

Consolidated Financial Statements of

THE CANADA LIFE ASSURANCE COMPANY

December 31, 2022 and 2021

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Independent Auditor's Report

To the Policyholders and Shareholder of
The Canada Life Assurance Company

Opinion

We have audited the consolidated financial statements of The Canada Life Assurance Company (the "Company"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/ Deloitte LLP

Chartered Professional Accountants

Winnipeg, Manitoba

February 8, 2023

CONSOLIDATED STATEMENTS OF EARNINGS

(in Canadian \$ millions)

	For the years ended December 31	
	2022	2021
Income		
Premium income		
Gross premiums written	\$ 58,060	\$ 54,340
Ceded premiums	(3,738)	(3,731)
Total net premiums	54,322	50,609
Net investment income (note 6)		
Regular net investment income	4,898	4,502
Changes in fair value through profit or loss	(16,011)	(1,240)
Total net investment income (loss)	(11,113)	3,262
Fee and other income	3,325	3,414
	46,534	57,285
Benefits and expenses		
Policyholder benefits		
Gross	48,611	43,401
Ceded	(2,537)	(2,505)
Total net policyholder benefits	46,074	40,896
Changes in insurance and investment contract liabilities		
Gross	(12,410)	4,394
Ceded	1,169	1,081
Total net changes in insurance and investment contract liabilities	(11,241)	5,475
Policyholder dividends and experience refunds	2,172	1,423
Total paid or credited to policyholders	37,005	47,794
Commissions	2,148	2,107
Operating and administrative expenses (note 27)	3,249	3,175
Premium taxes	474	486
Financing charges (note 16)	109	110
Amortization of finite life intangible assets (note 10)	168	165
Earnings before income taxes	3,381	3,448
Income taxes (note 26)	199	274
Net earnings before non-controlling interests	3,182	3,174
Attributable to non-controlling interests (note 19)	3	3
Net earnings	3,179	3,171
Net earnings - participating account (note 18)	184	303
Net earnings - common shareholder	\$ 2,995	\$ 2,868

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian \$ millions)

	For the years ended December 31	
	2022	2021
Net earnings	\$ 3,179	\$ 3,171
Other comprehensive income (loss)		
Items that may be reclassified subsequently to Consolidated Statements of Earnings		
Unrealized foreign exchange gains (losses) on translation of foreign operations	12	(403)
Unrealized gains (losses) on hedges of the net investment in foreign operations	(97)	(11)
Income tax (expense) benefit	27	3
Unrealized gains (losses) on available-for-sale assets	(829)	(231)
Income tax (expense) benefit	151	45
Realized (gains) losses on available-for-sale assets	69	(16)
Income tax expense (benefit)	(8)	2
Non-controlling interests	(1)	2
Total items that may be reclassified	(676)	(609)
Items that will not be reclassified to Consolidated Statements of Earnings		
Re-measurements on defined benefit pension and other post-employment benefit plans (note 23)	422	620
Income tax (expense) benefit	(113)	(170)
Total items that will not be reclassified	309	450
Total other comprehensive income (loss)	(367)	(159)
Comprehensive income	\$ 2,812	\$ 3,012

CONSOLIDATED BALANCE SHEETS

(in Canadian \$ millions)

	December 31	
	2022	2021
Assets		
Cash and cash equivalents (note 5)	\$ 3,761	\$ 3,271
Bonds (note 6)	87,814	101,329
Mortgage loans (note 6)	24,012	23,113
Stocks (note 6)	12,663	13,252
Investment properties (note 6)	8,315	7,759
Loans to policyholders	3,660	3,480
	<u>140,225</u>	<u>152,204</u>
Funds held by ceding insurers (note 7)	7,041	7,555
Reinsurance assets (note 13)	6,877	8,794
Goodwill (note 10)	6,372	6,382
Intangible assets (note 10)	2,450	2,362
Derivative financial instruments (note 28)	1,120	582
Owner occupied properties (note 11)	532	552
Fixed assets (note 11)	257	288
Other assets (note 12)	2,091	1,836
Premiums in course of collection, accounts and interest receivable	4,825	4,841
Current income taxes	254	242
Deferred tax assets (note 26)	315	266
Investments on account of segregated fund policyholders (note 14)	221,623	240,500
Total assets	<u>\$ 393,982</u>	<u>\$ 426,404</u>
Liabilities		
Insurance contract liabilities (note 13)	\$ 134,389	\$ 148,884
Investment contract liabilities (note 13)	1,568	1,646
Debentures and other debt instruments (note 15)	747	745
Preferred shares (note 20)	1,000	1,000
Funds held under reinsurance contracts	1,646	2,006
Derivative financial instruments (note 28)	1,575	1,005
Accounts payable	2,047	1,945
Other liabilities (note 17)	2,935	3,162
Current income taxes	50	160
Deferred tax liabilities (note 26)	892	922
Investment and insurance contracts on account of segregated fund policyholders (note 14)	221,623	240,500
Total liabilities	<u>368,472</u>	<u>401,975</u>
Equity		
Participating account surplus (note 18)	3,147	3,126
Non-controlling interests (note 19)	51	26
Shareholders' equity		
Share capital (note 20)		
Common shares	7,884	7,884
Accumulated surplus	14,258	13,025
Accumulated other comprehensive loss (note 24)	(255)	(51)
Contributed surplus	425	419
Total equity	<u>25,510</u>	<u>24,429</u>
Total liabilities and equity	<u>\$ 393,982</u>	<u>\$ 426,404</u>

Approved by the Board of Directors:



Jeffrey Orr
Chair of the Board



Paul Mahon
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in Canadian \$ millions)

December 31, 2022

	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive loss	Total shareholders' equity	Non-controlling interests	Participating account surplus	Total equity
Balance, beginning of year	\$ 7,884	\$ 419	\$ 13,025	\$ (51)	\$ 21,277	\$ 26	\$ 3,126	\$ 24,429
Net earnings	—	—	2,995	—	2,995	3	184	3,182
Other comprehensive income (loss)	—	—	—	(204)	(204)	1	(163)	(366)
	<u>7,884</u>	<u>419</u>	<u>16,020</u>	<u>(255)</u>	<u>24,068</u>	<u>30</u>	<u>3,147</u>	<u>27,245</u>
Dividends to common shareholder	—	—	(1,770)	—	(1,770)	—	—	(1,770)
Share-based payments (note 22)	—	6	—	—	6	—	—	6
Recognition of non-controlling interest	—	—	—	—	—	15	—	15
Disposal of investment in subsidiary	—	—	8	—	8	6	—	14
Balance, end of year	<u>\$ 7,884</u>	<u>\$ 425</u>	<u>\$ 14,258</u>	<u>\$ (255)</u>	<u>\$ 22,312</u>	<u>\$ 51</u>	<u>\$ 3,147</u>	<u>\$ 25,510</u>

December 31, 2021

	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Participating account surplus	Total equity
Balance, beginning of year	\$ 7,884	\$ 415	\$ 11,802	\$ 73	\$ 20,174	\$ 25	\$ 2,858	\$ 23,057
Net earnings	—	—	2,868	—	2,868	3	303	3,174
Other comprehensive income (loss)	—	—	—	(124)	(124)	(2)	(35)	(161)
	<u>7,884</u>	<u>415</u>	<u>14,670</u>	<u>(51)</u>	<u>22,918</u>	<u>26</u>	<u>3,126</u>	<u>26,070</u>
Dividends to common shareholder	—	—	(1,645)	—	(1,645)	—	—	(1,645)
Share-based payments (note 22)	—	4	—	—	4	—	—	4
Balance, end of year	<u>\$ 7,884</u>	<u>\$ 419</u>	<u>\$ 13,025</u>	<u>\$ (51)</u>	<u>\$ 21,277</u>	<u>\$ 26</u>	<u>\$ 3,126</u>	<u>\$ 24,429</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian \$ millions)

	For the years ended December 31	
	2022	2021
Operations		
Earnings before income taxes	\$ 3,381	\$ 3,448
Income taxes paid, net of refunds received	(326)	(360)
Adjustments:		
Change in insurance and investment contract liabilities	(12,992)	3,579
Change in funds held by ceding insurers	(491)	555
Change in funds held under reinsurance contracts	(354)	(146)
Change in reinsurance assets	1,972	1,056
Changes in fair value through profit or loss	16,011	1,240
Other	(860)	(123)
	<u>6,341</u>	<u>9,249</u>
Financing Activities		
Dividends paid on common shares	(1,770)	(1,590)
Investment Activities		
Bond sales and maturities	15,714	19,389
Mortgage loan repayments	2,398	2,651
Stock sales	4,129	6,220
Investment property sales	55	40
Change in loans to policyholders	(156)	(34)
Business acquisitions, net of cash and cash equivalents acquired (note 3)	(6)	(380)
Investment in bonds	(17,493)	(23,790)
Investment in mortgage loans	(4,018)	(3,726)
Investment in stocks	(3,980)	(6,819)
Investment in investment properties	(710)	(970)
	<u>(4,067)</u>	<u>(7,419)</u>
Effect of changes in exchange rates on cash and cash equivalents	(14)	(74)
Increase in cash and cash equivalents	490	166
Cash and cash equivalents, beginning of year	3,271	3,105
Cash and cash equivalents, end of year	\$ 3,761	\$ 3,271
Supplementary cash flow information		
Interest income received	\$ 3,661	\$ 3,662
Interest paid	116	118
Dividend income received	352	344

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian \$ millions except per share amounts)

1. Corporate Information

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

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

The consolidated financial statements (financial statements) of the Company as at and for the year ended December 31, 2022 were approved by the Board of Directors on February 8, 2023.

2. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of the Company have been prepared in compliance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Consistent accounting policies were applied in the preparation of the consolidated financial statements of the subsidiaries of the Company.

Changes in Accounting Policies

The Company adopted the amendments to IFRS for IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and *Annual Improvements 2018-2020 Cycle* for the amendment to IFRS 16, *Leases* effective January 1, 2022. The adoption of these amendments did not have a significant impact on the Company's financial statements.

Basis of Consolidation

The consolidated financial statements of the Company were prepared as at and for the year ended December 31, 2022 with comparative information as at and for the year ended December 31, 2021. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The Company has control when it has the power to direct the relevant activities, has significant exposure to variable returns from these activities and has the ability to use its power to affect the variable returns. All intercompany balances and transactions, including income and expenses, profits or losses and dividends, are eliminated on consolidation.

Impact of COVID-19 and the Conflict Between Russia and Ukraine on Significant Judgments, Estimates and Assumptions

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

Global financial markets continued to be volatile during 2022, in part due to Russia's military invasion of Ukraine and the related sanctions and economic fallout. The Company continues to monitor potential impacts of the conflict, including financial impacts, heightened cyber risks, and risks related to the global supply chain.

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

The results of the Company reflect management's judgments regarding the impact of prevailing market conditions related to global credit, equities, investment properties, foreign exchange and inflation, as well as prevailing health and mortality experience.

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

The fair value of portfolio investments (note 6), the valuation of goodwill and other intangible assets (note 10), the valuation of insurance contract liabilities (note 13) and the recoverability of deferred tax asset carrying values (note 26) 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.

Use of Significant Judgments, Estimates and Assumptions

In preparation of these consolidated 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 listed below and discussed throughout the notes to these consolidated financial statements including:

- Management uses judgment to determine the fair value of assets acquired and liabilities assumed in a business combination.
- Management uses independent qualified appraisal services to determine the fair value of investment properties, which utilize judgments and estimates. These appraisals are adjusted by applying management judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions (note 6).
- Management uses internal valuation models which utilize judgments and estimates to determine the fair value of equity release mortgages. These valuations are adjusted by applying management judgments and estimates for material changes in projected asset cash flows, and discount rates (note 6).
- In the determination of the fair value of financial instruments, the Company's management exercises judgment in the determination of fair value inputs, particularly those items categorized within level 3 of the fair value hierarchy (note 9).
- Cash generating units for intangible assets and cash generating unit groupings for goodwill have been determined by management as the lowest level that the assets are monitored for internal reporting purposes, which requires management judgment in the determination of the lowest level of monitoring (note 10).
- Management evaluates the future benefit for initial recognition and measurement of goodwill and intangible assets as well as testing the recoverable amounts. The determination of the carrying value and recoverable amounts of the cash generating unit groupings for goodwill and cash generating units for intangible assets relies upon the determination of fair value or value-in-use using valuation methodologies (note 10).
- Judgments are used by management in determining whether deferred acquisition costs and deferred income reserves can be recognized on the Consolidated Balance Sheets. Deferred acquisition costs are recognized if management determines the costs meet the definition of an asset and are incremental and related to the issuance of the investment contract. Deferred income reserves are amortized on a straight-line basis over the term of the policy (notes 12 and 17).

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

- Management uses judgment to evaluate the classification of insurance and reinsurance contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.
- The actuarial assumptions, such as interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders, used in the valuation of insurance and certain investment contract liabilities under the Canadian Asset Liability Method require significant judgment and estimation (note 13).
- The actuarial assumptions used in determining the expense and benefit obligations for the Company's defined benefit pension plans and other post-employment benefits requires significant judgment and estimation. Management reviews previous experience of its plan members and market conditions including interest rates and inflation rates in evaluating the assumptions used in determining the expense for the current year (note 23).
- The Company operates within various tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Company's tax provisions and the carrying amounts of its tax assets and liabilities (note 26).
- Management applies judgment in assessing the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections (note 26).
- Legal and other provisions are recognized resulting from a past event which, in the judgment of management, has resulted in a probable outflow of economic resources which would be passed to a third-party to settle the obligation. Management uses judgment to evaluate the possible outcomes and risks in determining the best estimate of the provision at the balance sheet date (note 29).
- The operating segments of the Company are the segments reviewed by the Company's Chief Executive Officer to assess performance and allocate resources within the Company. Management applies judgment in the aggregation of the business units into the Company's operating segments (note 31).
- The Company consolidates all subsidiaries and entities which management determines that the Company controls. Control is evaluated on the ability of the Company to direct the activities of the subsidiary or entity to derive variable returns and management uses judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Company has the ability to exercise its power to generate variable returns.
- Management uses judgments, such as the determination of whether the Company retains the primary obligation with a client in sub-advisor arrangements. Where the Company retains the primary obligation to the client, revenue and expenses are recorded on a gross basis.
- Within the Consolidated Statements of Cash Flows, purchases and sales of portfolio investments are recorded within investment activities due to management's judgment that these investing activities are long-term in nature.
- The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. 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 rating.

The significant accounting policies are as follows:

(a) Portfolio Investments

Portfolio investments include bonds, mortgage loans, stocks and investment properties. Portfolio investments are classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, equity-method investments or as non-financial instruments based on management's intention relating to the purpose and nature of the instrument or characteristics of the investment. The Company has not classified any investments as held-to-maturity.

Investments in bonds and stocks normally actively traded on a public market or where fair value can be reliably measured are either designated or classified as fair value through profit or loss or classified as

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

available-for-sale on a trade date basis. Equity release mortgages are designated as fair value through profit or loss or classified as available-for-sale. 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. Fair value through profit or loss investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings. Available-for-sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses on available-for-sale investments are reclassified from other comprehensive income and recorded in the Consolidated Statements of Earnings when the investment is sold. Interest income earned on both fair value through profit or loss and available-for-sale bonds is calculated using the effective interest method and is recorded as net investment income in the Consolidated Statements of Earnings.

Investments in stocks where a fair value cannot be measured reliably are classified as available-for-sale and carried at cost. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting. Investments in stocks over which the Company exerts significant influence but does not control include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Corporation group of companies.

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Consolidated Statements of Earnings and included in net investment income.

Investment properties are real estate held to earn rental income or for capital appreciation. Investment properties are initially measured at cost and subsequently carried at fair value on the Consolidated Balance Sheets. All changes in fair value are recorded as net investment income in the Consolidated Statements of Earnings. Properties held to earn rental income or for capital appreciation that have an insignificant portion that is owner occupied or where there is no intent to occupy on a long-term basis are classified as investment properties. Properties that do not meet these criteria are classified as owner occupied properties. Property that is leased that would otherwise be classified as investment property if owned by the Company is also included within investment properties.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded within the market pricing methods that the Company relies upon.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance and investment contract liabilities are largely offset by corresponding changes in the fair value of liabilities except when the bond has been deemed impaired.

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

Bonds - Fair Value Through Profit or Loss and Available-for-Sale

Fair values for bonds classified and designated as fair value through profit or loss or available-for-sale 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 fair value through profit or loss and available-for-sale portfolios.

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

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.

Bonds and Mortgages - Loans and Receivables

For disclosure purposes only, fair values for bonds and mortgages classified as loans and receivables 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 - Fair Value Through Profit or Loss and Available-for-Sale

There are no market observable prices for equity release mortgages; therefore an internal valuation model is used 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 - Fair Value Through Profit or Loss and Available-for-Sale

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 is 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 and available-for-sale portfolios.

Investment Properties

Fair values for investment properties are determined using independent qualified appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment property requires the use of estimates including 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 conditions. Investment property under construction is valued at fair value if such values can be reliably determined; otherwise they are recorded at cost.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is objective evidence that timely collection of future cash flows can no longer be reliably estimated. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset; however, market price is taken into consideration when evaluating impairment.

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

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the net realizable value. For impaired available-for-sale bonds recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are recorded in net investment income, therefore, in the event of an impairment, the reduction will be recorded in net investment income.

Securities Lending

The Company engages in securities lending through its securities custodians as lending agents. Loaned securities are not derecognized, and continue to be reported within invested assets, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities.

(b) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified as fair value through profit or loss. Transaction costs for financial assets classified as available-for-sale or loans and receivables are added to the value of the instrument at acquisition and taken into net earnings using the effective interest method. Transaction costs for financial liabilities classified as other than fair value through profit or loss are included in the value of the instrument issued and taken into net earnings using the effective interest method.

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, current operating accounts, overnight bank and term deposits with maturities of three months or less held for the purpose of meeting short-term cash requirements. Net payments in transit and overdraft bank balances are included in other liabilities.

(d) Trading Account Assets

Trading account assets consist of investments in open ended investment companies and sponsored unit-trusts, which are carried at fair value based on the net asset value of these funds. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings.

(e) Debentures and Other Debt Instruments and Capital Trust Securities

Debentures and other debt instruments and capital trust securities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest method with amortization expense recorded in financing charges in the Consolidated Statements of Earnings. These liabilities are derecognized when the obligation is cancelled or redeemed.

(f) Other Assets and Other Liabilities

Other assets, which include prepaid expenses, deferred acquisition costs, finance leases receivable, right-of-use assets and other miscellaneous assets, are measured at cost or amortized cost. Other liabilities, which include deferred income reserves, bank overdraft, lease liabilities and other miscellaneous liabilities are measured at cost or amortized cost.

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

Provisions are recognized within other liabilities when the Company has a present obligation, either legal or constructive, resulting from a past event, and in management's judgment, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount. The amount recognized for provisions are management's best estimate at the balance sheet date. The Company recognizes a provision for restructuring when a detailed formal plan for the restructuring has been established and that the plan has raised a valid expectation in those affected that the restructuring will occur.

Pension and other post-employment benefits also included within other assets and other liabilities are measured in accordance with note 2(x).

(g) Disposal Group Classified as Held for Sale

Disposal groups are classified as held for sale when the carrying amount will be recovered through a sale transaction rather than continuing use. The fair value of a disposal group is measured at the lower of its carrying amount and fair value less costs to sell. Individual assets and liabilities in a disposal group not subject to these measurement requirements include financial assets, investment properties and insurance contract liabilities. These assets and liabilities are measured in accordance with the relevant accounting policies described for those assets and liabilities included in this note before the disposal group as a whole is measured to the lower of its carrying amount and fair value less cost to sell. Any impairment loss for the disposal group is recognized as a reduction to the carrying amount for the portion of the disposal group under the measurement requirements for IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*.

Disposal group assets and liabilities classified as held for sale are presented separately on the Company's Consolidated Balance Sheets. Gains and losses from disposal groups held for sale are presented separately in the Company's Consolidated Statements of Earnings.

(h) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including fee and investment income. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

The Company includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent in note 28 as prescribed by the Office of the Superintendent of Financial Institutions (OSFI) in Canada.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income in the Consolidated Statements of Earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

Derivatives are valued using market transactions and other market evidence whenever possible, including market based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

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

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, the Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the Consolidated Balance Sheets or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged risk are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

The Company currently uses foreign exchange forward contracts designated as fair value hedges.

Cash flow hedges

For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is recorded in the same manner as the hedged item while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The Company currently has no instruments designated as cash flow hedges.

Net investment hedges

For net investment hedges, the effective portion of changes in the fair value of the hedging instrument are recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. The unrealized foreign exchange gains (losses) on the instruments are recorded within accumulated other comprehensive income and will be reclassified into net earnings when the Company disposes of the foreign operation.

The Company currently uses foreign exchange forward contracts designated as net investment hedges.

(i) Embedded Derivatives

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the Consolidated Statements of Earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

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

(j) Foreign Currency Translation

The Company operates with multiple functional currencies. The Company's consolidated financial statements are presented in Canadian dollars as this presentation is most meaningful to financial statement users. For those subsidiaries with different functional currencies, exchange rate differences arising from the translation of monetary items that form part of the net investment in the foreign operation are recorded in unrealized foreign exchange gains (losses) on translation of foreign operations in other comprehensive income.

For the purpose of presenting consolidated financial statements, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on translation of the Company's net investment in its foreign operations are presented separately as a component of other comprehensive income. Unrealized gains and losses will be recognized proportionately in net investment income in the Consolidated Statements of Earnings when there has been a disposal of the investment in the foreign operations.

Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income.

(k) Loans to Policyholders

Loans to policyholders are classified as loans and receivables and measured at amortized cost. Loans to policyholders are shown at their unpaid principal balance and are fully secured by the cash surrender values of the policies. Carrying value of loans to policyholders approximates their fair value.

(l) Reinsurance Contracts

The Company, in the normal course of business, is a user of reinsurance in order to limit the potential for losses arising from certain exposures and a provider of reinsurance. Assumed reinsurance refers to the acceptance of certain insurance risks by the Company underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Reinsurance contracts are insurance contracts and undergo the classification as described within the Insurance and Investment Contract Liabilities section of this note. Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. The Company considers various factors in the impairment evaluation process, including but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the Consolidated Statements of Earnings.

Any gains or losses on buying reinsurance are recognized in the Consolidated Statements of Earnings immediately at the date of purchase in accordance with the Canadian Asset Liability Method.

Assets and liabilities related to reinsurance are reported on a gross basis on the Consolidated Balance Sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

(m) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

On the asset side, funds held by ceding insurers are assets that would normally be paid to the Company but are withheld by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is

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

customary for the cedant to retain amounts on a funds withheld basis supporting the insurance or investment contract liabilities ceded. For the funds withheld assets where the underlying asset portfolio is managed by the Company, the credit risk is retained by the Company. The funds withheld balance where the Company assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See note 7 for funds held by ceding insurers that are managed by the Company. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by the Company from ceded business written on a funds withheld basis. The Company withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

(n) Business Combinations, Goodwill and Intangible Assets

Business combinations are accounted for using the acquisition method. The Company identifies and classifies, in accordance with the Company's accounting policies, all assets acquired and liabilities assumed as at the acquisition date. Goodwill represents the excess of purchase consideration over the fair value of net assets of the acquired subsidiaries of the Company. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of technology/software, certain customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, typically ranging between 3 and 30 years.

Indefinite life intangible assets include brands and trademarks, certain customer contracts and the shareholders' portion of acquired future participating account profits. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position. Following initial recognition, indefinite life intangible assets are measured at cost less accumulated impairment losses.

Impairment Testing

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

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

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

Intangible assets with an indefinite useful life are reviewed annually to determine if there are indicators of impairment. If indicators of impairment have been identified, a test for impairment is performed and recognized as necessary. Impairment is assessed by comparing the carrying values of the assets to their

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

recoverable amounts. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

(o) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured.

Interest income on bonds and mortgages is recognized and accrued using the effective interest method.

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed stocks, and usually the notification date or date when the shareholders have approved the dividend for private equity instruments.

Investment property income includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Rental income leases with contractual rent increases and rent-free periods are recognized on a straight-line basis over the term of the lease.

Fee income includes fees earned from management of segregated fund assets, proprietary mutual fund assets, record-keeping, fees earned on administrative services only Group health contracts, commissions and fees earned from management services. Fee and other income is recognized on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

The Company has sub-advisor arrangements where the Company retains the primary obligation with the client; as a result, fee income earned is reported on a gross basis with the corresponding sub-advisor expense recorded in operating and administrative expenses.

(p) Owner Occupied Properties and Fixed Assets

Property held for own use and fixed assets are carried at cost less accumulated depreciation, disposals and impairments. Depreciation is expensed to write-off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Owner occupied properties	15 - 20 years
Furniture and fixtures	5 - 10 years
Other fixed assets	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary.

(q) Deferred Acquisition Costs

Included in other assets are deferred acquisition costs related to investment contracts and service contracts. These are recognized as assets if the costs are incremental and incurred due to the contract being issued and are primarily amortized on a straight-line basis over the term of the contract, not to exceed 20 years.

(r) Segregated Funds

Segregated fund assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately on the Consolidated Balance

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

Sheets. The assets and liabilities are set equal to the fair value of the underlying asset portfolio. Investment income and changes in fair value of the segregated fund assets are offset by a corresponding change in the segregated fund liabilities.

(s) Insurance and Investment Contract Liabilities

Contract Classification

When significant insurance risk exists, the Company's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). 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 13 for discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition & Measurement* (IAS 39). The Company has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to note 8 for discussion of Financial Instruments Risk Management.

Measurement

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

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

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

(t) Deferred Income Reserves

Included in other liabilities are deferred income reserves relating to investment contracts. These are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years.

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

(u) Participating Account

The shareholder portion of participating earnings represents, as restricted by law, a portion of net earnings before policyholder dividends of the participating account. The actual payment of the shareholder portion of participating earnings is legally determined as a percentage of policyholder dividends paid. The participating operations and the participating balance sheets are presented as combined or consolidated in the operations in the Company's financial statements.

The Canada Life participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by Canada Life prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency is expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as an expense to shareholder net earnings.

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, \$50 of seed capital was transferred from shareholder surplus to the participating account. The seed capital amount, together with a reasonable rate of return, may be transferred to the shareholder account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholder account would be returns of capital and would be recorded as adjustments to shareholder surplus. A reasonable rate of return on seed capital will be recognized as income in the shareholder account and as an expense in the participating account when paid. To date all seed capital has been repaid except for \$20 (U.S. \$15).

(v) Income Taxes

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in profit or loss except to the extent that it relates to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized outside profit or loss.

Current Income Tax

Current income tax is based on taxable income for the year. Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates that have been enacted or substantively enacted at the balance sheet date in each respective jurisdiction. Current income tax assets and current income tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

A provision for tax treatment uncertainties which meet the probable threshold for recognition is measured using either the most likely amount or the expected value, depending upon which method provides the better prediction of the resolution of the uncertainty. The provision for tax uncertainties will be classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date.

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

Deferred Income Tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and carryforwards can be utilized.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

Deferred income tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to net current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the group controls the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

(w) Policyholder Benefits

Policyholder benefits include benefits and claims on life insurance contracts, maturity payments, annuity payments and surrenders. Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

(x) Pension Plans and Other Post-Employment Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for eligible employees and advisors. The Company and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents.

The present value of the defined benefit obligations and the related current service cost is determined using the projected unit credit method (note 23). Pension plan assets are recorded at fair value.

For the Company and its subsidiaries defined benefit plans, service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. To determine the net interest costs (income) recognized in the Consolidated Statements of Earnings, the Company applies a discount rate to the net benefit liability (asset), where the discount rate is determined by reference to market yields at the beginning of the year on high quality corporate bonds.

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

For the Company and its subsidiaries defined benefit plans, re-measurements of the net defined benefit liability (asset) due to asset returns less (greater) than interest income, actuarial losses (gains) and changes in the asset ceiling are recognized in the Consolidated Statements of Comprehensive Income.

The Company and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors. For the Company and its subsidiaries defined contribution plans, the current service costs are recognized in the Consolidated Statements of Earnings.

(y) Equity

Financial instruments issued by the Company are classified as share capital if they represent a residual interest in the assets of the Company. Preferred share capital is classified as equity if it is non-redeemable, or retractable only at the Company's option and any dividends are discretionary. Incremental costs that are directly attributable to the issue of share capital are recognized as a deduction from equity, net of income tax.

Contributed surplus represents the vesting expense on unexercised equity instruments under share-based payment plans.

Accumulated other comprehensive income (loss) represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the unrealized gains (losses) on available-for-sale assets, the unrealized gains (losses) on cash flow hedges, the re-measurements on defined benefit pension and other post-employment benefit plans net of tax and the revaluation surplus on transfer to investment properties, where applicable.

Non-controlling interests in subsidiaries represents the proportion of equity that is attributable to minority shareholders.

Participating account surplus represents the proportion of equity attributable to the participating account of the Company and its subsidiaries.

(z) Share-Based Payments

Lifeco has a stock option plan that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates.

The Company follows the fair value based method of accounting for the valuation of compensation expense for shares and share options granted to employees under its stock option plans (note 22). This share-based payment expense is recognized in operating and administrative expenses in the Consolidated Statements of Earnings and as an increase to contributed surplus over the vesting period of the granted options.

The Company and certain of its affiliates have Deferred Share Unit Plans (DSU Plans) in which the Directors and certain employees of the Company participate. Units issued to Directors under the DSU Plans vest when granted. Units issued to certain employees under the DSU Plans primarily vest over a three year period. The Company recognizes an increase in operating and administrative expenses for the units granted under the DSU Plans. The Company recognizes a liability for units granted under the DSU Plans which is remeasured at each reporting period based on the market value of Lifeco's common shares.

Certain employees of the Company are entitled to participate in the Performance Share Unit Plan (PSU Plan). Units issued under the PSU Plan vest over a three year period. The Company uses the fair value method to recognize compensation expense for the units granted under the plan over the vesting period with a corresponding increase in the liability based on the market value of Lifeco's common shares.

The Company has an Employee Share Ownership Program (ESOP) where, subject to certain conditions being met, the Company will match contributions up to a maximum amount to purchase Lifeco common shares. The Company's contributions are expensed within operating and administrative expenses as incurred.

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

(aa) Leases

Where the Company is the lessee, a right-of-use asset and a lease liability are recognized on the Consolidated Balance Sheets as at the lease commencement date.

Right-of-use assets are initially measured based on the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. Right-of-use assets are included within other assets with the exception of right-of-use assets which meet the definition of investment property which are presented within investment properties and subject to the Company's associated accounting policy. Right-of-use assets presented within other assets are depreciated to the earlier of the useful life of the right-of-use asset or the lease term using the straight-line method. Depreciation expense on right-of-use assets is included within operating and administrative expenses.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company shall use the lessee's incremental borrowing rate. Generally, the Company uses the lessee's incremental borrowing rate as its discount rate. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within operating and administrative expenses.

The Company has elected to apply a practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

Where the Company is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the Consolidated Balance Sheets. Income from these leases is recognized in the Consolidated Statements of Earnings on a straight-line basis over the lease term.

Investments in a lease that transfers substantially all the risks and rewards of ownership to the lessee are classified as a finance lease. The Company is the lessor under a finance lease and the investment is recognized as a receivable at an amount equal to the net investment in the lease, which is represented as the present value of the minimum lease payments due from the lessee and is presented within the Consolidated Balance Sheets. Payments received from the lessee are apportioned between the recognition of finance lease income and the reduction of the finance lease receivable. Income from the finance leases is recognized in the Consolidated Statements of Earnings at a constant periodic rate of return on the Company's net investment in the finance lease.

(ab) Operating Segments

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. The business units within these segments are Canada, Europe, Capital and Risk Solutions, and Corporate. The Canada business unit comprises the Individual Customer and Group Customer business units. The Europe business unit comprises United Kingdom, Ireland, and Germany. Reinsurance is reported in the Capital and Risk Solutions business unit. The Corporate business unit represents activities and transactions that are not directly attributable to the measurement of the operating business units of the Company.

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

(ac) Future Accounting Policies

The Company actively monitors changes in IFRS, both proposed and released, by the IASB for potential impact on the Company. The following sets out significant standards that will be adopted on January 1, 2023:

IFRS 17 - Insurance Contracts (IFRS 17), and IFRS 9 - Financial Instruments (IFRS 9)

IFRS 17 will replace IFRS 4, effective January 1, 2023.

IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues, reinsurance contracts it holds, and investment contracts with discretionary participation features issued. Under IFRS 17, the Company will:

- Identify insurance contracts as arrangements where the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or beneficiary of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown.
- Separately account for specified embedded derivatives, distinct investment components, and distinct non-insurance goods and services from insurance contracts.
- Identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Portfolios are further divided based on expected profitability at inception. At a minimum, each portfolio of insurance contracts issued shall be divided into the following groups:
 - Contracts that are onerous at initial recognition;
 - Contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and
 - Any of the remaining contracts in the portfolio.
- Apply the three measurement models introduced by IFRS 17 as further described below:

General Measurement Model (GMM)

The Company applies this model to its medium to long-term insurance products, such as individual protection, payout annuities, and longevity swaps.

Under this model, the Company will measure insurance contract liabilities on the balance sheet as the total of:

- a. The fulfilment cash flows (FCF) – the current estimates of amounts that a company expects to collect (e.g. premiums) and pay out (e.g. claims, benefits, expenses), including adjustments for the timing and the financial and non-financial risks of those amounts; and
- b. The contractual service margin (CSM) – unearned profit for providing insurance coverage, which is subsequently recognized into profit or loss over time as the insurance services are provided.

At the end of each period, the Company will recalculate the FCF and CSM, with the CSM subject to adjustments for interest accretion and certain changes to FCF relating to future service.

Premium Allocation Approach (PAA)

The Company applies this model to its short-term insurance products, such as group life and health.

This simplified model can be used when the contract boundary is less than one year or the approach is expected to produce a similar liability amount as under the GMM. Under the PAA, the Company is exempted from calculating and explicitly accounting for the CSM. Instead the liability is set as the premiums received less acquisition expenses, premium revenue recognized, and amounts transferred to fund incurred claims.

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

Variable Fee Approach (VFA)

The Company applies this model to contracts with direct participating features such as participating insurance and segregated fund business with insurance guarantees, where an investment return is provided to the policyholder based on a defined pool of items (e.g. a portfolio of assets).

Similar to the GMM, the VFA initially measures the insurance contract liabilities as the FCF plus CSM. Subsequently, the Company will recalculate the FCF and CSM, with the latter reflecting changes in the Company's share of the pool of items (e.g. future fees and guarantee costs) and certain changes to FCF relating to future service.

A group of insurance contracts issued is considered onerous when the measurement leads to a negative CSM either at issue or when subsequently measured. In this case, the CSM is not allowed to decrease below zero and a loss component is tracked.

The measurement of reinsurance contracts held is similar to insurance contracts issued with the following key differences: the CSM can be positive or negative, and the VFA measurement model cannot be used.

On transition to IFRS 17, the Company will apply the full retrospective approach to all identified insurance contracts unless it is impracticable to do so. When impracticable, the fair value approach will be applied.

The fair value approach calculates the CSM or loss component of the liability for remaining coverage as the difference between the fair value of a group of insurance contracts at the date of transition and the FCF measured at that date.

In addition, IFRS 9 will replace IAS 39, effective January 1, 2023. The standard provides changes to financial instruments accounting for the following:

- Classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset. All financial assets are measured as Fair Value Through Profit or Loss (FVTPL), Fair Value Through Other Comprehensive Income (FVOCI), or amortized cost;
- Allowances for credit losses (ACL) are based on an Expected Credit Loss (ECL) model for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI. Under the ECL model, a loss allowance is recognized and maintained equal to 12 months of expected credit losses upon initial recognition. If credit risk subsequently increases significantly, or an asset becomes credit-impaired, the loss allowance is increased to cover full, lifetime expected credit losses. Changes in the required loss allowance will be recorded in net investment income in the Consolidated Statements of Earnings; and
- Hedge accounting that incorporates the risk management practices of an entity, which will not have a material impact to the Company.

The current disclosure for the measurement and classification of the Company's portfolio investments (note 6) provides most of the information required by IFRS 9.

The Company's date of initial application of IFRS 9 is January 1, 2023 and the Company anticipates electing the option of presenting comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period, as permitted by the amendment to IFRS 17 published by the IASB in December 2021. IFRS 9 includes an accounting policy choice to retain the IAS 39 requirements for hedge accounting, which the Company is currently evaluating.

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

The expected quantitative impact of transitioning to IFRS 17 and IFRS 9 is illustrated in the opening balance sheet reconciliation table below.

Balance Sheet Condensed View	As Reported		Asset / Liability Reclassification	IFRS 9	IFRS 17	Income Tax	Restated IFRS 17 & 9 Balance Sheet Jan. 1, 2022
	IFRS 4 IAS 39 Dec. 31, 2021						
Assets							
Bonds	\$ 101,329	\$ —	\$ 1,841	\$ —	\$ —	\$ —	\$ 103,170
Mortgage loans	23,113	—	428	—	—	—	23,541
Stocks	13,252	16	—	—	—	—	13,268
Other assets impacted by IFRS 17 & 9	33,154	(15,814)	—	1,299	211	—	18,850
Other assets not impacted by IFRS 17 & 9	15,056	—	—	—	—	—	15,056
Investments on account of segregated fund policyholders	240,500	—	—	—	—	—	240,500
Total assets	\$ 426,404	\$ (15,798)	\$ 2,269	\$ 1,299	\$ 211	\$ —	\$ 414,385
Liabilities							
Insurance contract liabilities	\$ 148,884	\$ (16,473)	\$ —	\$ 6,850	\$ —	\$ —	\$ 139,261
Investment contract liabilities	1,646	2,874	—	—	—	—	4,520
Other liabilities impacted by IFRS 17 & 9	8,035	(2,267)	—	—	(304)	—	5,464
Other liabilities not impacted by IFRS 17 & 9	2,910	—	—	—	—	—	2,910
Investments and insurance contracts on account of segregated fund policyholders	240,500	(240,500)	—	—	—	—	—
Insurance contracts on account of segregated fund policyholders	—	50,831	—	—	—	—	50,831
Investment contracts on account of segregated fund policyholders	—	189,669	—	—	—	—	189,669
Total liabilities	401,975	(15,866)	—	6,850	(304)	—	392,655
Total equity	24,429	68	2,269	(5,551)	515	—	21,730
Total liabilities and equity	\$ 426,404	\$ (15,798)	\$ 2,269	\$ 1,299	\$ 211	\$ —	\$ 414,385

The adoption of IFRS 17 and IFRS 9 is expected to result in an overall reduction of total assets of approximately \$12.0 billion, total liabilities of \$9.3 billion, and total equity of approximately \$2.7 billion to the transition balance sheet as at January 1, 2022.

Asset and liability reclassifications were primarily driven by changes to the groupings of certain assets and liabilities, reclassifications of certain insurance contract liabilities to investment contract liabilities, and presenting liabilities on account of segregated fund policyholders separately between insurance and investment contract liabilities. IFRS 9 adjustments primarily relate to a change in designation of certain loans and receivables held at amortized cost under IAS 39 to FVTPL under IFRS 9. IFRS 17 adjustments primarily relate to the establishment of the CSM partially offset by the removal of provisions no longer required under IFRS 17.

These impacts are based on the assessments undertaken to date. The exact financial impacts of the accounting changes of adopting IFRS 17 and IFRS 9 may be revised as further analysis is completed prior to presentation of financial information for periods including the date of initial application. The Company expects to be in a position to issue further guidance on the impact of adopting IFRS 17 and IFRS 9 in

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

conjunction with the first quarterly report to shareholders for the financial year commencing January 1, 2023.

Standard	Summary of Other Future Changes
IAS 1 – <i>Presentation of Financial Statements</i>	<p>In February 2021, the IASB published Disclosure of Accounting Policies, amendments to IAS 1, <i>Presentation of Financial Statements</i>. The amendments clarify how an entity determines whether accounting policy information is material.</p> <p>These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate a significant impact on its consolidated financial statements as a result of these amendments.</p>
IAS 8 – <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	<p>In February 2021, the IASB published Definition of Accounting Estimates, amendments to IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. The amendments clarify the difference between an accounting policy and an accounting estimate.</p> <p>These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate a significant impact on its consolidated financial statements as a result of these amendments.</p>
IAS 12 – <i>Income Taxes</i>	<p>In May 2021, the IASB published Deferred Tax Related to Assets and Liabilities from a Single Transaction, amendments to IAS 12, <i>Income Taxes</i>. The amendments clarify that for transactions in which both deductible and taxable temporary differences arise on initial recognition that result in deferred tax assets and liabilities of the same amount, deferred tax assets and liabilities are to be recognized.</p> <p>These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate a significant impact on its consolidated financial statements as a result of these amendments.</p>
IFRS 16 – <i>Leases</i>	<p>In September 2022, the IASB published Lease Liability in a Sale and Leaseback, amendments to IFRS 16, <i>Leases</i>. The amendments clarify that in a sale and leaseback transaction, the seller-lessee subsequent measurement of the lease liability arising from a leaseback does not recognize any amount of gain or loss related to the right of use it retains.</p> <p>These amendments are effective for annual reporting periods beginning on or after January 1, 2024 with earlier application permitted. The Company does not anticipate a significant impact on its consolidated financial statements as a result of these amendments.</p>

3. Business Acquisition

Acquisition of Ark Life Assurance Company

On November 1, 2021, Irish Life, an indirect wholly-owned subsidiary of the Company, completed the acquisition of Ark Life Assurance Company dac (Ark Life) from Phoenix Group Holdings plc for total cash consideration of \$332 (€230). Ark Life is closed to new business and manages a range of pensions, savings and protection policies for its customers in the Irish market.

During the fourth quarter of 2022, the Company completed its comprehensive evaluation of the fair value of the net assets acquired from Ark Life, and the purchase price allocation.

Initial goodwill presented in the Company's December 31, 2021 consolidated financial statements of \$21 (€15), was adjusted upon the completion of the purchase price allocation. An excess of the fair value of the net assets acquired over the purchase price of \$20 (€14) was recognized in the Consolidated Statements of Earnings as regular net investment income and is non-taxable. Adjustments were made to the provisional amounts disclosed in the Company's December 31, 2021 consolidated financial statements for the recognition and measurement of intangible assets and liabilities assumed. Intangible assets recognized include customer contracts of \$48 (€34), which have accumulated amortization of \$4 (€3) as at December 31, 2022.

Comparative information in the Company's consolidated financial statements has not been restated.

The Company determined the fair value of the intangible assets using valuation techniques that incorporate projections of discounted cash flows by applying judgments and estimates for forecasted revenues, renewal expenses, and discount rates.

The amounts assigned to the assets acquired, goodwill and liabilities assumed on November 1, 2021, reported as at December 31, 2022 are as follows:

Assets acquired and goodwill

Cash and cash equivalents	\$	17
Bonds		333
Intangible assets		48
Reinsurance assets		1,238
Premiums in the course of collection, accounts and interest receivable		89
Investments on account of segregated fund policyholders		2,844

Total assets acquired and goodwill	\$	4,569
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Liabilities assumed

Insurance contract liabilities	\$	1,257
Investment contract liabilities		43
Other liabilities		62
Deferred tax liabilities		11
Investment and insurance contracts on account of segregated fund policyholders		2,844

Total liabilities assumed	\$	4,217
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3. *Business Acquisition (cont'd)*

The following provides the change in the carrying value of goodwill from December 31, 2021 to December 31, 2022:

Goodwill previously reported at December 31, 2021	\$	21
Recognition and measurement of intangible assets		(48)
Recognition of deferred tax liabilities on intangible assets and other measurement period adjustments		<u>7</u>
Excess of the fair value of the net assets acquired over the purchase price at December 31, 2022	\$	<u>(20)</u>

During the fourth quarter of 2022, Ark Life Assurance Company dac changed its legal name to Irish Life Ark Dublin dac.

4. **Restructuring**

Canada Restructuring

At December 31, 2022, the Company has a restructuring provision of \$14 (\$56 at December 31, 2021) remaining in other liabilities. The change in the restructuring provision for the Canada restructuring is set out below:

	2022	2021
Balance, beginning of year	\$ 56	\$ 86
Amounts used	(42)	(30)
Balance, end of year	<u>\$ 14</u>	<u>\$ 56</u>

The Company expects to utilize a significant portion of these amounts during 2023.

5. **Cash and Cash Equivalents**

	2022	2021
Cash	\$ 2,250	\$ 1,931
Short-term deposits	1,511	1,340
Total	<u>\$ 3,761</u>	<u>\$ 3,271</u>

At December 31, 2022, cash and short-term deposits of \$323 were restricted for use by the Company (\$209 at December 31, 2021) in respect of cash held in trust for reinsurance agreements or with regulatory authorities, cash held under certain indemnity arrangements, client monies held by brokers and cash held in escrow.

6. Portfolio Investments

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

	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss ¹	\$ 61,013	\$ 61,013	\$ 75,352	\$ 75,352
Classified fair value through profit or loss ¹	69	69	137	137
Available-for-sale	9,023	9,023	9,492	9,492
Loans and receivables	17,709	15,839	16,348	18,189
	87,814	85,944	101,329	103,170
Mortgage loans				
Residential				
Designated fair value through profit or loss ¹	3,125	3,125	2,609	2,609
Available-for-sale	240	240	—	—
Loans and receivables	7,728	7,171	7,309	7,550
	11,093	10,536	9,918	10,159
Commercial	12,919	11,685	13,195	13,681
	24,012	22,221	23,113	23,840
Stocks				
Designated fair value through profit or loss ¹	12,110	12,110	12,754	12,754
Available-for-sale	18	18	16	16
Available-for-sale, at cost ²	8	8	8	8
Equity method	527	499	474	526
	12,663	12,635	13,252	13,304
Investment properties	8,315	8,315	7,759	7,759
Total	\$ 132,804	\$ 129,115	\$ 145,453	\$ 148,073

¹ Under IAS 39, a financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. Changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

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

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

6. Portfolio Investments (cont'd)

(b) Carrying value of bonds and mortgages by term to maturity are as follows:

	2022			
	Term to maturity			Total
	1 year or less	Over 1 year to 5 years	Over 5 years	
Bonds ¹	\$ 8,665	\$ 20,114	\$ 59,001	\$ 87,780
Mortgage loans ²	1,622	9,641	12,738	24,001
Total	\$ 10,287	\$ 29,755	\$ 71,739	\$ 111,781

	2021			
	Term to maturity			Total
	1 year or less	Over 1 year to 5 years	Over 5 years	
Bonds ¹	\$ 8,144	\$ 20,077	\$ 73,102	\$ 101,323
Mortgage loans ²	1,667	8,623	12,752	23,042
Total	\$ 9,811	\$ 28,700	\$ 85,854	\$ 124,365

¹ Excludes the carrying value of impaired bonds as the ultimate timing of collectability is uncertain.

² Excludes the carrying value of impaired mortgage loans as the ultimate timing of collectability is uncertain. Mortgage loans include equity release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on previous redemption experience.

(c) Certain stocks where equity method earnings are computed are discussed below:

A significant amount of the Company's equity method investments relate to the Company's investment in an affiliated company, IGM, a member of the Power Corporation group of companies, over which it exerts significant influence but does not control. The Company's proportionate share of IGM's earnings is recorded in net investment income in the Consolidated Statements of Earnings. The Company owns 9,200,448 shares of IGM at December 31, 2022 (9,200,448 at December 31, 2021) representing a 3.87% ownership interest (3.85% at December 31, 2021). The Company uses the equity method to account for its investment in IGM as it exercises significant influence. Significant influence arises from several factors, including, but not limited to the following: common control of the Company and IGM by Power Corporation, shared representation on the Boards of Directors of the Company and IGM, interchange of managerial personnel, certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies.

	2022	2021
Carrying value, beginning of year	\$ 366	\$ 354
Equity method share of IGM net earnings	30	33
Dividends received	(21)	(21)
Carrying value, end of year	\$ 375	\$ 366
Share of equity, end of year	\$ 237	\$ 243
Fair value, end of year	\$ 347	\$ 418

6. Portfolio Investments (cont'd)

The Company and IGM both have a year-end date of December 31. The Company's year-end results are approved and reported before IGM publicly reports its financial result; therefore, the Company reports IGM's financial information by estimating the amount of earnings attributable to the Company, based on prior quarter information as well as other market expectations, to complete equity method accounting. The difference between actual and estimated results is reflected in the subsequent quarter and is not material to the Company's consolidated financial statements.

IGM's financial information as at December 31, 2022 can be obtained in its publicly available information.

(d) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

	2022	2021
Impaired amounts by classification		
Fair value through profit or loss	\$ 5	\$ 6
Loans and receivables	40	71
Total	\$ 45	\$ 77

The carrying amount of impaired investments includes \$34 bonds and \$11 mortgage loans at December 31, 2022 (\$6 bonds and \$71 mortgage loans at December 31, 2021). The above carrying values for loans and receivables are net of allowances of \$16 at December 31, 2022 and \$28 at December 31, 2021.

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	2022			2021		
	Bonds	Mortgage loans	Total	Bonds	Mortgage loans	Total
Balance, beginning of year	\$ —	\$ 28	\$ 28	\$ —	\$ 57	\$ 57
Net provision for credit losses - in year	—	24	24	—	30	30
Write-offs, net of recoveries	—	(36)	(36)	—	(59)	(59)
Balance, end of year	\$ —	\$ 16	\$ 16	\$ —	\$ 28	\$ 28

The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

6. Portfolio Investments (cont'd)

(e) Net investment income comprises the following:

	2022					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 3,327	\$ 756	\$ 358	\$ 457	\$ 436	\$ 5,334
Net realized gains (losses)						
Available-for-sale	(69)	—	—	—	—	(69)
Other classifications	2	11	—	—	—	13
Net allowances for credit losses on loans and receivables	—	(24)	—	—	—	(24)
Other income (expenses)	—	—	—	(153)	(203)	(356)
	3,260	743	358	304	233	4,898
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	—	—	—	—	—	—
Designated fair value through profit or loss	(14,883)	(639)	(590)	—	143	(15,969)
Recorded at fair value through profit or loss	—	—	—	(42)	—	(42)
	(14,883)	(639)	(590)	(42)	143	(16,011)
Total	\$ (11,623)	\$ 104	\$ (232)	\$ 262	\$ 376	\$ (11,113)
	2021					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,915	\$ 744	\$ 355	\$ 422	\$ 345	\$ 4,781
Net realized gains						
Available-for-sale	8	—	8	—	—	16
Other classifications	4	45	7	—	—	56
Net allowances for credit losses on loans and receivables	—	(30)	—	—	—	(30)
Other income (expenses)	—	—	—	(145)	(176)	(321)
	2,927	759	370	277	169	4,502
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	(102)	—	—	—	—	(102)
Designated fair value through profit or loss	(3,782)	(121)	2,110	—	40	(1,753)
Recorded at fair value through profit or loss	—	—	—	615	—	615
	(3,884)	(121)	2,110	615	40	(1,240)
Total	\$ (957)	\$ 638	\$ 2,480	\$ 892	\$ 209	\$ 3,262

6. Portfolio Investments (cont'd)

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. 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.

(f) Transferred Financial Assets

The Company engages in securities lending to generate additional income. The Company's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with the Company's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. In addition, the securities lending agent indemnifies the Company against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2022, the Company had loaned securities (which are included in invested assets) with a fair value of \$9,369 (\$10,362 at December 31, 2021).

7. Funds Held by Ceding Insurers

At December 31, 2022, the Company had amounts on deposit of \$7,041 (\$7,555 at December 31, 2021) for funds held by ceding insurers on the Consolidated Balance Sheets. Income and expenses arising from the agreements are included in net investment income in the Consolidated Statements of Earnings.

The details of the funds on deposit for certain agreements where the Company has credit risk are as follows:

(a) Carrying values and estimated fair values:

	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 155	\$ 155	\$ 158	\$ 158
Bonds	3,623	3,623	5,268	5,268
Other assets	57	57	59	59
Total	\$ 3,835	\$ 3,835	\$ 5,485	\$ 5,485
Supporting:				
Reinsurance liabilities	\$ 3,680	\$ 3,680	\$ 5,267	\$ 5,267
Surplus	155	155	218	218
Total	\$ 3,835	\$ 3,835	\$ 5,485	\$ 5,485

7. Funds Held by Ceding Insurers (cont'd)

(b) The following provides details of the carrying value of bonds included in the funds on deposit by issuer and industry sector:

	<u>2022</u>	<u>2021</u>
Bonds issued or guaranteed by:		
Treasuries	\$ 318	\$ 659
Government related	778	1,037
Non-agency securitized	398	524
Financials	669	1,028
Communications	73	123
Consumer products	301	422
Energy	147	204
Industrials	206	253
Technology	46	75
Transportation	100	139
Utilities	587	804
Total	\$ 3,623	\$ 5,268

(c) Asset quality:

Bond Portfolio by Credit Rating

	<u>2022</u>	<u>2021</u>
AAA	\$ 298	\$ 402
AA	1,529	2,291
A	1,421	2,013
BBB	339	510
BB and lower	36	52
Total	\$ 3,623	\$ 5,268

8. 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 following sections describe how the Company manages each of these risks.

(a) Credit Risk

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

The following policies and procedures are in place to manage this risk:

- Investment and risk policies aim to minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment and risk limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the Risk Committee and the Investment Committee of the Board of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators. The Company manages derivative credit risk by including derivative exposure to aggregate credit exposures measured against rating based obligor limits and through collateral arrangements where possible.
- Counterparties providing reinsurance to the Company are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in the Reinsurance Risk Management Policy. The Company seeks to minimize reinsurance credit risk by setting rating based limits on net ceded exposure by counterparty as well as seeking protection in the form of collateral or funds withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

8. Financial Instruments Risk Management (cont'd)

(i) Maximum Exposure to Credit Risk

The following summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2022	2021
Cash and cash equivalents	\$ 3,761	\$ 3,271
Bonds		
Fair value through profit or loss	61,082	75,489
Available-for-sale	9,023	9,492
Loans and receivables	17,709	16,348
Mortgage loans	24,012	23,113
Loans to policyholders	3,660	3,480
Funds held by ceding insurers ¹	7,041	7,555
Reinsurance assets	6,877	8,794
Interest due and accrued	937	876
Accounts receivable	2,192	2,042
Premiums in course of collection	1,696	1,923
Trading account assets	195	146
Finance leases receivable	536	433
Other assets ²	352	344
Derivative assets	1,120	582
Total	\$ 140,193	\$ 153,888

¹ Includes \$3,835 (\$5,485 at December 31, 2021) of funds held by ceding insurers where the Company retains the credit risk of the assets supporting the liabilities ceded (note 7).

² Includes items such as current income taxes receivable and miscellaneous other assets of the Company (note 12).

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The Company has \$378 of collateral received from counterparties as at December 31, 2022 (\$65 at December 31, 2021) relating to derivative assets.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single obligor, a group of related obligors or groups of obligors that have similar credit risk characteristics and operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

8. Financial Instruments Risk Management (cont'd)

The following provides details of the carrying value of bonds by issuer, industry sector and business unit:

	2022				
	Canada	Europe	Capital and Risk Solutions	Corporate	Total
Bonds issued or guaranteed by:					
Treasuries	\$ 169	\$ 7,539	\$ 3,222	\$ 42	\$ 10,972
Government related	17,054	6,631	373	177	24,235
Agency securitized	175	—	14	14	203
Non-agency securitized	2,355	734	119	365	3,573
Financials	3,625	4,520	959	191	9,295
Communications	1,008	667	134	27	1,836
Consumer products	4,352	1,743	965	209	7,269
Energy	2,277	406	271	91	3,045
Industrials	2,187	1,250	415	146	3,998
Technology	848	392	294	11	1,545
Transportation	3,503	638	122	35	4,298
Utilities	9,506	3,131	474	366	13,477
Total long-term bonds	47,059	27,651	7,362	1,674	83,746
Short-term bonds	2,844	822	401	1	4,068
Total	\$ 49,903	\$ 28,473	\$ 7,763	\$ 1,675	\$ 87,814
	2021				
	Canada	Europe	Capital and Risk Solutions	Corporate	Total
Bonds issued or guaranteed by:					
Treasuries	\$ 529	\$ 10,334	\$ 4,735	\$ 50	\$ 15,648
Government related	19,501	8,694	349	199	28,743
Agency securitized	178	—	17	17	212
Non-agency securitized	2,215	1,149	158	381	3,903
Financials	3,794	5,748	920	191	10,653
Communications	1,104	1,032	109	27	2,272
Consumer products	4,029	2,412	733	209	7,383
Energy	2,602	482	315	84	3,483
Industrials	2,092	1,393	345	152	3,982
Technology	729	411	314	18	1,472
Transportation	3,674	897	135	56	4,762
Utilities	9,971	4,480	502	399	15,352
Total long-term bonds	50,418	37,032	8,632	1,783	97,865
Short-term bonds	2,618	644	197	5	3,464
Total	\$ 53,036	\$ 37,676	\$ 8,829	\$ 1,788	\$ 101,329

8. Financial Instruments Risk Management (cont'd)

The following provides details of the carrying value of mortgage loans by business unit:

	2022				
	Canada	Europe	Capital and Risk Solutions	Corporate	Total
Single family residential	\$ 1,856	\$ —	\$ —	\$ —	\$ 1,856
Multi-family residential	4,732	897	40	203	5,872
Equity release	1,392	1,705	268	—	3,365
Commercial	9,126	3,503	55	235	12,919
Total	\$ 17,106	\$ 6,105	\$ 363	\$ 438	\$ 24,012

	2021				
	Canada	Europe	Capital and Risk Solutions	Corporate	Total
Single family residential	\$ 1,979	\$ —	\$ —	\$ —	\$ 1,979
Multi-family residential	4,297	792	38	203	5,330
Equity release	1,063	1,546	—	—	2,609
Commercial	9,364	3,553	50	228	13,195
Total	\$ 16,703	\$ 5,891	\$ 88	\$ 431	\$ 23,113

(iii) Asset Quality

Bond Portfolio by Credit Rating

	2022	2021
AAA	\$ 13,179	\$ 14,044
AA	25,398	31,350
A	30,088	35,701
BBB	18,739	19,837
BB and lower	410	397
Total	\$ 87,814	\$ 101,329

Derivative Portfolio by Credit Rating

	2022	2021
Over-the-counter contracts (counterparty ratings):		
AA	\$ 522	\$ 336
A	585	245
Exchange-traded	13	1
Total	\$ 1,120	\$ 582

8. Financial Instruments Risk Management (cont'd)

(iv) Loans Past Due, But Not Impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due. The following provides carrying values of the loans past due, but not impaired:

	2022	2021
Less than 30 days	\$ 12	\$ 27
30 - 90 days	1	3
Greater than 90 days	1	7
Total	\$ 14	\$ 37

(v) The following outlines the future asset credit losses provided for in insurance contract liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2022	2021
Participating	\$ 1,301	\$ 1,344
Non-participating	995	1,257
Total	\$ 2,296	\$ 2,601

(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. Approximately 59% (approximately 67% in 2021) of insurance and investment contract liabilities are non-cashable prior to maturity or claim or subject to fair value adjustments.
- Management closely monitors the solvency and capital positions of the Company and its principal subsidiaries opposite liquidity requirements. Additional liquidity is available through established lines of credit or via capital markets.

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following summarizes the principal repayment schedule for certain of the Company's financial liabilities.

	Payments due by period						Over 5 years
	Total	1 year	2 years	3 years	4 years	5 years	
Debentures and other debt instruments	\$ 590	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 590
Capital trust securities ¹	150	—	—	—	—	—	150
Purchase obligations	126	32	21	20	15	12	26
Pension contributions	193	193	—	—	—	—	—
Total	\$ 1,059	\$ 225	\$ 21	\$ 20	\$ 15	\$ 12	\$ 766

¹ Payments due have not been reduced to reflect that the Company held capital trust securities of \$37 principal amount (\$44 carrying value).

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

(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.

(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.

The following policies and procedures are in place to mitigate the Company's exposure to currency risk:

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented Investment Guidelines include maximum tolerances for unhedged currency mismatch exposures.
- For assets backing liabilities not matched by currency, the Company would normally convert the assets back to the currency of the liability using foreign exchange contracts.
- 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.

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

(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. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk:

- 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.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims) the Company generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

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.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.10% in 2022 (0.10% in 2021). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

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

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

8. Financial Instruments Risk Management (cont'd)

The impact to the value of liabilities from an immediate parallel 1% increase or 1% decrease in the interest rates would be largely offset by changes in the value of assets supporting the liabilities. Actual movements in interest rates may produce different impacts on the value of liabilities, net of changes in the value of assets supporting liabilities, depending on the extent of the change in interest rates in different geographies and at different durations. An immediate 1% increase in interest rates in Canada could lead to an increase in the value of liabilities, net of changes in the value of assets supporting liabilities, and a decrease in net earnings, but the impact would not be expected to be material.

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

	2022		2021	
	1% increase	1% decrease ¹	1% increase	1% decrease ¹
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (92)	\$ 386	\$ (219)	\$ 678
Increase (decrease) in net earnings	\$ 79	\$ (290)	\$ 197	\$ (555)

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

The earnings sensitivities illustrated in this section represent impacts under the Company's accounting policies as at December 31, 2022, including accounting for insurance contracts under IFRS 4 and financial instruments under IAS 39. These sensitivities may change on transition to IFRS 17 and IFRS 9.

(iii) Equity Risk

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

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

There may be additional market and liability impacts as a result of changes in the value of publicly traded common stocks and other non-fixed income assets that will cause the liabilities to fluctuate differently than the equity values. This means that there is a greater impact on net earnings from larger falls in equity values, relative to the change in equity values. Falls in equity values beyond those shown in the table below would have a greater impact on net earnings, relative to the change in equity values.

8. Financial Instruments Risk Management (cont'd)

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

	2022				2021			
	20% increase	10% increase	10% decrease	20% decrease	20% increase	10% increase	10% decrease	20% decrease
Change in publicly traded common stock values								
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (43)	\$ (31)	\$ 31	\$ 171	\$ (26)	\$ (16)	\$ 22	\$ 76
Increase (decrease) in net earnings	\$ 37	\$ 27	\$ (28)	\$ (139)	\$ 21	\$ 13	\$ (19)	\$ (66)

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

	2022				2021			
	10% increase	5% increase	5% decrease	10% decrease	10% increase	5% increase	5% decrease	10% decrease
Change in other non-fixed income asset values								
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (63)	\$ (32)	\$ 90	\$ 302	\$ (92)	\$ (46)	\$ 38	\$ 144
Increase (decrease) in net earnings	\$ 52	\$ 26	\$ (70)	\$ (236)	\$ 79	\$ 39	\$ (30)	\$ (112)

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.

8. Financial Instruments Risk Management (cont'd)

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:

	2022		2021	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions				
Increase (decrease) in non-participating insurance contract liabilities	\$ (676)	\$ 806	\$ (715)	\$ 829
Increase (decrease) in net earnings	\$ 525	\$ (620)	\$ 567	\$ (649)

The earnings sensitivities illustrated in this section represent impacts under the Company's accounting policies as at December 31, 2022, including accounting for insurance contracts under IFRS 4 and financial instruments under IAS 39. These sensitivities may change on transition to IFRS 17 and IFRS 9.

(d) Enforceable Master Netting Arrangements or Similar Agreements

The Company enters into International Swaps and Derivative Association's (ISDA's) master agreements for transacting over-the-counter derivatives. The Company receives and pledges collateral according to the related ISDA's Credit Support Annexes. The ISDA's master agreements do not meet the criteria for offsetting on the Consolidated Balance Sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with the exchanges and clearinghouses, there is no provision for set-off at default. Initial margin is excluded from the table within this disclosure as it would become part of a pooled settlement process.

The table sets out the potential effect on the Company's Consolidated Balance Sheets on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the Consolidated Balance Sheets.

	2022			
	Related amounts not set-off in the Balance Sheet			
	Gross amount of financial instruments presented in the Balance Sheet	Offsetting counterparty position ¹	Financial collateral received/ pledged ²	Net exposure
Financial instruments - assets				
Derivative financial instruments	\$ 1,120	\$ (792)	\$ (308)	\$ 20
Total financial instruments - assets	\$ 1,120	\$ (792)	\$ (308)	\$ 20
Financial instruments - liabilities				
Derivative financial instruments	\$ 1,575	\$ (792)	\$ (513)	\$ 270
Total financial instruments - liabilities	\$ 1,575	\$ (792)	\$ (513)	\$ 270

8. Financial Instruments Risk Management (cont'd)

	2021			
	Gross amount of financial instruments presented in the Balance Sheet	Related amounts not set-off in the Balance Sheet		Net exposure
Offsetting counterparty position ¹		Financial collateral received/pledged ²		
Financial instruments - assets				
Derivative financial instruments	\$ 582	\$ (502)	\$ (52)	\$ 28
Total financial instruments - assets	\$ 582	\$ (502)	\$ (52)	\$ 28
Financial instruments - liabilities				
Derivative financial instruments	\$ 1,005	\$ (502)	\$ (279)	\$ 224
Total financial instruments - liabilities	\$ 1,005	\$ (502)	\$ (279)	\$ 224

¹ Includes counterparty amounts recognized on the Consolidated Balance Sheets where the Company has a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheet, excluding collateral.

² Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. At December 31, 2022, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$378 (\$65 at December 31, 2021), and pledged on derivative liabilities was \$671 (\$465 at December 31, 2021).

9. 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.

9. 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	2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,761	\$ —	\$ —	\$ 3,761
Financial assets at fair value through profit or loss				
Bonds	—	60,956	126	61,082
Mortgage loans	—	—	3,125	3,125
Stocks	10,085	—	2,025	12,110
Total financial assets at fair value through profit or loss	10,085	60,956	5,276	76,317
Available-for-sale financial assets				
Bonds	—	9,023	—	9,023
Mortgage loans	—	—	240	240
Stocks	—	—	18	18
Total available-for-sale financial assets	—	9,023	258	9,281
Investment properties	—	—	8,315	8,315
Funds held by ceding insurers	155	3,623	—	3,778
Derivatives ¹	13	1,107	—	1,120
Reinsurance assets	—	73	—	73
Other assets - trading account assets	195	—	—	195
Total assets measured at fair value	\$ 14,209	\$ 74,782	\$ 13,849	\$ 102,840
Liabilities measured at fair value				
Derivatives ²	\$ —	\$ 1,575	\$ —	\$ 1,575
Investment contract liabilities	—	1,568	—	1,568
Total liabilities measured at fair value	\$ —	\$ 3,143	\$ —	\$ 3,143

¹ Excludes collateral received from counterparties of \$378.

² Excludes collateral pledged to counterparties of \$532.

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

9. Fair Value Measurement (cont'd)

Assets measured at fair value	2021			
	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	—	75,389	100	75,489
Mortgage loans	—	—	2,609	2,609
Stocks	11,382	—	1,372	12,754
Total financial assets at fair value through profit or loss	11,382	75,389	4,081	90,852
Available-for-sale financial assets				
Bonds	—	9,492	—	9,492
Stocks	—	—	16	16
Total available-for-sale financial assets	—	9,492	16	9,508
Investment properties	—	—	7,759	7,759
Funds held by ceding insurers	158	5,268	—	5,426
Derivatives ¹	1	581	—	582
Reinsurance assets	—	106	—	106
Other assets - trading account assets	146	—	—	146
Total assets measured at fair value	\$ 14,958	\$ 90,836	\$ 11,856	\$ 117,650
Liabilities measured at fair value				
Derivatives ²	\$ 3	\$ 1,002	\$ —	\$ 1,005
Investment contract liabilities	—	1,646	—	1,646
Total liabilities measured at fair value	\$ 3	\$ 2,648	\$ —	\$ 2,651

¹ Excludes collateral received from counterparties of \$65.

² Excludes collateral pledged to counterparties of \$370.

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

9. Fair Value Measurement (cont'd)

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

	2022						
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks ³	Available- for-sale mortgage loans	Available- for-sale stocks	Investment properties	Total Level 3 assets
Balance, beginning of year	\$ 100	\$ 2,609	\$ 1,372	\$ —	\$ 16	\$ 7,759	\$ 11,856
Total gains (losses)							
Included in net earnings	(5)	(654)	174	—	—	(42)	(527)
Included in other comprehensive income ¹	—	(70)	—	10	—	(42)	(102)
Purchases	51	—	570	—	3	710	1,334
Issues	—	1,401	—	230	—	—	1,631
Sales	(20)	—	(91)	—	(1)	(55)	(167)
Settlements	—	(161)	—	—	—	—	(161)
Other	—	—	—	—	—	(15)	(15)
Transfers into Level 3 ²	—	—	—	—	—	—	—
Transfers out of Level 3 ²	—	—	—	—	—	—	—
Balance, end of year	\$ 126	\$ 3,125	\$ 2,025	\$ 240	\$ 18	\$ 8,315	\$ 13,849
Total gains (losses) for the year included in net investment income	\$ (5)	\$ (654)	\$ 174	\$ —	\$ —	\$ (42)	\$ (527)
Change in unrealized gains (losses) for the year included in earnings for assets held at December 31, 2022	\$ (5)	\$ (652)	\$ 174	\$ —	\$ —	\$ (34)	\$ (517)

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

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

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

9. Fair Value Measurement (cont'd)

	2021					
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks ³	Available-for-sale stocks	Investment properties	Total Level 3 assets
Balance, beginning of year	\$ 73	\$ 2,020	\$ 1,312	\$ 8	\$ 6,267	\$ 9,680
Total gains (losses)						
Included in net earnings	4	(121)	125	—	615	623
Included in other comprehensive income ¹	(5)	(21)	—	4	(53)	(75)
Purchases	28	—	591	4	970	1,593
Issues	—	896	—	—	—	896
Sales	—	—	(199)	—	(40)	(239)
Settlements	—	(165)	—	—	—	(165)
Transfers into Level 3 ^{2,4}	—	—	—	—	—	—
Transfers out of Level 3 ^{2,4}	—	—	(457)	—	—	(457)
Balance, end of year	<u>\$ 100</u>	<u>\$ 2,609</u>	<u>\$ 1,372</u>	<u>\$ 16</u>	<u>\$ 7,759</u>	<u>\$ 11,856</u>
Total gains (losses) for the year included in net investment income	<u>\$ 4</u>	<u>\$ (121)</u>	<u>\$ 125</u>	<u>\$ —</u>	<u>\$ 615</u>	<u>\$ 623</u>
Change in unrealized gains (losses) for the year included in earnings for assets held at December 31, 2021	<u>\$ 4</u>	<u>\$ (115)</u>	<u>\$ 122</u>	<u>\$ —</u>	<u>\$ 621</u>	<u>\$ 632</u>

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

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

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

⁴ On January 11, 2021, Canada Life lifted the temporary suspension on contributions to and transfers into its Canadian real estate investment funds, and on April 19, 2021, the temporary suspension on redemptions and transfers out was fully lifted, as confidence over the valuation of the underlying properties returned as a result of increased market activity. As a result of the lifting of these temporary suspensions, the Company's investment in these funds with a fair value of \$457 was transferred on April 19, 2021 from Level 3 to Level 1.

9. Fair Value Measurement (cont'd)

The following sets out information about significant unobservable inputs used at year-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 3.9% - 14.0% Range of 4.0% - 7.5% Weighted average of 2.5%	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 and available-for-sale)	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 4.3% - 6.9%	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.
Stocks	The determination of the fair value of stocks requires the use of estimates such as future cash flows, discount rates, projected earnings multiples, or recent transactions.	Discount rate	Various	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.

9. Fair Value Measurement (cont'd)

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

	2022				
	Level 1	Level 2	Level 3	Other assets/ liabilities/ not held at fair value	Total
Assets disclosed at fair value					
Loans and receivables financial assets					
Bonds	\$ —	\$ 15,682	\$ 69	\$ 88	\$ 15,839
Mortgage loans	—	18,856	—	—	18,856
Loans to policyholders	—	3,660	—	—	3,660
Total loans and receivables financial assets	—	38,198	69	88	38,355
Available-for-sale financial assets					
Stocks ¹	—	—	—	8	8
Other stocks ²	347	—	—	152	499
Funds held by ceding insurers	—	—	—	57	57
Total assets disclosed at fair value	\$ 347	\$ 38,198	\$ 69	\$ 305	\$ 38,919
Liabilities disclosed at fair value					
Debentures and other debt instruments	\$ —	\$ 285	\$ —	\$ 490	\$ 775
Total liabilities disclosed at fair value	\$ —	\$ 285	\$ —	\$ 490	\$ 775

¹ Fair value of certain stocks available for sale cannot be reliably measured, therefore, these investments are recorded at cost.

² Other stocks include the Company's investment in IGM.

9. Fair Value Measurement (cont'd)

	2021				
	Level 1	Level 2	Level 3	Other assets/ liabilities not held at fair value	Total
Assets disclosed at fair value					
Loans and receivables financial assets					
Bonds	\$ —	\$ 18,059	\$ 47	\$ 83	\$ 18,189
Mortgage loans	—	21,231	—	—	21,231
Loans to policyholders	—	3,480	—	—	3,480
Total loans and receivables financial assets	—	42,770	47	83	42,900
Available-for-sale financial assets					
Stocks ¹	—	—	—	8	8
Other stocks ²	418	—	—	108	526
Funds held by ceding insurers	—	—	—	59	59
Total assets disclosed at fair value	\$ 418	\$ 42,770	\$ 47	\$ 258	\$ 43,493
Liabilities disclosed at fair value					
Debtures and other debt instruments	\$ —	\$ 340	\$ —	\$ 488	\$ 828
Total liabilities disclosed at fair value	\$ —	\$ 340	\$ —	\$ 488	\$ 828

¹ Fair value of certain stocks available for sale cannot be reliably measured, therefore, these investments are recorded at cost.

² Other stocks include the Company's investment in IGM.

10. Goodwill and Intangible Assets

(a) Goodwill

(i) The carrying value of goodwill, all in the shareholder account segment, and changes in the carrying value of goodwill are as follows:

	2022	2021
Cost		
Balance, beginning of year	\$ 6,417	\$ 6,421
Business acquisitions and dispositions	17	46
Purchase price allocation adjustments	31	—
Allocated to intangible assets	(55)	—
Changes in foreign exchange rates	(3)	(50)
Balance, end of year	\$ 6,407	\$ 6,417
Accumulated impairment		
Balance, beginning and end of year	\$ (35)	\$ (35)
Net carrying amount	\$ 6,372	\$ 6,382

10. Goodwill and Intangible Assets (cont'd)

(ii) Within the major geographies of the Company, goodwill has been assigned to cash generating unit groupings, representing the lowest level in which goodwill is monitored for internal reporting purposes. The Company does not allocate insignificant amounts of goodwill across multiple cash generating unit groupings. Goodwill is tested for impairment by comparing the carrying value of each cash generating unit grouping to which goodwill has been assigned to its recoverable amount as follows:

	2022	2021
Canada		
Group Customer	\$ 1,471	\$ 1,468
Individual Customer	2,546	2,535
Europe	2,355	2,379
Total	\$ 6,372	\$ 6,382

(b) Intangible Assets

Intangible assets of \$2,450 (\$2,362 as at December 2021) include indefinite life and finite life intangible assets. The carrying value and changes in the carrying value of these intangible assets are as follows:

(i) Indefinite life intangible assets:

	2022			
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	\$ 520	\$ 384	\$ 354	\$ 1,258
Changes in foreign exchange rates	(3)	—	—	(3)
Balance, end of year	\$ 517	\$ 384	\$ 354	\$ 1,255
Accumulated impairment				
Balance, beginning and end of year	\$ (34)	\$ —	\$ —	\$ (34)
Net carrying amount	\$ 483	\$ 384	\$ 354	\$ 1,221
	2021			
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	\$ 535	\$ 384	\$ 354	1,273
Changes in foreign exchange rates	(15)	—	—	(15)
Balance, end of year	\$ 520	\$ 384	\$ 354	1,258
Accumulated impairment				
Balance, beginning of year	\$ (37)	\$ —	\$ —	(37)
Changes in foreign exchange rates	3	—	—	3
Balance, end of year	\$ (34)	\$ —	\$ —	(34)
Net carrying amount	\$ 486	\$ 384	\$ 354	1,224

10. Goodwill and Intangible Assets (cont'd)

(ii) Indefinite life intangible assets have been assigned to cash generating unit groupings as follows:

	2022	2021
Canada		
Group Customer	\$ 354	\$ 354
Individual Customer	649	649
Europe	218	221
Total	\$ 1,221	\$ 1,224

(iii) Finite life intangible assets:

	2022			
	Customer contract related	Distribution channels	Software	Total
Amortization period range	7 - 30 years	30 years	3 - 10 years	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	\$ 815	\$ 107	\$ 1,517	\$ 2,439
Additions	71	—	219	290
Changes in foreign exchange rates	1	(2)	(2)	(3)
Disposals	—	—	(30)	(30)
Balance, end of year	\$ 887	\$ 105	\$ 1,704	\$ 2,696
Accumulated amortization and impairment				
Balance, beginning of year	\$ (478)	\$ (66)	\$ (757)	\$ (1,301)
Changes in foreign exchange rates	(4)	2	2	—
Disposals	—	—	2	2
Amortization	(42)	(4)	(122)	(168)
Balance, end of year	\$ (524)	\$ (68)	\$ (875)	\$ (1,467)
Net carrying amount	\$ 363	\$ 37	\$ 829	\$ 1,229

During 2022, the Company recognized an impairment of \$25 on software assets in the United Kingdom which is presented within operating and administrative expenses in the Consolidated Statements of Earnings.

10. Goodwill and Intangible Assets (cont'd)

	2021			
	Customer contract related	Distribution channels	Software	Total
Amortization period range	7 - 30 years	30 years	3 - 10 years	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	\$ 767	\$ 111	\$ 1,304	\$ 2,182
Additions	63	—	251	314
Changes in foreign exchange rates	(15)	(4)	(22)	(41)
Disposals	—	—	(16)	(16)
Balance, end of year	\$ 815	\$ 107	\$ 1,517	\$ 2,439
Accumulated amortization and impairment				
Balance, beginning of year	\$ (440)	\$ (65)	\$ (663)	\$ (1,168)
Changes in foreign exchange rates	4	3	11	18
Disposals	—	—	14	14
Amortization	(42)	(4)	(119)	(165)
Balance, end of year	\$ (478)	\$ (66)	\$ (757)	\$ (1,301)
Net carrying amount	\$ 337	\$ 41	\$ 760	\$ 1,138

The weighted average remaining amortization period of the customer contract related and distribution channels are 16 and 11 years respectively (16 and 12 years respectively at December 31, 2021).

(c) Recoverable Amount

For the purposes of annual impairment testing, the Company allocates intangible assets to cash generating units and goodwill to cash generating unit groupings. Any potential impairment of indefinite life intangible assets is identified by comparing the recoverable amount of a cash generating unit to its carrying value. Any potential impairment of goodwill is identified by comparing the recoverable amount of a cash generating unit grouping to its carrying value.

Fair value is initially assessed with reference to valuation multiples of comparable publicly-traded financial institutions and precedent business acquisition transactions. The calculations utilize earnings and cash flow projections based on financial budgets approved by management. These valuation multiples may include price-to-earnings or price-to-book measures for life insurers and asset managers. This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

In the fourth quarter of 2022, the Company conducted its annual impairment testing of intangible assets and goodwill based on September 30, 2022 asset balances. It was determined that the recoverable amounts of cash generating units for intangible assets and cash generating unit groupings for goodwill were in excess of their carrying values and there was no evidence of impairment.

Any reasonable changes in assumptions and estimates used in determining recoverable amounts of cash generating units or cash generating unit groupings is unlikely to cause carrying values to exceed recoverable amounts.

11. Owner Occupied Properties and Fixed Assets

The carrying value of owner occupied properties and the changes in the carrying value of owner occupied properties are as follows:

	<u>2022</u>	<u>2021</u>
Carrying value, beginning of year	\$ 668	\$ 657
Less: accumulated depreciation/impairments	(116)	(102)
Net carrying value, beginning of year	552	555
Additions	14	21
Disposals	—	(1)
Impairments	(18)	—
Depreciation	(16)	(14)
Foreign exchange	—	(9)
Net carrying value, end of year	<u>\$ 532</u>	<u>\$ 552</u>

The net carrying value of fixed assets is \$257 at December 31, 2022 (\$288 at December 31, 2021).

There are no restrictions on the title of the owner occupied properties and fixed assets, nor are they pledged as security for debt.

12. Other Assets

	<u>2022</u>	<u>2021</u>
Deferred acquisition costs	\$ 526	\$ 522
Right-of-use assets	179	186
Finance leases receivable	536	433
Defined benefit pension plan assets (note 23)	463	363
Trading account assets	195	146
Prepaid expenses	94	84
Miscellaneous other assets	98	102
Total	<u>\$ 2,091</u>	<u>\$ 1,836</u>

Total other assets of \$421 (\$362 at December 31, 2021) are expected to be realized within 12 months from the reporting date. This amount excludes deferred acquisition costs, the changes in which are noted below.

Deferred acquisition costs

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 522	\$ 550
Additions	69	78
Amortization	(43)	(45)
Changes in foreign exchange rates	1	(34)
Disposals	(23)	(27)
Balance, end of year	<u>\$ 526</u>	<u>\$ 522</u>

12. Other Assets (cont'd)

Right-of-use assets

	2022		
	Property	Equipment	Total
Cost, beginning of year	\$ 302	\$ 10	\$ 312
Additions	31	2	33
Modifications	(8)	(1)	(9)
Changes in foreign exchange rates	1	—	1
Cost, end of year	\$ 326	\$ 11	\$ 337
Accumulated depreciation, beginning of year	\$ (121)	\$ (5)	\$ (126)
Depreciation	(37)	(2)	(39)
Modifications	7	—	7
Accumulated depreciation, end of year	\$ (151)	\$ (7)	\$ (158)
Carrying amount, end of year	\$ 175	\$ 4	\$ 179
	2021		
	Property	Equipment	Total
Cost, beginning of year	\$ 298	\$ 6	\$ 304
Additions	15	5	20
Modifications	(10)	(1)	(11)
Changes in foreign exchange rates	(1)	—	(1)
Cost, end of year	\$ 302	\$ 10	\$ 312
Accumulated depreciation, beginning of year	\$ (83)	\$ (4)	\$ (87)
Depreciation	(41)	(1)	(42)
Modifications	4	—	4
Changes in foreign exchange rates	(1)	—	(1)
Accumulated depreciation, end of year	\$ (121)	\$ (5)	\$ (126)
Carrying amount, end of year	\$ 181	\$ 5	\$ 186

12. Other Assets (cont'd)

Finance leases receivable

The Company has a finance lease on one property in Canada which has been leased for a 25-year term. The Company has nine finance leases on properties in Europe. These properties have been leased for terms ranging between 27 and 40 years.

The terms to maturity of the lease payments receivable are as follows:

	<u>2022</u>	<u>2021</u>
One year or less	\$ 34	\$ 30
Over one year to two years	36	31
Over two years to three years	37	32
Over three years to four years	37	33
Over four years to five years	37	33
Over five years	879	717
Total undiscounted lease payments	<u>1,060</u>	876
Less: unearned finance lease income	524	443
Total finance leases receivable	<u><u>\$ 536</u></u>	<u><u>\$ 433</u></u>
Finance income on the net investment in the leases	<u><u>\$ 28</u></u>	<u><u>\$ 27</u></u>

13. Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

	<u>2022</u>		
	<u>Gross liability</u>	<u>Reinsurance assets</u>	<u>Net</u>
Insurance contract liabilities	\$ 134,389	\$ 6,804	\$ 127,585
Investment contract liabilities	1,568	73	1,495
Total	<u><u>\$ 135,957</u></u>	<u><u>\$ 6,877</u></u>	<u><u>\$ 129,080</u></u>
	<u>2021</u>		
	<u>Gross liability</u>	<u>Reinsurance assets</u>	<u>Net</u>
Insurance contract liabilities	\$ 148,884	\$ 8,688	\$ 140,196
Investment contract liabilities	1,646	106	1,540
Total	<u><u>\$ 150,530</u></u>	<u><u>\$ 8,794</u></u>	<u><u>\$ 141,736</u></u>

13. Insurance and Investment Contract Liabilities (cont'd)

(b) Composition of insurance and investment contract liabilities and related supporting assets

(i) The composition of insurance and investment contract liabilities is as follows:

	2022		
	Gross liability	Reinsurance assets	Net
Participating			
Canada	\$ 49,871	\$ (226)	\$ 50,097
Europe	128	—	128
Capital and Risk Solutions	761	—	761
Corporate	2,209	(3)	2,212
Non-Participating			
Canada	32,056	274	31,782
Europe	37,415	4,688	32,727
Capital and Risk Solutions	11,836	497	11,339
Corporate	1,681	1,647	34
Total	\$ 135,957	\$ 6,877	\$ 129,080
	2021		
	Gross liability	Reinsurance assets	Net
Participating			
Canada	\$ 50,049	\$ (115)	\$ 50,164
Europe	141	—	141
Capital and Risk Solutions	886	—	886
Corporate	2,339	(4)	2,343
Non-Participating			
Canada	34,780	207	34,573
Europe	47,215	6,197	41,018
Capital and Risk Solutions	13,146	571	12,575
Corporate	1,974	1,938	36
Total	\$ 150,530	\$ 8,794	\$ 141,736

13. Insurance and Investment Contract Liabilities (cont'd)

(ii) The composition of the assets supporting liabilities and equity is as follows:

	2022					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	\$ 20,382	\$ 11,710	\$ 8,043	\$ 4,519	\$ 5,217	\$ 49,871
Europe	54	—	46	8	20	128
Capital and Risk Solutions	554	6	—	—	201	761
Corporate	1,522	431	—	—	256	2,209
Non-participating liabilities						
Canada	21,731	4,287	2,764	715	2,559	32,056
Europe	24,270	6,105	388	2,345	4,307	37,415
Capital and Risk Solutions	5,374	224	—	—	6,238	11,836
Corporate	16	—	—	—	1,665	1,681
Other	4,502	998	1,094	327	225,594	232,515
Total equity	9,409	251	328	401	15,121	25,510
Total carrying value	\$ 87,814	\$ 24,012	\$ 12,663	\$ 8,315	\$ 261,178	\$ 393,982
Fair value	\$ 85,944	\$ 22,221	\$ 12,635	\$ 8,315	\$ 261,178	\$ 390,293
	2021					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	\$ 21,370	\$ 11,166	\$ 8,522	\$ 4,013	\$ 4,978	\$ 50,049
Europe	66	—	67	8	—	141
Capital and Risk Solutions	666	8	—	—	212	886
Corporate	1,666	424	—	—	249	2,339
Non-participating liabilities						
Canada	23,620	4,661	3,116	579	2,804	34,780
Europe	33,208	5,891	391	2,743	4,982	47,215
Capital and Risk Solutions	6,393	80	—	—	6,673	13,146
Corporate	19	—	—	—	1,955	1,974
Other	4,835	738	852	157	244,863	251,445
Total equity	9,486	145	304	259	14,235	24,429
Total carrying value	\$ 101,329	\$ 23,113	\$ 13,252	\$ 7,759	\$ 280,951	\$ 426,404
Fair value	\$ 103,170	\$ 23,840	\$ 13,304	\$ 7,759	\$ 280,951	\$ 429,024

13. Insurance and Investment Contract Liabilities (cont'd)

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are largely offset by changes in the fair value of insurance and investment contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(c) Change in insurance contract liabilities

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	2022			
	Participating			
	Gross liability	Reinsurance assets	Net	
Balance, beginning of year	\$ 53,415	\$ (119)	\$ 53,534	
Impact of new business	(60)	(4)	(56)	
Normal change in force	(150)	32	(182)	
Management action and changes in assumptions	(415)	(138)	(277)	
Impact of foreign exchange rate changes	179	—	179	
Balance, end of year	\$ 52,969	\$ (229)	\$ 53,198	
	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	\$ 95,469	\$ 8,807	\$ 86,662	\$ 140,196
Impact of new business	3,438	(374)	3,812	3,756
Normal change in force	(15,816)	(1,857)	(13,959)	(14,141)
Management action and changes in assumptions	264	433	(169)	(446)
Business movement from/to external parties	(29)	—	(29)	(29)
Impact of foreign exchange rate changes	(1,906)	24	(1,930)	(1,751)
Balance, end of year	\$ 81,420	\$ 7,033	\$ 74,387	\$ 127,585

13. Insurance and Investment Contract Liabilities (cont'd)

	2021				Total Net
	Participating			Net	
	Gross liability	Reinsurance assets			
Balance, beginning of year	\$ 49,616	\$ (203)	\$	49,819	
Impact of new business	(78)	—		(78)	
Normal change in force	4,111	27		4,084	
Management action and changes in assumptions	(223)	57		(280)	
Impact of foreign exchange rate changes	(11)	—		(11)	
Balance, end of year	<u>\$ 53,415</u>	<u>\$ (119)</u>	<u>\$</u>	<u>53,534</u>	
	Non-participating			Net	Total Net
	Gross liability	Reinsurance assets			
	Balance, beginning of year	\$ 94,717	\$ 8,997	\$	85,720
Impact of new business	7,970	84		7,886	7,808
Normal change in force	(5,568)	(629)		(4,939)	(855)
Management action and changes in assumptions	(666)	(525)		(141)	(421)
Business movement from/to external parties	(613)	(37)		(576)	(576)
Ark Life acquisition (note 3)	1,257	1,238		19	19
Impact of foreign exchange rate changes	(1,628)	(321)		(1,307)	(1,318)
Balance, end of year	<u>\$ 95,469</u>	<u>\$ 8,807</u>	<u>\$</u>	<u>86,662</u>	<u>\$ 140,196</u>

Under IFRS 4, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

In 2022, the major contributor to the decrease in net insurance contract liabilities was the normal change in force of \$14,141, primarily due to fair value adjustments due to increased interest rates. This was partially offset by increases due to new business of \$3,756.

Net non-participating insurance contract liabilities decreased by \$169 in 2022 due to management actions and changes in assumptions. The decrease was primarily due to updated longevity assumptions of \$322, modeling refinements of \$72, and updated expense and tax assumptions of \$48. This was partially offset by increases due to updated policyholder behaviour assumptions of \$289.

Net participating insurance contract liabilities decreased by \$277 in 2022 due to management actions and changes in assumptions.

Effective October 15, 2021, the Canadian Actuarial Standards Board published revised standards for the valuation of insurance contract liabilities. The revised standards include decreases to ultimate reinvestment rates, revised calibration criteria for stochastic risk-free interest rates and an increase to the maximum net credit spread on reinvestment over the long term.

In 2021, the major contributor to the increase in net insurance contract liabilities was the impact of new

13. Insurance and Investment Contract Liabilities (cont'd)

business of \$7,808. This was partially offset by decreases due to the impact foreign exchange rate changes of \$1,318, normal change in the in force business of \$855, and business movement to external parties of \$576.

Net non-participating insurance contract liabilities decreased by \$141 in 2021 due to management actions and changes in assumptions. The decrease was primarily due to updated economic and asset related assumptions, which includes the net impact of the new standards, of \$311, modeling refinements of \$36, and updated longevity assumptions of \$29. This was partially offset by increases due to updated policyholder behaviour assumptions of \$152, mortality updates of \$43, and updated morbidity assumptions of \$37.

Net participating insurance contract liabilities decreased by \$280 in 2021 due to management actions and changes in assumptions.

(d) Change in investment contract liabilities measured at fair value

	2022			2021		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Balance, beginning of year	\$ 1,646	\$ 106	\$ 1,540	\$ 1,671	\$ 130	\$ 1,541
Normal change in force business	75	38	37	15	38	(23)
Investment experience	(206)	(76)	(130)	(63)	(62)	(1)
Management action and changes in assumptions	1	—	1	—	—	—
Ark Life acquisition (note 3)	—	—	—	43	—	43
Impact of foreign exchange rate changes	52	5	47	(20)	—	(20)
Balance, end of year	\$ 1,568	\$ 73	\$ 1,495	\$ 1,646	\$ 106	\$ 1,540

The carrying value of investment contract liabilities approximates their fair value. The impact to investment experience in 2022 was due to fair value adjustments related to increased interest rates.

(e) Gross premiums written and gross policyholder benefits

(i) Premium Income

	2022	2021
Direct premiums	\$ 22,581	\$ 22,311
Assumed reinsurance premiums	35,479	32,029
Total	\$ 58,060	\$ 54,340

(ii) Policyholder Benefits

	2022	2021
Direct	\$ 14,734	\$ 15,131
Assumed reinsurance	33,877	28,270
Total	\$ 48,611	\$ 43,401

13. Insurance and Investment Contract Liabilities (cont'd)

(f) Actuarial Assumptions

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of 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.

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

Mortality

A life insurance mortality study is carried out annually 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. 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 have been made for future mortality deterioration on term insurance.

Annuitant mortality is also studied regularly and the results are used to modify established annuitant mortality tables.

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.

Property and casualty reinsurance

Insurance contract liabilities for property and casualty reinsurance written by entities within the Capital and Risk Solutions business unit 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 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.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (note 8(c)).

13. *Insurance and Investment Contract Liabilities (cont'd)*

Expenses

Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the Canadian Asset Liability Method as inflation is assumed to be correlated with new money interest rates.

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 term for renewable term policies in Canada and Capital and Risk Solutions. Industry experience has guided the Company's assumptions for these products as the Company's own experience is very limited.

Utilization of elective policy options

There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on Company or industry experience when it exists and when not on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

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

13. Insurance and Investment Contract Liabilities (cont'd)

(g) Risk Management

(i) Insurance risk

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions including mortality, persistency, longevity, morbidity, expense variations and investment returns.

The Company is in the business of accepting risk associated with insurance contract liabilities. The objective of the Company is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of the Company's underwriting strategy guidelines, and through the use of reinsurance arrangements.

The following provides information about the Company's insurance contract liabilities sensitivities to management's best estimate of the approximate impact as a result of changes in assumptions used to determine the Company's liability associated with these contracts.

	Increase (decrease) in net earnings	
	2022	2021
Mortality - 2% increase	\$ (227)	\$ (254)
Annuitant mortality - 2% decrease	\$ (521)	\$ (720)
Morbidity - 5% adverse change	\$ (253)	\$ (262)
Investment returns		
Parallel shift in yield curve		
1% increase	\$ —	\$ —
1% decrease	\$ —	\$ —
Change in interest rates		
1% increase	\$ 79	\$ 197
1% decrease	\$ (290)	\$ (555)
Change in publicly traded common stock values		
20% increase	\$ 37	\$ 21
10% increase	\$ 27	\$ 13
10% decrease	\$ (28)	\$ (19)
20% decrease	\$ (139)	\$ (66)
Change in other non-fixed income asset values		
10% increase	\$ 52	\$ 79
5% increase	\$ 26	\$ 39
5% decrease	\$ (70)	\$ (30)
10% decrease	\$ (236)	\$ (112)
Change in best estimate return assumptions for equities		
1% increase	\$ 525	\$ 567
1% decrease	\$ (620)	\$ (649)
Expenses - 5% increase	\$ (113)	\$ (119)
Policy termination and renewal - 10% adverse change	\$ (583)	\$ (729)

The earnings sensitivities illustrated in the table above represent impacts under the Company's accounting policies as at December 31, 2022, including accounting for insurance contracts under IFRS 4 and financial instruments under IAS 39. These sensitivities may change on transition to IFRS 17 and IFRS 9.

13. Insurance and Investment Contract Liabilities (cont'd)

Concentration risk may arise from geographic regions, accumulation of risks and market risk. The concentration of insurance risk before and after reinsurance by business unit is described below.

	2022			2021		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	\$ 81,927	\$ 48	\$ 81,879	\$ 84,829	\$ 92	\$ 84,737
Europe	37,543	4,688	32,855	47,356	6,197	41,159
Capital and Risk Solutions	12,597	497	12,100	14,032	571	13,461
Corporate	3,890	1,644	2,246	4,313	1,934	2,379
Total	\$ 135,957	\$ 6,877	\$ 129,080	\$ 150,530	\$ 8,794	\$ 141,736

(ii) Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

14. Segregated Funds and Other Structured Entities

The Company offers segregated fund products in Canada and Europe that are referred to as segregated funds and unit-linked funds in the respective region. These funds are contracts issued by insurers to segregated fund policyholders where the benefit is directly linked to the performance of the investments, the risks or rewards of the fair value movements and net investment income is realized by the segregated fund policyholders. The segregated fund policyholders are required to select the segregated funds that hold a range of underlying investments. While the Company has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and the Company segregates these investments from those of the Company.

In Canada, the segregated fund assets are legally separated from the general assets of the Company under the terms of the policyholder agreement and cannot be used to settle obligations of the Company. In Europe, the assets of the funds are functionally and constructively segregated from those of the Company. As a result of the legal and constructive arrangements of these funds, the assets and liabilities of these funds are presented as line items within the Consolidated Balance Sheets titled investments on account of segregated fund policyholders and with an equal liability titled investment and insurance contracts on account of segregated fund policyholders.

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, the Company has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are \$6,388 at December 31, 2022 (\$3,125 at December 31, 2021).

Within the Consolidated Statements of Earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the Consolidated Balance Sheets. As these amounts do not directly impact the revenues and expenses of the Company, these amounts are not included separately in the Consolidated Statements of Earnings.

Segregated Funds Guarantee Exposure

The Company offers retail segregated fund products, and unitized with profits (UWP) products that provide for certain guarantees that are tied to the market values of the investment funds. While these products are similar to mutual funds, there is a key difference from mutual funds as the segregated funds have certain guarantee features that protect the segregated fund policyholder from market declines in the underlying investments. These guarantees are the Company's primary exposure on these funds. The Company accounts for these guarantees within insurance and investment contract liabilities within the consolidated financial statements. In addition to the Company's exposure on the guarantees, the fees earned by the Company on these products are impacted by the market value of these funds.

In Canada, the Company offers retail segregated fund products. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits.

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

The Company also offers a guaranteed minimum withdrawal benefits (GMWB) product in Germany, and previously offered GMWB product in Canada and Ireland. Certain GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2022, the amount of GMWB product in-force in Canada, Ireland and Germany was \$2,009 (\$2,502 at December 31, 2021).

14. Segregated Funds and Other Structured Entities (cont'd)

The following presents further 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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 12,607	\$ 12,101
Bonds	30,704	34,417
Mortgage loans	2,159	2,377
Stocks and units in unit trusts	117,863	134,541
Mutual funds	41,805	44,008
Investment properties	13,035	12,776
	<u>218,173</u>	<u>240,220</u>
Accrued income	393	311
Other liabilities	(3,331)	(3,156)
Non-controlling mutual funds interest	6,388	3,125
Total	<u>\$ 221,623</u>	<u>\$ 240,500</u>

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

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 240,500	\$ 216,050
Additions (deductions):		
Policyholder deposits	22,663	23,978
Net investment income	1,908	2,062
Net realized capital gains on investments	1,526	10,305
Net unrealized capital gains (losses) on investments	(27,851)	12,358
Unrealized gains (losses) due to changes in foreign exchange rates	(1,650)	(7,164)
Policyholder withdrawals	(18,663)	(21,568)
Business acquisition ¹	—	2,844
Change in General Fund investment in Segregated Fund	(14)	(22)
Net transfer (to) from General Fund	(59)	22
Non-controlling mutual funds interest	3,263	1,635
Total	<u>(18,877)</u>	<u>24,450</u>
Balance, end of year	<u>\$ 221,623</u>	<u>\$ 240,500</u>

¹ Investment and insurance contracts on account of segregated fund policyholders acquired through the acquisition of Ark Life (note 3).

14. Segregated Funds and Other Structured Entities (cont'd)

(c) Investment income on account of segregated fund policyholders

	2022	2021
Net investment income	\$ 1,908	\$ 2,062
Net realized capital gains on investments	1,526	10,305
Net unrealized capital gains (losses) on investments	(27,851)	12,358
Unrealized gains (losses) due to changes in foreign exchange rates	(1,650)	(7,164)
Total	(26,067)	17,561
Change in investment and insurance contracts liability on account of segregated fund policyholders	(26,067)	17,561
Net	\$ —	\$ —

(d) Investments on account of segregated fund policyholders by fair value hierarchy level (note 9)

	2022			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders¹	\$ 150,231	\$ 60,433	\$ 14,112	\$ 224,776

¹ Excludes other liabilities, net of other assets, of \$3,153.

	2021			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ¹	\$ 161,465	\$ 68,088	\$ 13,822	\$ 243,375

¹ Excludes other liabilities, net of other assets, of \$2,875.

During 2022, certain foreign stock holdings valued at \$2,301 have been transferred from Level 2 to Level 1 (\$2,137 were transferred from Level 2 to Level 1 at December 31, 2021) primarily based on the Company's change in use of inputs in addition to quoted prices in active markets for certain foreign stock holdings at year-end. 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.

As at December 31, 2022, \$3,928 (\$5,394 at December 31, 2021) of the segregated funds were invested in funds managed by related parties, IG Wealth Management and Mackenzie Investments, members of the Power Corporation group of companies (note 25).

14. Segregated Funds and Other Structured Entities (cont'd)

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:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 13,822	\$ 13,556
Total gains (losses) included in segregated fund investment income	(92)	415
Purchases	525	333
Sales	(200)	(482)
Transfers into Level 3	61	4
Transfers out of Level 3	(4)	(4)
Balance, end of year	<u>\$ 14,112</u>	<u>\$ 13,822</u>

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.

In addition to the segregated funds, the Company has interests in a number of structured unconsolidated entities including mutual funds, open-ended investment companies, and unit trusts. These entities are created as investment strategies for its unit-holders based on the directive of each individual fund.

Some of these funds are sub-advised by related parties of the Company, who are paid sub-advisory fees at normal market rates for their services.

The Company earns management fees related to managing the segregated fund products. Management fees can be variable due to performance of factors – such as markets or industries – in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of client assets.

Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

During 2022, fee and other income earned by the Company resulting from the Company's interests in segregated funds and other structured entities was \$2,960 (\$3,051 in 2021).

Included within other assets (note 12) at December 31, 2022 is \$195 (\$146 at December 31, 2021) of investments in stocks of sponsored unit trusts in Europe.

15. Debentures and Other Debt Instruments

	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
6.74% Debentures due November 24, 2036, unsecured (note 25)	\$ 200	\$ 200	\$ 200	\$ 200
6.40% Subordinated debentures due December 11, 2028, unsecured	100	108	100	125
€200 subordinated loan, matures December 7, 2031, bearing an interest rate of 2.53% until first par call date of December 7, 2026, and, thereafter, at a rate equal to the five-year euro semi-annual mid-swap rate plus 1.85%, unsecured (note 25)	290	290	288	288
Canada Life Capital Trust (CLCT)				
7.529% due June 30, 2052, unsecured, face value \$150	157	177	157	215
Total	\$ 747	\$ 775	\$ 745	\$ 828

Capital Trust Securities

CLCT, a trust established by Canada Life, had issued \$150 of Canada Life Capital Securities - Series B (CLiCS - Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of \$150.

Distributions and interest on the capital trust securities are classified as financing charges in the Consolidated Statements of Earnings (note 16). The fair value for capital trust securities is determined by the bid-ask price. Refer to note 8 for financial instrument risk management disclosures.

Subject to regulatory approval, CLCT may redeem the CLiCS - Series B, in whole or in part, at any time.

16. Financing Charges

Financing charges consist of the following:

	2022	2021
Interest on long-term debentures and other debt instruments	\$ 26	\$ 27
Dividends on preferred shares classified as liabilities	63	63
Interest on capital trust securities	11	11
Other	9	9
Total	\$ 109	\$ 110

17. Other Liabilities

	<u>2022</u>	<u>2021</u>
Pension and other post-employment benefits (note 23)	\$ 445	\$ 787
Lease liabilities	242	251
Bank overdraft	274	233
Deferred income reserves	293	314
Other	1,681	1,577
Total	\$ 2,935	\$ 3,162

Total other liabilities of \$1,955 (\$1,810 at December 31, 2021) are expected to be realized within 12 months from the reporting date. This amount excludes deferred income reserves, the changes in which are noted below.

Deferred income reserves

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 314	\$ 345
Additions	63	70
Amortization	(63)	(71)
Changes in foreign exchange	(7)	(14)
Disposals	(14)	(16)
Balance, end of year	\$ 293	\$ 314

Lease liabilities

	<u>2022</u>		
	<u>Property</u>	<u>Equipment</u>	<u>Total</u>
Balance, beginning of year	\$ 246	\$ 5	\$ 251
Additions	31	2	33
Modifications	(2)	—	(2)
Lease payments	(44)	(3)	(47)
Changes in foreign exchange rates	1	—	1
Interest	6	—	6
Balance, end of year	\$ 238	\$ 4	\$ 242

	<u>2021</u>		
	<u>Property</u>	<u>Equipment</u>	<u>Total</u>
Balance, beginning of year	\$ 279	\$ 2	\$ 281
Additions	15	5	20
Modifications	(2)	—	(2)
Lease payments	(51)	(2)	(53)
Changes in foreign exchange rates	(2)	—	(2)
Interest	7	—	7
Balance, end of year	\$ 246	\$ 5	\$ 251

17. *Other Liabilities (cont'd)*

The following table presents the contractual undiscounted cash flows for lease obligations:

	2022	2021
One year or less	\$ 41	\$ 46
Over one year to two years	36	38
Over two years to three years	29	31
Over three years to four years	24	24
Over four years to five years	23	21
Over five years	143	150
Total undiscounted lease obligations	\$ 296	\$ 310

18. **Participating Account**

The participating operations and the participating balance sheets are presented as combined or consolidated in the operations in the Company's financial statements.

The shareholder portion of participating earnings represents, as restricted by law, a portion of net earnings before policyholder dividends of the participating account, \$90 in 2022 (\$59 in 2021). The actual payment of the shareholder portion of participating net earnings is legally determined as a percentage of policyholder dividends paid. \$85 of shareholder surplus (\$82 in 2021) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders. The following provides additional information related to the operations and financial position of each entity.

(a) **Net earnings, participating account:**

	2022	2021
Net earnings attributable to participating account before policyholder dividends	\$ 1,809	\$ 1,708
Policyholder dividends	(1,625)	(1,405)
Net earnings - participating account	\$ 184	\$ 303

(b) **Participating account surplus in subsidiaries:**

	2022	2021
Participating account accumulated surplus	\$ 3,324	\$ 3,140
Participating account accumulated other comprehensive income (loss)	(177)	(14)
Total	\$ 3,147	\$ 3,126

(c) **Participating account - other comprehensive income (loss):**

The other comprehensive income (loss) attributable to the participating account for the year ended December 31, 2022 was \$(163) (\$(35) for the year ended December 31, 2021).

19. **Non-Controlling Interests**

Non-controlling interests in subsidiaries include non-controlling interests through Irish Life's controlling interest in Invesco Ltd. (Ireland) as well as through a subsidiary's controlling interest in certain Canadian advisor businesses.

The net earnings attributable to non-controlling interests in the Consolidated Statements of Earnings for the year ended December 31, 2022 was \$3 (\$3 for the year ended December 31, 2021). Non-controlling interests on the Consolidated Balance Sheets for December 31, 2022 was \$51 (\$26 at December 31, 2021).

20. Share Capital

Authorized
 Unlimited Common Shares
 Unlimited Preferred Shares

Issued and outstanding

	2022		2021	
	Number	Carrying value	Number	Carrying value
Classified as liabilities:				
Preferred shares				
Class A, Series 6, 6.25% Cumulative First Preferred Shares	40,000,000	\$ 1,000	40,000,000	\$ 1,000
Classified as equity:				
Preferred shares				
Class A, Series 1, Non-Cumulative	18,000	\$ —	18,000	\$ —
Common shares	2,407,384	\$ 7,884	2,407,384	\$ 7,884

21. Capital Management

(a) Policies and Objectives

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

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

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

The 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.

The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan.

21. 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.

(b) Regulatory Capital

In Canada, 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:

	<u>2022</u>	<u>2021</u>
Tier 1 Capital	\$ 13,201	\$ 12,584
Tier 2 Capital	4,644	4,417
Total Available Capital	17,845	17,001
Surplus Allowance & Eligible Deposits	10,531	13,225
Total Capital Resources	<u>\$ 28,376</u>	<u>\$ 30,226</u>
Required Capital	<u>\$ 23,582</u>	<u>\$ 24,323</u>
Total LICAT Ratio (OSFI Supervisory Target = 100%)¹	<u>120 %</u>	<u>124 %</u>

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

For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2022 and December 31, 2021, all European regulated entities met the capital and solvency requirements as prescribed under Solvency II.

Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2022 and December 31, 2021, the Company maintained capital levels above the minimum local regulatory requirements in each of its foreign operations.

22. Share-Based Payments

(a) Lifeco has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Canada Life and its affiliates. Lifeco's Human Resources Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Options granted prior to January 1, 2019 vest over a period of five years. Options granted on or after January 1, 2019 vest 50% three years after the grant date and 50% four years after the grant date. Options have a maximum exercise period of ten years from the grant date. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee. In 2022, the maximum number of Lifeco common shares issuable under the Plan was 72,500,000.

During 2022, 2,311,300 options were granted (2,580,500 during 2021). The weighted average fair value of options granted during 2022 was \$3.57 per option (\$2.59 in 2021). The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2022: dividend yield 5.07% (5.44% in 2021), expected volatility 18.13% (18.44% in 2021), risk-free interest rate 1.61% (1.19% in 2021), and expected life of eight years (eight in 2021).

The following summarizes the changes in options outstanding and the weighted average exercise price:

	2022		2021	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	13,449,727	\$ 32.81	13,227,809	\$ 32.64
Granted	2,311,300	38.68	2,580,500	32.25
Exercised	(1,119,628)	31.22	(2,215,402)	31.09
Forfeited/expired	(115,080)	33.97	(143,180)	33.36
Outstanding, end of year	14,526,319	\$ 33.86	13,449,727	\$ 32.81
Options exercisable at end of year	6,862,149	\$ 33.67	6,683,227	\$ 33.64

The weighted average share price at the date of exercise of stock options for the year ended December 31, 2022 was \$39.48 (\$36.06 in 2021).

Compensation expense due to the Plan transactions accounted for as equity-settled share-based payments of \$6 after-tax in 2022 (\$4 after-tax in 2021) has been recognized in the Consolidated Statements of Earnings.

22. Share-Based Payments (cont'd)

The following summarizes information on the ranges of exercise prices including weighted average remaining contractual life at December 31, 2022:

Exercise price ranges	Outstanding			Exercisable		
	Options	Weighted average remaining contractual life	Weighted average exercise price	Options	Weighted average exercise price	Expiry
\$27.13 - \$36.87	698,340	0.31	30.38	698,340	30.38	2023
\$30.28 - \$36.87	719,620	1.31	31.77	719,620	31.77	2024
\$34.68 - \$36.87	1,197,699	2.19	35.68	1,197,699	35.68	2025
\$30.28 - \$36.87	1,418,460	3.20	34.44	1,418,460	34.44	2026
\$30.28 - \$36.87	1,007,400	4.20	36.30	1,007,400	36.30	2027
\$30.28 - \$34.21	1,173,500	5.16	34.18	935,930	34.19	2028
\$30.28 - \$32.50	1,771,500	6.16	30.34	884,700	30.34	2029
\$32.22 - \$32.22	1,782,800	7.16	32.22	—	—	2030
\$32.10 - \$38.75	2,445,700	8.16	32.26	—	—	2031
\$31.59 - \$38.71	2,311,300	9.16	38.68	—	—	2032

- (b) To promote greater alignment of interests between the Directors and the policyholders of the Company and shareholders of Lifeco, the Company and certain of its affiliates have mandatory DSU Plans and/or voluntary DSU Plans (the “Mandatory DSU Plans” and the “Voluntary DSU Plans” respectively) in which the Directors of the Company participate. Under the Mandatory DSU Plans, each Director who is a resident of Canada or the United States must receive 50% of their annual Board retainer in the form of Lifeco DSUs. Under the Voluntary DSU Plans, each Director may elect to receive the balance of their annual Board retainer and Board Committee fees entirely in the form of DSUs, entirely in cash, or equally in cash and DSUs. In both cases, the number of DSUs granted is determined by dividing the amount of remuneration payable to the Director by the weighted average trading price per Lifeco common share on the Toronto Stock Exchange (TSX) for the last five trading days of the preceding fiscal quarter. Directors receive additional DSUs for dividends payable on the common shares of Lifeco based on the value of a DSU at the dividend payment date. DSUs are redeemable when an individual ceases to be a Director, or as applicable, an officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the weighted average trading price per Lifeco common share on the TSX for the last five trading days preceding the date of redemption. In 2022, \$4 in Directors' fees were used to acquire DSUs (\$4 in 2021). At December 31, 2022, the carrying value of the DSU liability is \$50 (\$52 in 2021) recorded within other liabilities.

Certain employees of the Company are entitled to receive DSUs. Under these DSU Plans, certain employees may elect to receive DSUs as settlement of their annual incentive plan or as settlement of PSUs issued under the Company's PSU Plan. In both cases these employees are granted DSUs equivalent to Lifeco's common shares. Employees receive additional DSUs in respect of dividends payable on the common shares based on the value of the DSUs at the time. DSUs are redeemable when an individual ceases to be an officer or employee of the Company or any of its affiliates, by a lump sum cash payment representing the value of the DSUs at that date. The Company uses the fair-value based method to account for the DSUs granted to employees under the plans. For the year ended December 31, 2022, the Company recognized compensation expense of \$1 (\$15 in 2021) for the DSU Plans recorded in operating and administrative expenses in the Consolidated Statements of Earnings. At December 31, 2022, the carrying value of the DSU liability is \$39 (\$38 in 2021) recorded within other liabilities in the Consolidated Balance Sheets.

22. *Share-Based Payments (cont'd)*

- (c) Certain employees of the Company are entitled to receive PSUs. Under the PSU Plan, these employees are granted PSUs equivalent to Lifeco's common shares vesting over a three-year period. Employees receive additional PSUs in respect of dividends payable on the common shares of Lifeco based on the value of a PSU at that time. At the maturity date, employees receive cash representing the value of the PSU at this date. The Company uses the fair-value based method to account for the PSUs granted to employees under the plan. For the year ended December 31, 2022, the Company recognized compensation expense of \$37 (\$50 in 2021) for the PSU Plan recorded in operating and administrative expenses in the Consolidated Statements of Earnings. At December 31, 2022, the carrying value of the PSU liability is \$73 (\$79 in 2021) recorded within other liabilities.
- (d) The Company's Employee Share Ownership Plan (ESOP) is a voluntary plan where eligible employees can contribute up to 5% of their previous year's eligible earnings to purchase common shares of Lifeco. The Company matches 50% of the total employee contributions. The contributions from the Company vest immediately and are expensed. For the year ended December 31, 2022, the Company recognized compensation expense of \$13 (\$13 in 2021) for the ESOP recorded in operating and administrative expenses in the Consolidated Statements of Earnings.

23. Pension Plans and Other Post-Employment Benefits

Characteristics, Funding and Risk

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for eligible employees and advisors. The Company and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay; however, these plans are closed to new entrants. Many of the defined benefit pension plans also no longer provide future defined benefit accruals. The Company's defined benefit plan exposure is expected to reduce in future years. Where defined benefit pension accruals continue, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits in accordance with the terms of the plans. Assets supporting the funded pension plans are held in separate trustee pension funds. Obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets.

New hires and active plan participants in defined benefit plans closed to future defined benefit accruals are eligible for defined contribution pension benefits. The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. Employer contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. These plans are closed to new hires and were previously amended to limit which employees could become eligible to receive benefits. The amount of some of the post-employment benefits other than pensions depends on future cost escalation. These post-employment benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets.

The Company and its subsidiaries have pension and benefit committees or a trustee arrangement that provides oversight for the benefit plans. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements. Significant changes to the Company's or a subsidiary company's benefit plans require approval from that company's Board of Directors.

The funding policies of the Company and its subsidiaries for the funded pension plans require annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit pension plan asset, the Company determines if an economic benefit exists in the form of potential reductions in future contributions by the Company, from the payment of expenses from the plan and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Company to the typical risks faced by defined benefit plans such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Company.

23. Pension Plans and Other Post-Employment Benefits (cont'd)

The following reflects the financial position of the contributory and non-contributory defined benefit plans of the Company and its subsidiaries:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-employment benefits	
	2022	2021	2022	2021
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	\$ 7,124	\$ 7,012	\$ —	\$ —
Interest income	175	145	—	—
Actual return over (less than) interest income	(1,311)	459	—	—
Employer contributions	89	102	17	18
Employee contributions	21	18	—	—
Benefits paid	(289)	(273)	(17)	(18)
Settlements	—	(142)	—	—
Administrative expenses	(4)	(4)	—	—
Foreign exchange rate changes	(46)	(193)	—	—
Fair value of plan assets, end of year	\$ 5,759	\$ 7,124	\$ —	\$ —
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	\$ 7,167	\$ 7,711	\$ 340	\$ 375
Current service cost	72	91	—	—
Interest cost	175	161	10	9
Employee contributions	21	18	—	—
Benefits paid	(289)	(273)	(17)	(18)
Curtailments and termination benefits	(2)	(1)	—	—
Settlements	—	(200)	—	—
Actuarial loss (gain) on financial assumption changes	(1,886)	(112)	(53)	(24)
Actuarial loss (gain) on demographic assumption changes	(1)	(14)	(31)	—
Actuarial loss (gain) arising from member experience	3	(20)	(16)	(2)
Foreign exchange rate changes	(62)	(194)	—	—
Defined benefit obligation, end of year	\$ 5,198	\$ 7,167	\$ 233	\$ 340
Asset (liability) recognized on the Consolidated Balance Sheets				
Funded status of plans - surplus (deficit)	\$ 561	\$ (43)	\$ (233)	\$ (340)
Unrecognized amount due to asset ceiling	(310)	(41)	—	—
Asset (liability) recognized on the Consolidated Balance Sheets	\$ 251	\$ (84)	\$ (233)	\$ (340)
Recorded in:				
Other assets (note 12)	\$ 463	\$ 363	\$ —	\$ —
Other liabilities (note 17)	(212)	(447)	(233)	(340)
Asset (liability) recognized on the Consolidated Balance Sheets	\$ 251	\$ (84)	\$ (233)	\$ (340)
Analysis of defined benefit obligation				
Wholly or partly funded plans	\$ 4,993	\$ 6,904	\$ —	\$ —
Wholly unfunded plans	\$ 205	\$ 263	\$ 233	\$ 340

23. Pension Plans and Other Post-Employment Benefits (cont'd)

Under IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Company must assess whether each pension plan's asset has economic benefit to the Company through future contribution reductions, from the payment of expenses from the plan, or surplus refunds; in the event the Company is not entitled to a benefit, a limit or 'asset ceiling' is required on the balance. The following provides a breakdown of the changes in the asset ceiling:

	Defined benefit pension plans	
	2022	2021
Change in asset ceiling		
Asset ceiling, beginning of year	\$ 41	\$ 29
Interest on asset ceiling	1	1
Change in asset ceiling	251	11
Foreign exchange rate changes	17	—
Asset ceiling, end of year	\$ 310	\$ 41

(b) Pension and Other Post-Employment Benefits Expense

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

	All pension plans		Other post-employment benefits	
	2022	2021	2022	2021
Defined benefit current service cost	\$ 93	\$ 109	\$ —	\$ —
Defined contribution current service cost	87	80	—	—
Employee contributions	(21)	(18)	—	—
Employer current service cost	159	171	—	—
Administrative expense	4	4	—	—
Curtailments	(2)	(1)	—	—
Settlements	—	(58)	—	—
Net interest cost	1	17	10	9
Expense - profit or loss	162	133	10	9
Actuarial (gain) loss recognized	(1,884)	(146)	(100)	(26)
Return on assets (greater) less than assumed	1,311	(459)	—	—
Change in the asset ceiling	251	11	—	—
Re-measurements - other comprehensive (income) loss	(322)	(594)	(100)	(26)
Total expense (income) including re-measurements	\$ (160)	\$ (461)	\$ (90)	\$ (17)

23. Pension Plans and Other Post-Employment Benefits (cont'd)

(c) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2022	2021
Equity securities	35%	39%
Debt securities	52%	50%
Real estate	9%	8%
Cash and cash equivalents	4%	3%
Total	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Plan assets include investments in segregated funds and other funds managed by subsidiaries of the Company of \$5,608 at December 31, 2022 and \$6,978 at December 31, 2021, of which \$5,514 (\$6,900 at December 31, 2021) are included on the Consolidated Balance Sheets. Plan assets do not include any property occupied or other assets used by the Company.

(d) Details of Defined Benefit Obligation

(i) Portion of Defined Benefit Obligation Subject to Future Salary Increases

	Defined benefit pension plans		Other post-employment benefits	
	2022	2021	2022	2021
Benefit obligation without future salary increases	\$ 4,766	\$ 6,567	\$ 233	\$ 340
Effect of assumed future salary increases	432	600	—	—
Defined benefit obligation	\$ 5,198	\$ 7,167	\$ 233	\$ 340

The other post-employment benefits are not subject to future salary increases.

(ii) Portion of Defined Benefit Obligation Without Future Pension Increases

	Defined benefit pension plans		Other post-employment benefits	
	2022	2021	2022	2021
Benefit obligation without future pension increases	\$ 4,524	\$ 6,343	\$ 233	\$ 340
Effect of assumed future pension increases	674	824	—	—
Defined benefit obligation	\$ 5,198	\$ 7,167	\$ 233	\$ 340

The other post-employment benefits are not subject to future pension increases.

23. Pension Plans and Other Post-Employment Benefits (cont'd)

(iii) Maturity Profile of Plan Membership

	Defined benefit pension plans		Other post-employment benefits	
	2022	2021	2022	2021
Actives	39 %	43 %	7 %	9 %
Deferred vesteds	15 %	17 %	n/a	n/a
Retirees	46 %	40 %	93 %	91 %
Total	100 %	100 %	100 %	100 %
Weighted average duration of defined benefit obligation	15.0 years	18.1 years	9.9 years	11.9 years

(e) Cash Flow Information

	Pension plans	Other post-employment benefits	Total
Expected employer contributions for 2023:			
Funded (wholly or partly) defined benefit plans	\$ 62	\$ —	\$ 62
Unfunded plans	17	18	35
Defined contribution plans	96	—	96
Total	\$ 175	\$ 18	\$ 193

(f) Actuarial Assumptions and Sensitivities

(i) Actuarial Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2022	2021	2022	2021
To determine benefit cost:				
Discount rate - past service liabilities	2.5%	2.1%	3.1%	2.5%
Discount rate - future service liabilities	3.3%	2.8%	3.4%	2.8%
Rate of compensation increase	3.1%	3.0%	—	—
Future pension increases ¹	1.7%	1.2%	—	—
To determine defined benefit obligation:				
Discount rate - past service liabilities	4.9%	2.5%	5.3%	3.1%
Rate of compensation increase	3.8%	3.1%	—	—
Future pension increases ¹	2.3%	1.7%	—	—
Medical cost trend rates:				
Initial medical cost trend rate			4.7%	4.6%
Ultimate medical cost trend rate			4.0%	4.0%
Year ultimate trend rate is reached			2040	2040

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

23. Pension Plans and Other Post-Employment Benefits (cont'd)

(ii) Sample Life Expectancies Based on Mortality Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2022	2021	2022	2021
Sample life expectancies based on mortality assumption:				
Male				
Age 65 in fiscal year	23.0	22.9	22.8	22.7
Age 65 for those age 35 in the fiscal year	24.8	24.8	24.2	24.2
Female				
Age 65 in fiscal year	25.1	25.0	25.1	25.1
Age 65 for those age 35 in the fiscal year	26.9	26.9	26.5	26.4

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

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

The calculation of the defined benefit obligation is sensitive to the mortality assumptions. The effect of a one-year increase in life expectancy would be an increase in the defined benefit obligation of \$148 for the defined benefit pension plans and \$5 for other post-employment benefits.

(iii) Impact of Changes to Assumptions on Defined Benefit Obligation

	1% increase		1% decrease	
	2022	2021	2022	2021
Defined benefit pension plans:				
Impact of a change to the discount rate	\$ (675)	\$ (1,111)	\$ 859	1,461
Impact of a change to the rate of compensation increase	173	299	(156)	(269)
Impact of a change to the rate of inflation	340	578	(299)	(507)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	11	21	(10)	(18)
Impact of a change to the discount rate	(19)	(34)	23	40

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

24. Accumulated Other Comprehensive Loss

	2022									
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on hedges of the net investment in foreign operations	Unrealized gains (losses) on available-for-sale assets	Re-measurements on defined benefit pension and other post-employment benefit plans	Revaluation surplus on transfer to investment properties	Total	Non-controlling interests	Participating account	Shareholder	
Balance, beginning of year	\$ 269	\$ (8)	\$ 28	\$ (364)	\$ 10	\$ (65)	\$ —	\$ (14)	\$ (51)	
Other comprehensive income (loss)	12	(97)	(760)	422	—	(423)	1	(225)	(199)	
Income tax	—	27	143	(113)	—	57	—	62	(5)	
	12	(70)	(617)	309	—	(366)	1	(163)	(204)	
Balance, end of year	\$ 281	\$ (78)	\$ (589)	\$ (55)	\$ 10	\$ (431)	\$ 1	\$ (177)	\$ (255)	

	2021									
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on hedges of the net investment in foreign operations	Unrealized gains (losses) on available-for-sale assets	Re-measurements on defined benefit pension and other post-employment benefit plan	Revaluation surplus on transfer to investment properties	Total	Non-controlling interests	Participating account	Shareholder	
Balance, beginning of year	\$ 672	\$ —	\$ 228	\$ (814)	\$ 10	\$ 96	\$ 2	\$ 21	\$ 73	
Other comprehensive income (loss)	(403)	(11)	(247)	620	—	(41)	(2)	(47)	8	
Income tax	—	3	47	(170)	—	(120)	—	12	(132)	
	(403)	(8)	(200)	450	—	(161)	(2)	(35)	(124)	
Balance, end of year	\$ 269	\$ (8)	\$ 28	\$ (364)	\$ 10	\$ (65)	\$ —	\$ (14)	\$ (51)	

25. Related Party Transactions

Great-West Lifeco Inc. is the parent of the Company. As such, the Company is related to Great-West Lifeco Inc. and its other major operating subsidiaries including Empower Annuity Insurance Company of America (Empower, formerly known as Great-West Life & Annuity Insurance Company) and Putnam Investments, LLC. In addition, Great-West Lifeco Inc. is a member of the Power Corporation group of companies. Through this relationship, the Company is also related to the Power Corporation group of companies which includes IGM, a company in the financial services sector along with its subsidiaries IG Wealth Management, Mackenzie Financial and Investment Planning Council, and Groupe Bruxelles Lambert, a holding company based in Europe with substantial holdings in global industrial and services companies.

(a) Principal subsidiaries

The consolidated financial statements of the Company include the operations of the following subsidiaries and their subsidiaries:

Company	Incorporated in	Primary business operation	% Held
GWL Realty Advisors Inc.	Canada	Real estate investment management	100.00%
Canada Life Limited	United Kingdom	Insurance and wealth management	100.00%
Irish Life Assurance p.l.c	Ireland	Insurance and wealth management	100.00%

(b) Transactions with related parties included in the consolidated financial statements

Reinsurance Transactions

A subsidiary of the Company has agreements with Empower, an affiliated company, to assume certain life business. In 2022, for the Consolidated Statements of Earnings, these transactions resulted in an increase in total net premiums of \$3,565 (\$2,350 in 2021) and total paid or credited to policyholders of \$3,555 (\$2,334 in 2021). The transactions were at market terms and conditions.

During 2005, Great-West Life & Annuity Insurance Company of South Carolina (GWSC), an affiliated company, assumed on a coinsurance basis with funds withheld, certain of Canada Life's U.S. term life reinsurance business. During 2007, an additional amount of U.S term life reinsurance business was retroceded by Canada Life to GWSC. In 2022, for the Consolidated Statements of Earnings, these transactions resulted in a reduction in total net premiums of \$82 (\$80 in 2021) and total paid or credited to policyholders of \$85 (\$109 in 2021). These transactions were at market terms and conditions.

Other Related Party Transactions

In the normal course of business, the Company provided insurance benefits and other services to other companies within the Power Corporation group of companies. In all cases, transactions were at market terms and conditions.

During the year, the Company provided to and received from IGM and its subsidiaries, a member of the Power Corporation group of companies, certain administrative and information technology services. During 2021, the Company and IGM executed a termination agreement covering the transition of shared information technology services from the Company to alternate providers over a number of years. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. In addition, the Company provided distribution services to IGM. All transactions were provided at market terms and conditions.

The Company owns 9,200,448 shares representing a 3.87% ownership interest in IGM. The Company uses the equity method to account for its investment in IGM as it exercises significant influence. In 2022, the Company recognized \$30 for the equity method share of IGM net earnings and received dividends of \$21 from its investment in IGM (note 6).

During 2019, the Company redeemed \$1,000 of the \$2,000 3.75% debenture issued to Lifeco in 2013. Also redeemed were \$1,000 of the \$2,000 in preferred shares of a wholly-owned subsidiary of Lifeco. The

25. Related Party Transactions (cont'd)

Company has a legally enforceable right to settle the remaining amounts of these financial instruments on a net basis and the Company intends to exercise this right. Accordingly, the remaining amounts of the investment and debenture are offset in the consolidated financial statements of the Company.

During 2008, the Company issued \$2,000 of 7.127% debentures to Lifeco. The Company made a corresponding investment of \$2,000 in preferred shares of a wholly-owned subsidiary of Lifeco. The Company also issued \$1,200 of 5.75% debentures to Lifeco in 2003. The Company made a corresponding investment of \$1,200 in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has legally enforceable rights to settle these financial instruments on a net basis, and the Company intends to exercise these rights. Accordingly, the investments and debentures are offset in the consolidated financial statements of the Company.

Segregated funds of the Company were invested in funds managed by IG Wealth Management and Mackenzie Investments. Mackenzie Investments also manages certain of the Company's portfolio investments. The Company also has interests in mutual funds, open-ended investment companies, unit trusts and private equity funds. Some of these funds are managed by related parties of the Company, who are paid management fees related to these services. During 2022, the Company made additional investments in funds managed by related parties. All transactions were provided at market terms and conditions (note 14).

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

	2022	2021
3.44%, matures January 26, 2027	\$ 19	\$ 21
6.65%, matures December 13, 2027	14	16
7.45%, matures May 9, 2031	11	13
7.00%, matures December 31, 2032	11	14
4.56%, matures January 25, 2047	18	24
4.115%, matures December 9, 2047	8	11
4.174%, matures July 13, 2048	4	6
Total	\$ 85	\$ 105

On December 22, 2020 the Company was issued from Great-West Lifeco U.S. LLC, an affiliated entity, a U.S. \$65 (\$88 at December 31, 2022), 5 year loan with an annual interest rate of 1.25%. During 2022, interest income of \$1 (\$1 in 2021) is included in the Consolidated Statements of Earnings.

On December 7, 2016 the Company issued to Lifeco a €200 (\$290 at December 31, 2022), 15 year loan with an annual interest rate of 2.53% until first par call date of December 7, 2026, and, thereafter at a rate equal to the five-year euro semi-annual mid-swap rate plus 1.85% (note 15). During 2022, interest expense of \$7 (\$8 in 2021) is included in the Consolidated Statements of Earnings.

The Company has 6.74% debentures due to Lifeco, its parent, which have an outstanding balance of \$200 (\$200 in 2021). Financing charges of \$13 is included in the Consolidated Statements of Earnings (\$13 in 2021).

Subsequent Event

On January 13, 2023, the Company issued a \$2,000 5.30% debenture to Lifeco. The Company made a corresponding investment of \$2,000 in preferred shares of a wholly owned subsidiary of Lifeco. The Company has a legally enforceable right to settle these financial instruments on a net basis and the Company intends to exercise this right. Accordingly, the investment and debenture will be offset in the consolidated financial statements of the Company.

25. Related Party Transactions (cont'd)

(c) Key management compensation

Key management personnel constitute those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director. The individuals that comprise the key management personnel are the Board of Directors as well as certain key management and officers.

The following describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Company and its subsidiaries:

	<u>2022</u>	<u>2021</u>
Salary	\$ 17	\$ 16
Share-based awards	14	12
Option-based awards	7	6
Annual non-equity incentive plan compensation	9	8
Pension value	—	(1)
Total	\$ 47	\$ 41

26. Income Taxes

(a) Components of the income tax expense

(i) Income tax recognized in Consolidated Statements of Earnings

Current income tax

	<u>2022</u>	<u>2021</u>
Total current income tax	\$ 353	\$ 132

Deferred income tax

	<u>2022</u>	<u>2021</u>
Origination and reversal of temporary differences	\$ (181)	\$ 116
Effect of changes in tax rates or imposition of new income taxes	24	22
Tax expense arising from unrecognized tax losses and tax credits	3	4
Total deferred income tax	\$ (154)	\$ 142

Total income tax expense

\$ 199	\$ 274
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(ii) Income tax recognized in other comprehensive income (note 24)

	<u>2022</u>	<u>2021</u>
Current income tax expense (recovery)	\$ (157)	\$ (34)
Deferred income tax expense (recovery)	100	154
Total	\$ (57)	\$ 120

26. Income Taxes (cont'd)

(b) The effective income tax rate reported in the Consolidated Statements of Earnings varies from the combined Canadian federal and provincial income tax rate of 27.50%¹ for the following items:

	2022		2021	
Earnings before income taxes	\$	3,381	\$	3,448
Combined basic Canadian federal and provincial tax rate		930	27.50 %	914
Increase (decrease) in the income tax rate resulting from:				26.50 %
Non-taxable investment income		(206)	(6.08)	(286)
Operations outside of Canada subject to a lower average foreign tax rate		(422)	(12.48)	(369)
Impact of rate changes on deferred income taxes		24	0.71	22
Other		(127)	(3.76)	(7)
Total income tax expense and effective income tax rate	\$	199	5.89 %	\$ 274
				7.95 %

¹ A Canadian federal corporate income tax rate change, enacted in 2022 (effective after April 7, 2022), increased the statutory income tax rate from 26.50% to 28.0% (prorated to 27.50% in 2022).

In December 2021, the Organization for Economic Co-operation and Development (OECD) published model rules outlining a structure for a new global 15% minimum tax regime to be implemented by all participating countries at an agreed future date, currently expected to be 2024. Detailed commentary on the rules was released by the OECD during 2022. At this point, the countries where the Company currently operates have all indicated their participation; however, none have implemented legislation. 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 tax rate. The Company is awaiting the legislation and detailed guidance to assess the full implications in the jurisdictions in which the Company operates.

(c) Composition and changes in net deferred income tax liabilities are as follows:

	2022						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
Balance, beginning of year	\$ (469)	\$ (504)	\$ 384	\$ (291)	\$ 144	\$ 80	\$ (656)
Recognized in Statements of Earnings	(193)	213	129	(5)	(24)	34	154
Recognized in Statements of Comprehensive Income	—	13	—	—	—	(113)	(100)
Foreign exchange rate changes and other	8	(6)	24	(7)	—	6	25
Balance, end of year	\$ (654)	\$ (284)	\$ 537	\$ (303)	\$ 120	\$ 7	\$ (577)

26. Income Taxes (cont'd)

	2021						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
Balance, beginning of year	\$ (423)	\$ (458)	\$ 419	\$ (235)	\$ 143	\$ 200	\$ (354)
Recognized in Statements of Earnings	(29)	(60)	(31)	(46)	1	23	(142)
Recognized in Statements of Comprehensive Income	—	17	—	—	—	(171)	(154)
Acquired in business acquisitions	—	(1)	1	(17)	—	(4)	(21)
Foreign exchange rate changes and other	(17)	(2)	(5)	7	—	32	15
Balance, end of year	<u>\$ (469)</u>	<u>\$ (504)</u>	<u>\$ 384</u>	<u>\$ (291)</u>	<u>\$ 144</u>	<u>\$ 80</u>	<u>\$ (656)</u>

Recorded on Consolidated Balance Sheets:

	2022	2021
Deferred tax assets	\$ 315	\$ 266
Deferred tax liabilities	(892)	(922)
Total	<u>\$ (577)</u>	<u>\$ (656)</u>

A deferred income tax asset is recognized for deductible temporary differences and unused losses and carryforwards only to the extent that realization of the related income tax benefit through future taxable profits is probable.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

Management assesses the recoverability of the deferred income tax assets carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets as of December 31, 2022 are recoverable.

At December 31, 2022, the Company has recognized a deferred tax asset of \$537 (\$384 in 2021) on tax loss carryforwards totaling \$2,550, of which \$89 expire between 2030 and 2041 while \$2,461 have no expiry date. The Company will realize this benefit in future years through a reduction in current income taxes payable.

The Company has not recognized a deferred tax asset of \$100 (\$40 in 2021) on tax loss carryforwards totaling \$505 (\$198 in 2021). Of this amount, \$112 expire between 2023 and 2038 while \$393 have no expiry date. In addition, the Company has not recognized a deferred tax asset of \$11 (\$20 in 2021) on other temporary differences of \$55 (\$94 in 2021) associated with investments in subsidiaries, branches, and associates.

A deferred income tax liability has not been recognized in respect of the temporary differences associated with investments in subsidiaries, branches and associates as the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

27. Operating and Administrative Expenses

	<u>2022</u>	<u>2021</u>
Salaries and other employee benefits	\$ 2,155	\$ 2,165
General and administrative	978	884
Interest expense on leases	6	7
Depreciation of fixed assets	71	77
Depreciation of right-of-use assets	39	42
Total	\$ 3,249	\$ 3,175

28. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end-user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 8 discloses the credit quality of the Company's exposure to counterparties. Credit risk equivalent amounts are presented net of eligible collateral received, including initial margin on exchange-traded derivatives, of \$378 as at December 31, 2022 (\$65 at December 31, 2021).

(a) The following summarizes the Company's derivative portfolio and related credit exposure using the following definitions of risk as prescribed by OSFI:

Maximum Credit Risk	The total replacement cost of all derivative contracts with positive values.
Future Credit Exposure	The potential future credit exposure is calculated based on a formula prescribed by OSFI. The factors prescribed by OSFI for this calculation are based on derivative type and duration.
Credit Risk Equivalent	The sum of maximum credit risk and the potential future credit exposure less any collateral held.
Risk Weighted Equivalent	Represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

28. Derivative Financial Instruments (cont'd)

	2022				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Swaps	\$ 4,534	\$ 96	\$ 47	\$ 102	\$ 2
Futures - short	159	—	—	—	—
Options purchased	1	—	—	—	—
	4,694	96	47	102	2
Foreign exchange contracts					
Cross-currency swaps	19,733	956	1,233	1,879	39
Forward contracts	5,712	35	75	95	1
	25,445	991	1,308	1,974	40
Other derivative contracts					
Equity contracts	1,482	20	89	109	—
Futures - long	12	—	—	—	—
Futures - short	661	13	—	—	—
Equity options - purchased	1	—	—	—	—
Equity options - written	3	—	—	—	—
	2,159	33	89	109	—
Total	\$ 32,298	\$ 1,120	\$ 1,444	\$ 2,185	\$ 42
	2021				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Swaps	\$ 3,920	\$ 194	\$ 44	\$ 235	\$ 5
Futures - short	146	—	—	—	—
	4,066	194	44	235	5
Foreign exchange contracts					
Cross-currency swaps	16,635	285	1,002	1,257	24
Forward contracts	4,381	50	64	98	1
	21,016	335	1,066	1,355	25
Other derivative contracts					
Equity contracts	1,952	52	117	156	—
Futures - long	14	—	—	—	—
Futures - short	560	1	—	—	—
	2,526	53	117	156	—
Total	\$ 27,608	\$ 582	\$ 1,227	\$ 1,746	\$ 30

28. Derivative Financial Instruments (cont'd)

(b) The following provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2022				Total estimated fair value
	Notional Amount			Total	
	1 year or less	Over 1 year to 5 years	Over 5 years		
Derivatives not designated as accounting hedges					
Interest rate contracts					
Swaps	\$ 549	\$ 1,251	\$ 2,734	\$ 4,534	\$ (356)
Futures - short	159	—	—	159	—
Options purchased	1	—	—	1	—
	<u>709</u>	<u>1,251</u>	<u>2,734</u>	<u>4,694</u>	<u>(356)</u>
Foreign exchange contracts					
Cross-currency swaps	2,418	3,604	13,711	19,733	(23)
Forward contracts	3,146	—	—	3,146	(64)
	<u>5,564</u>	<u>3,604</u>	<u>13,711</u>	<u>22,879</u>	<u>(87)</u>
Other derivative contracts					
Equity contracts	1,482	—	—	1,482	6
Futures - long	12	—	—	12	—
Futures - short	661	—	—	661	13
Equity options - purchased	1	—	—	1	—
Equity options - written	3	—	—	3	—
	<u>2,159</u>	<u>—</u>	<u>—</u>	<u>2,159</u>	<u>19</u>
Fair value hedges					
Foreign exchange forward contracts	83	—	—	83	(3)
Net investment hedges					
Foreign exchange forward contracts	2,027	456	—	2,483	(28)
Total	<u>\$ 10,542</u>	<u>\$ 5,311</u>	<u>\$ 16,445</u>	<u>\$ 32,298</u>	<u>(455)</u>

28. Derivative Financial Instruments (cont'd)

	2021				Total estimated fair value
	Notional Amount				
	1 year or less	Over 1 year to 5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Swaps	\$ 486	\$ 760	\$ 2,674	\$ 3,920	\$ 160
Options purchased	146	—	—	146	—
	632	760	2,674	4,066	160
Foreign exchange contracts					
Cross-currency swaps	2,556	3,181	10,898	16,635	(650)
Forward contracts	2,376	—	—	2,376	(4)
	4,932	3,181	10,898	19,011	(654)
Other derivative contracts					
Equity contracts	1,952	—	—	1,952	52
Futures - long	14	—	—	14	—
Futures - short	560	—	—	560	(3)
	2,526	—	—	2,526	49
Fair value hedge					
Foreign exchange forward contracts	78	—	—	78	(1)
Net investment hedges					
Foreign exchange forward contracts	1,409	518	—	1,927	23
Total	\$ 9,577	\$ 4,459	\$ 13,572	\$ 27,608	\$ (423)

Futures contracts included in the above are exchange traded contracts; all other contracts are over-the-counter.

(c) The following provides details of the Company's derivative portfolio by type of instrument:

Interest Rate Contracts

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities. Interest-rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Company the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to hedge minimum rate guarantees.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities and insurance and investment contract liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities.

28. *Derivative Financial Instruments (cont'd)*

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage potential credit risk impact of significant declines in certain equity markets.

29. Legal Provisions and Contingent Liabilities

The Company and its subsidiaries are from time-to-time subject to legal actions, including arbitrations and class actions. Provisions are established if, in management's judgment, it is probable a payment will be required and the amount of the payment can be reliably estimated. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Company. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Company. Actual results could differ from management's best estimates.

30. Commitments

(a) Letters of Credit

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities is U.S. \$1,835 of which U.S. \$1,419 were issued as of December 31, 2022.

The Capital and Risk Solutions business unit periodically uses letters of credit as collateral under certain reinsurance contracts for on balance sheet policy liabilities.

(b) Investment Commitments

Commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions were \$3,635 as at December 31, 2022, with \$3,553 maturing within one year and \$82 maturing within two years.

(c) Pledged Assets

In addition to the assets pledged by the Company disclosed elsewhere in the consolidated financial statements:

- (i) The amount of assets included in the Company's balance sheet which have a security interest by way of pledging is \$1,467 (\$1,263 at December 31, 2021) in respect of reinsurance agreements.

In addition, under certain reinsurance contracts, bonds presented in portfolio investments are held in trust and escrow accounts. Assets are placed in these accounts pursuant to the requirements of certain legal and contractual obligations to support contract liabilities assumed.

- (ii) The Company has pledged, in the normal course of business, \$53 (\$56 at December 31, 2021) of assets of the Company for the purpose of providing collateral for the counterparty.

31. Segmented Information

The major operating segments of the Company are the participating and shareholder operations. Within these segments the major business units are: Canada, Europe, Capital and Risk Solutions and Corporate. These business units reflect the Company's management structure and internal financial reporting. Each of these segments operates in the financial services industry and the revenues from these business units are derived principally from life insurance, health insurance, retirement and investment services, and reinsurance businesses. Business activities and operations in the United States and those that are not associated with the specific business units are attributed to Corporate.

(a) Consolidated Net Earnings

	2022						
	Shareholder				Participating		
	Canada	Europe	Capital and Risk Solutions	Corporate	Total	Total	Total Company
Income							
Total net premiums	\$ 9,740	\$ 3,961	\$ 31,632	\$ 3,567	\$ 48,900	\$ 5,422	\$ 54,322
Net investment income							
Regular net investment income	1,307	1,524	201	106	3,138	1,760	4,898
Changes in fair value through profit or loss	(4,275)	(7,055)	(1,676)	(15)	(13,021)	(2,990)	(16,011)
Total net investment income (loss)	(2,968)	(5,531)	(1,475)	91	(9,883)	(1,230)	(11,113)
Fee and other income	1,957	1,334	5	29	3,325	—	3,325
	8,729	(236)	30,162	3,687	42,342	4,192	46,534
Benefits and expenses							
Paid or credited to policyholders	4,425	(3,188)	29,217	3,570	34,024	2,981	37,005
Other ¹	2,873	1,740	223	46	4,882	989	5,871
Financing charges	—	—	9	100	109	—	109
Amortization of finite life intangible assets	79	56	1	20	156	12	168
Earnings (loss) before income taxes	1,352	1,156	712	(49)	3,171	210	3,381
Income taxes	243	66	20	(156)	173	26	199
Net earnings before non-controlling interests	1,109	1,090	692	107	2,998	184	3,182
Attributable to non-controlling interests	—	3	—	—	3	—	3
Net earnings	1,109	1,087	692	107	2,995	184	3,179
Net earnings - participating policyholder	—	—	—	—	—	184	184
Net earnings - common shareholder	\$ 1,109	\$ 1,087	\$ 692	\$ 107	\$ 2,995	\$ —	\$ 2,995

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

31. Segmented Information (cont'd)

	2021						
	Shareholder				Participating		
	Canada	Europe	Capital and Risk Solutions	Corporate	Total	Total	Total Company
Income							
Total net premiums	\$ 8,779	\$ 4,861	\$ 29,438	\$ 2,342	\$ 45,420	\$ 5,189	\$ 50,609
Net investment income							
Regular net investment income	1,231	1,316	211	55	2,813	1,689	4,502
Changes in fair value through profit or loss	(816)	(1,390)	(295)	13	(2,488)	1,248	(1,240)
Total net investment income (loss)	415	(74)	(84)	68	325	2,937	3,262
Fee and other income	1,933	1,415	8	58	3,414	—	3,414
	<u>11,127</u>	<u>6,202</u>	<u>29,362</u>	<u>2,468</u>	<u>49,159</u>	<u>8,126</u>	<u>57,285</u>
Benefits and expenses							
Paid or credited to policyholders	6,743	3,186	28,604	2,349	40,882	6,912	47,794
Other ¹	2,783	1,736	195	102	4,816	952	5,768
Financing charges	—	—	9	101	110	—	110
Amortization of finite life intangible assets	78	55	—	19	152	13	165
Earnings (loss) before income taxes	1,523	1,225	554	(103)	3,199	249	3,448
Income taxes	263	154	(25)	(64)	328	(54)	274
Net earnings (loss) before non-controlling interests	1,260	1,071	579	(39)	2,871	303	3,174
Attributable to non-controlling interests	—	3	—	—	3	—	3
Net earnings (loss)	1,260	1,068	579	(39)	2,868	303	3,171
Net earnings - participating policyholder	—	—	—	—	—	303	303
Net earnings (loss) - common shareholder	<u>\$ 1,260</u>	<u>\$ 1,068</u>	<u>\$ 579</u>	<u>\$ (39)</u>	<u>\$ 2,868</u>	<u>\$ —</u>	<u>\$ 2,868</u>

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

31. Segmented Information (cont'd)

(b) Consolidated Total Assets

	2022		
	Shareholder	Participating account	Total
Assets			
Invested assets	\$ 82,516	\$ 57,709	\$ 140,225
Goodwill and intangible assets	8,822	—	8,822
Other assets	21,224	2,088	23,312
Investments on account of segregated fund policyholders	221,623	—	221,623
Total	\$ 334,185	\$ 59,797	\$ 393,982

	2021		
	Shareholder	Participating account	Total
Assets			
Invested assets	\$ 94,376	\$ 57,828	\$ 152,204
Goodwill and intangible assets	8,744	—	8,744
Other assets	24,111	845	24,956
Investments on account of segregated fund policyholders	240,500	—	240,500
Total	\$ 367,731	\$ 58,673	\$ 426,404

(c) Geographic Distribution of Total Income and Assets

	2022		2021	
	Income	Assets	Income	Assets
Canada	\$ 13,246	\$ 193,853	\$ 19,272	\$ 203,140
International	33,288	200,129	38,013	223,264
Total	\$ 46,534	\$ 393,982	\$ 57,285	\$ 426,404