ 5,833</b>	<b>\$ 8,396</b>
<b>Total gains (losses) for the period included in net investment income</b>	<b>\$ (3)</b>	<b>\$ (90)</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ (110)</b>	<b>\$ (196)</b>
<b>Change in unrealized gains (losses) for the period included in earnings for assets held at March 31, 2020</b>	<b>\$ (3)</b>	<b>\$ (90)</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ (110)</b>	<b>\$ (196)</b>

(1) Other comprehensive income includes unrealized gains (losses) on foreign exchange.

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

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

7. Fair Value Measurement (cont'd)

December 31, 2019

	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks <sup>(3)</sup>	Available-for-sale stocks	Investment properties	Assets held for sale	Total Level 3 assets	Liabilities held for sale	Total Level 3 liabilities
Balance, beginning of year	\$ 67	\$ 813	\$ 404	\$ 2	\$ 5,215	\$ 29	\$ 6,530	\$ 26	\$ 26
Change in accounting policy	—	—	—	—	29	—	29	—	—
Revised balance, beginning of year	67	813	404	2	5,244	29	6,559	26	26
Total gains (losses)									
Included in net earnings	4	109	40	—	37	(2)	188	—	—
Included in other comprehensive income <sup>(1)</sup>	(4)	(5)	—	—	(36)	(1)	(46)	—	—
Purchases	—	—	298	2	644	—	944	—	—
Issues	—	469	—	—	—	—	469	—	—
Sales	—	—	(65)	—	(5)	(26)	(96)	—	—
Settlements	—	(72)	—	—	—	—	(72)	—	—
Other	—	—	—	—	—	—	—	(26)	(26)
Transfers into Level 3 <sup>(2)</sup>	—	—	—	—	—	—	—	—	—
Transfers out of Level 3 <sup>(2)</sup>	—	—	—	—	—	—	—	—	—
Balance, end of year	\$ 67	\$ 1,314	\$ 677	\$ 4	\$ 5,884	\$ —	\$ 7,946	\$ —	\$ —
Total gains (losses) for the year included in net investment income	\$ 4	\$ 109	\$ 40	\$ —	\$ 37	\$ (2)	\$ 188	\$ —	\$ —
Change in unrealized gains for the year included in earnings for assets held at December 31, 2019	\$ 4	\$ 105	\$ 38	\$ —	\$ 37	\$ —	\$ 184	\$ —	\$ —

(1) Other comprehensive income includes unrealized gains (losses) on foreign exchange.

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

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

## 7. Fair Value Measurement (cont'd)

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

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate  Reversionary rate  Vacancy rate	Range of 1.9% - 11.4%  Range of 4.3% - 6.8%  Weighted average of 2.1%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.  A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.  A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage loans - equity release mortgages (fair value through profit or loss)	The valuation approach for equity release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long term care of the loanholders.	Discount rate	Range of 4.1% - 5.2%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

## 8. Insurance and Investment Contract Liabilities

	March 31, 2020		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 134,625	\$ 8,378	\$ 126,247
Investment contract liabilities	1,745	156	1,589
<b>Total</b>	<b>\$ 136,370</b>	<b>\$ 8,534</b>	<b>\$ 127,836</b>
	December 31, 2019		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 135,458	\$ 8,128	\$ 127,330
Investment contract liabilities	1,656	127	1,529
<b>Total</b>	<b>\$ 137,114</b>	<b>\$ 8,255</b>	<b>\$ 128,859</b>

## 9. Segregated Funds

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

### (a) Investments on account of segregated fund policyholders

	<b>March 31 2020</b>	December 31 2019
Cash and cash equivalents	\$ 14,896	\$ 12,481
Bonds	30,807	31,904
Mortgage loans	2,709	2,670
Stocks and units in unit trusts	90,797	104,330
Mutual funds	31,742	36,708
Investment properties <sup>(1)</sup>	13,315	12,986
	<u>184,266</u>	<u>201,079</u>
Accrued income	393	322
Other liabilities	(3,414)	(2,959)
Non-controlling mutual funds interest	940	1,147
<b>Total</b>	<u>\$ 182,185</u>	<u>\$ 199,589</u>

<sup>(1)</sup> Canada Life has temporarily suspended contributions to, and redemptions and transfers from, its real estate investment funds as the COVID-19 virus has impacted the global property market and made it difficult to value the properties with the same degree of certainty as usual.

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

	<b>For the three months ended March 31</b>	
	<b>2020</b>	2019
<b>Balance, beginning of year</b>	\$ 199,589	\$ 177,711
Additions (deductions):		
Policyholder deposits	5,745	5,099
Net investment income	575	(68)
Net realized capital gains on investments	657	81
Net unrealized capital (losses) gains on investments	(23,593)	11,526
Unrealized gains (losses) due to changes in foreign exchange rates	4,737	(2,714)
Policyholder withdrawals	(5,556)	(4,521)
Change in General Fund investment in Segregated Fund	234	(15)
Net transfer from General Fund	4	(5)
Non-controlling mutual funds interest	(207)	76
Assets held for sale	—	(113)
<b>Total</b>	<u>(17,404)</u>	<u>9,346</u>
<b>Balance, end of period</b>	<u>\$ 182,185</u>	<u>\$ 187,057</u>



9. Segregated Funds (cont'd)

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

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders <sup>(1)</sup>	\$ 111,881	\$ 58,662	\$ 14,363	\$ 184,906

<sup>(1)</sup> Excludes other liabilities, net of other assets, of \$2,721.

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders <sup>(1)</sup>	\$ 128,220	\$ 60,103	\$ 13,988	\$ 202,311

<sup>(1)</sup> Excludes other liabilities, net of other assets, of \$2,722.

During the first three months of 2020, certain foreign stock holdings valued at \$1,948 have been transferred from Level 1 to Level 2 (\$153 were transferred from Level 1 to Level 2 at December 31, 2019) primarily based on the Company's change in use of inputs in addition to quoted prices in active markets for certain foreign stock holdings. Level 2 assets include those assets where fair value is not available from normal market pricing sources, where inputs are utilized in addition to quoted prices in active markets and where the Company does not have access to the underlying asset details within an investment fund.

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

	March 31, 2020		December 31, 2019	
	Total	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total
Balance, beginning of year	\$ 13,988	\$ 13,235	\$ 9	\$ 13,244
Change in accounting policy	—	136	—	136
Revised balance, beginning of year	13,988	13,371	9	13,380
Total gains (losses) included in segregated fund investment income	309	141	(1)	140
Purchases	73	760	—	760
Sales	(42)	(284)	(8)	(292)
Transfers into Level 3	35	—	—	—
Transfers out of Level 3	—	—	—	—
Balance, end of period	\$ 14,363	\$ 13,988	\$ —	\$ 13,988

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

## 10. Share Capital

	For the three months ended March 31			
	2020		2019	
	Number	Carrying value	Number	Carrying value
<b>Classified as liabilities:</b>				
<b>Preferred shares</b>				
Class A, Series 6, 6.25% Cumulative First Preferred Shares <sup>(1)</sup>	40,000,000	\$ 1,000	—	\$ —
	<b>40,000,000</b>	<b>\$ 1,000</b>	<b>—</b>	<b>\$ —</b>
<b>Classified as equity:</b>				
<b>Preferred shares</b>				
Class A, Series 1, Non-Cumulative	18,000	\$ —	—	\$ —
	<b>18,000</b>	<b>\$ —</b>	<b>—</b>	<b>\$ —</b>
<b>Common shares</b>				
<b>Balance, beginning of year</b>	<b>2,407,385</b>	<b>\$ 8,884</b>	<b>2,407,240</b>	<b>\$ 8,883</b>
Common shares converted to preferred share liability <sup>(1)</sup>	—	(1,000)	—	—
Common shares donated by parent and cancelled	(1)	—	—	—
<b>Balance, end of period</b>	<b>2,407,384</b>	<b>\$ 7,884</b>	<b>2,407,240</b>	<b>\$ 8,883</b>

<sup>(1)</sup> As part of the Amalgamation (note 1), on January 1, 2020 the Company issued the Class A preferred shares Series 6 to Lifeco. The Class A preferred shares Series 6 of the Company have an aggregate redemption amount of \$1,000 at \$25.00 per share, an annual 6.25% cumulative dividend rate, payable quarterly, a mandatory redemption date of January 1, 2045, and are classified as liabilities. Dividends on the preferred shares classified as liabilities are recorded in financing charges.

## 11. Capital Management

### (a) Policies and Objectives

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

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

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of the Company ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholders' value in the context of the Company's operational risks and strategic plans.

11. Capital Management (cont'd)

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

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

**(b) Regulatory Capital**

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

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

	<b>March 31</b>	December 31
	<b>2020</b>	2019
<b>Tier 1 Capital</b>	<b>\$ 11,483</b>	\$ 11,952
<b>Tier 2 Capital</b>	<b>4,340</b>	3,637
<b>Total Available Capital</b>	<b>15,823</b>	15,589
<b>Surplus Allowance &amp; Eligible Deposits</b>	<b>12,942</b>	12,625
<b>Total Capital Resources</b>	<b>\$ 28,765</b>	\$ 28,214
<b>Required Capital</b>	<b>\$ 21,673</b>	\$ 20,911
<b>Total LICAT Ratio (OSFI Supervisory Target = 100%) <sup>(1)</sup></b>	<b>133%</b>	135%

<sup>(1)</sup> Total Ratio (%) = (Total Capital Resources / Required Capital)

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

## 12. Pension Plans and Other Post-Employment Benefits

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

	For the three months ended March 31	
	2020	2019
Pension plans		
Service costs	\$ 43	\$ 39
Net interest costs	4	5
Curtailment	(1)	—
	<u>46</u>	<u>44</u>
Other post-employment benefits		
Net interest costs	3	3
Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings	<u>49</u>	<u>47</u>
Pension plans - re-measurements		
Actuarial (gain) loss	(974)	453
Return on assets (greater) less than assumed	534	(341)
Change in the asset ceiling	69	(18)
Pension plans re-measurement (gain) loss	<u>(371)</u>	<u>94</u>
Other post-employment benefits - re-measurements		
Actuarial (gain) loss	<u>(36)</u>	<u>19</u>
Pension plans and other post-employment benefits re-measurements - other comprehensive (income) loss	<u>(407)</u>	<u>113</u>
<b>Total pension plans and other post-employment benefits (income) expense including re-measurements</b>	<u><b>\$ (358)</b></u>	<u><b>\$ 160</b></u>

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

	March 31		December 31	
	2020	2019	2019	2018
Weighted average discount rate	3.3%	2.8%	2.6%	3.3%

**13. Income Taxes**

**(a) Income Tax Expense**

Income tax expense (recovery) consists of the following:

	<b>For the three months ended March 31</b>	
	<b>2020</b>	<b>2019</b>
Current income taxes	\$ 50	\$ 42
Deferred income taxes	(69)	49
<b>Total income tax expense (recovery)</b>	<b>\$ (19)</b>	<b>\$ 91</b>

**(b) Effective Income Tax Rate**

The effective income tax rates are generally lower than the Company's statutory income tax rate of 26.75% due to benefits related to non-taxable investment income and lower income tax in certain foreign jurisdictions.

The overall effective income tax rate for the three months ended March 31, 2020 was negative 4.9% compared to 12.2% for the three months ended March 31, 2019.

The effective income tax rate for the three months ended March 31, 2020 is lower than the effective income tax rate for the same period last year mainly due to changes in certain tax estimates, primarily related to a favourable tax item, in the U.K. within the Europe business unit, driven by market movements which contributed an 11.7 point decrease, as well as an increase in the amount of income subject to lower rates in foreign jurisdictions.

The overall effective income tax rate for the three months ended March 31, 2020 was negative 4.9% compared to negative 10.3% for the three months ended December 31, 2019.

The effective income tax rate for the three months ended March 31, 2020 is higher than the effective income tax rate for the fourth quarter of 2019 primarily as a result of a benefit related to the resolution of an outstanding issue with a foreign tax authority reflected in the fourth quarter of 2019, which reduced the effective income tax rate by 16.4 points. Excluding the impact of this item, the effective income tax rate in the first quarter of 2020 decreased due to changes in certain tax estimates, primarily related to a favourable tax item, in the U.K. within the Europe business unit, driven by market movements which contributed a 10.4 point decrease.

## 14. Segmented Information

### Consolidated Net Earnings

For the three months ended March 31, 2020

	Shareholder				Participating		
	Canada	Europe <sup>(1)</sup>	Capital and Risk Solutions <sup>(1)</sup>	Corporate	Total	Total	Total Company
<b>Income</b>							
Total net premiums	\$ 2,123	\$ 791	\$ 4,579	\$ 357	\$ 7,850	\$ 1,144	\$ 8,994
Net investment income							
Regular net investment income	245	292	70	21	628	393	1,021
Changes in fair value through profit or loss	(806)	(647)	(212)	10	(1,655)	(1,449)	(3,104)
Total net investment income (loss)	(561)	(355)	(142)	31	(1,027)	(1,056)	(2,083)
Fee and other income	425	333	3	15	776	—	776
	<u>1,987</u>	<u>769</u>	<u>4,440</u>	<u>403</u>	<u>7,599</u>	<u>88</u>	<u>7,687</u>
<b>Benefits and expenses</b>							
Paid or credited to policyholders	1,106	235	4,284	359	5,984	(144)	5,840
Other <sup>(2)</sup>	665	432	46	20	1,163	230	1,393
Financing charges	—	—	3	25	28	—	28
Amortization of finite life intangible assets	16	12	—	4	32	3	35
<b>Earnings (loss) before income taxes</b>	<u>200</u>	<u>90</u>	<u>107</u>	<u>(5)</u>	<u>392</u>	<u>(1)</u>	<u>391</u>
Income taxes (recovery)	39	(33)	7	(21)	(8)	(11)	(19)
<b>Net earnings before non-controlling interests</b>	<u>161</u>	<u>123</u>	<u>100</u>	<u>16</u>	<u>400</u>	<u>10</u>	<u>410</u>
Non-controlling interests	—	1	—	—	1	—	1
<b>Net earnings</b>	<u>161</u>	<u>122</u>	<u>100</u>	<u>16</u>	<u>399</u>	<u>10</u>	<u>409</u>
Net earnings - participating policyholder	—	—	—	—	—	10	10
<b>Net earnings - common shareholder</b>	<u>\$ 161</u>	<u>\$ 122</u>	<u>\$ 100</u>	<u>\$ 16</u>	<u>\$ 399</u>	<u>\$ —</u>	<u>\$ 399</u>

<sup>(1)</sup> Effective January 1, 2020, the Company divided its Europe/Reinsurance business unit into two business units: Europe, and Capital and Risk Solutions (note 2).

<sup>(2)</sup> Includes commissions, operating and administrative expenses, and premium taxes.

#### 14. Segmented Information (cont'd)

For the three months ended March 31, 2019

	Shareholder				Participating		
	Canada	Europe <sup>(1)</sup>	Capital and Risk Solutions <sup>(1)</sup>	Corporate	Total	Total	Total Company
<b>Income</b>							
Total net premiums	\$ 2,026	\$ 782	\$ 4,432	\$ 84	\$ 7,324	\$ 1,087	\$ 8,411
<b>Net investment income</b>							
Regular net investment income	293	251	57	20	621	386	1,007
Changes in fair value through profit or loss	1,144	1,098	273	38	2,553	1,185	3,738
Total net investment income	1,437	1,349	330	58	3,174	1,571	4,745
Fee and other income	407	395	3	15	820	—	820
	3,870	2,526	4,765	157	11,318	2,658	13,976
<b>Benefits and expenses</b>							
Paid or credited to policyholders	2,839	1,840	4,604	101	9,384	2,457	11,841
Other <sup>(2)</sup>	643	408	53	17	1,121	226	1,347
Financing charges	—	—	3	10	13	—	13
Amortization of finite life intangible assets	15	11	—	4	30	2	32
Earnings (loss) before income taxes	373	267	105	25	770	(27)	743
Income taxes (recovery)	92	40	2	(26)	108	(17)	91
Net earnings (loss) before non-controlling interests	281	227	103	51	662	(10)	652
Non-controlling interests	—	—	—	—	—	—	—
Net earnings (loss)	281	227	103	51	662	(10)	652
Net earnings (loss) - participating policyholder	—	—	—	—	—	(10)	(10)
Net earnings - common shareholder	\$ 281	\$ 227	\$ 103	\$ 51	\$ 662	\$ —	\$ 662

<sup>(1)</sup> Effective January 1, 2020, the Company divided its Europe/Reinsurance business unit into two business units: Europe, and Capital and Risk Solutions. The realignment resulted in a change to comparative figures within these business units. The adjustment had no impact on the net earnings or cash flows of the Company (note 2).

<sup>(2)</sup> Includes commissions, operating and administrative expenses, and premium taxes.

#### 15. Comparative Figures

The Company reclassified certain comparative figures for disclosure items to conform to the current period's presentation. These reclassifications had no impact on the total equity or net earnings of the Company.



**The Canada Life Assurance Company**

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