

Overview of earnings presentation and reporting under the new IFRS 17 accounting standard

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GREAT-WEST
LIFECO INC.



Manulife



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Notice to the Reader



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Table of Contents

1. Key Messages
2. Liabilities upon Transition (illustrative)
3. IFRS 17 Income Statement (simplified view)
4. Drivers of Earnings (illustrative)
5. Non-GAAP Earnings Measure (illustrative)
6. CSM Movement Analysis
7. Notable KPI Definitions
8. Appendix A – Glossary

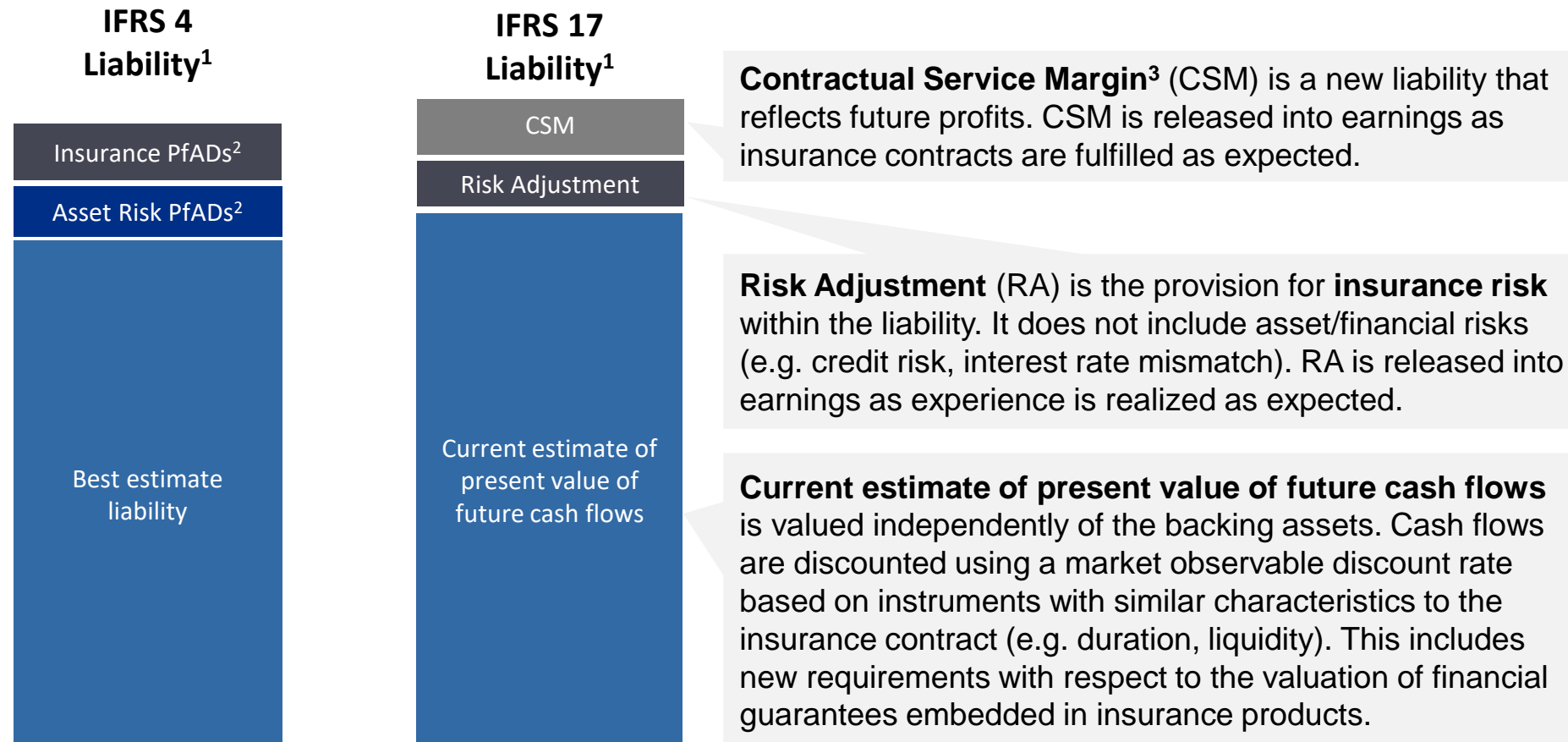
Key Messages

1. The adoption of a global accounting standard (IFRS 17, *Insurance Contracts*) is expected to enhance reporting of insurance business under IFRS as issued by the IASB
2. This is an accounting regime change. There are no changes to the underlying fundamentals of the business, or to the financial strength or claims paying ability of the company
 - Key impact is a change in timing of recognition of GAAP earnings for insurance products, with minimal impact for shorter term insurance products (e.g. group benefits)
 - IFRS 17 does not impact traditional asset management businesses, and is expected to have minimal impact on wealth management businesses
3. We (GWO, MFC, and SLF) expect that the new IFRS 17 income statement, in combination with a Drivers of Earnings analysis (illustrative example on Slide 7), will replace our current Source of Earnings disclosures
 - Drivers of Earnings analysis will be closely tied to the new IFRS 17 income statement and will be disclosed along with other KPIs
 - The removal of the direct link between asset and insurance liability discount rates and the new requirements related to financial guarantees may result in additional period-to-period volatility, which will be excluded from non-GAAP earnings measures
 - New information including Contractual Service Margin (CSM), Risk Adjustment, and Onerous Contract reporting form part of IFRS 17
4. Impacts on regulatory capital and certain tax matters remain outstanding at the current time¹

Appendix A contains a Glossary of IFRS 17 terms.

¹ OSFI and the Department of Finance have not yet published finalized regulations/policies.

Liabilities upon Transition (illustrative)



¹ This is an illustrative example. The size of the bar does not represent actual transition impacts.

² PfADs are Provisions for Adverse Deviation, which allow for the risk that actual experience emerges less favourably than expected.

³ At transition, a CSM will be created on in-force insurance business. Ongoing, profits at issue of new business are recorded in the CSM.

IFRS 17 Income Statement (simplified view)

IFRS 17 Income Statement

Insurance revenue

Insurance service expense

Net Insurance Service Result

Net investment income

Net finance expenses from insurance contracts

Changes in investment contract liabilities

Net Investment Result

Net fee income (asset management and wealth businesses)

Non-attributable expenses

Net Income / (Loss)

- Medium- and longer-term contracts include:
 - Expected claims and expenses;
 - Release of Risk Adjustment; and
 - Release of CSM
- Shorter-term contracts (i.e. PAA)¹, include premium revenue

- Includes:
- Actual claims and expenses
 - Losses and reversal of losses on onerous business²

- Includes:
- Interest, dividends, and other
 - Changes in fair value on FVTPL and realized gains/losses on FVTOCI assets

Includes unwind of liability discount rate (also known as interest accretion)

Expenses not directly attributable to insurance business

¹ The Premium Allocation Approach (PAA) can be used to value short-term insurance contracts. Business measured under PAA does not have a CSM or RA, and its insurance revenue is driven by premium income (i.e. group benefits contracts).

² Onerous business does not have a CSM, therefore assumption updates and experience related to future experience flows through the income statement. Subsequent positive impacts could lead to onerous business changing to non-onerous and a CSM would be created.

Drivers of Earnings, a non-GAAP measure (illustrative)

Drivers of Earnings: Net Income Analysis

Risk Adjustment Release

CSM Amortization (includes amortization of assumption changes previously reported in CSM)

Expected Insurance Earnings on insurance contracts

Earnings on other insurance businesses (e.g. short-term contracts under PAA)

Impact of New Insurance Business (Onerous Contracts)

Experience Gains / Losses¹

Insurance assumption changes that flow directly through income²

Net Insurance Service Result

Expected Investment Earnings³

Market Experience Gains/Losses

Economic assumption changes that flow directly through income⁴

Earnings on Surplus

Net Investment Result

Asset Management

Other Fee Income

Non-directly attributable and other expenses

Tax, income attributed to non-controlling interest and participating policyholders

Net Income

- We (GWO, MFC, and SLF) expect to use the IFRS 17 income statement and Drivers of Earnings to explain results
- The Source of Earnings (SOE) as available today will no longer be presented
- Under IFRS 17, the Impact of New Insurance Business will be recorded in CSM unless the contracts are onerous at issue in which case the impact will be recorded directly in earnings
 - An onerous designation does not necessarily mean that the contract is not profitable over its lifetime
 - The loss recorded at issue excludes certain sources of profits such as the release of the risk adjustment and expected incremental investment earnings

¹ Includes insurance experience and market experience. Market experience for certain contracts, such as participating business, variable annuities and unit-linked contracts will be presented in insurance service results for those groups of contracts where the CSM balance is nil

² Insurance assumption change impacts will be presented in insurance service results for those groups of contracts where the CSM balance is nil

³ Consists of the variance between expected investment return and the liability discount rate

⁴ Economic assumption changes will be presented in CSM for certain contracts, such as participating business, variable annuities and unit-linked contracts that have sufficient CSM balance to absorb the impact

Non-GAAP Earnings Measure (illustrative)

Drivers of Earnings: Non-GAAP Earnings Measure Analysis

Risk Adjustment Release

CSM Amortization (includes amortization of assumption changes previously reported in CSM)

Expected Insurance Earnings on insurance contracts

Earnings on other insurance businesses (e.g. short-term contracts under PAA)

Impact of New Insurance Business (Onerous Contracts)

Insurance Experience Gains / Losses

Non-GAAP: Net Insurance Service Result

Expected Investment Earnings

Earnings on Surplus

Non-GAAP: Net Investment Result

Asset Management

Other Fee Income

Non-directly attributable and other expenses

Tax, income attributed to non-controlling interest and participating policyholders²

Shareholders' Non-GAAP Earnings

Items reported outside of Non-GAAP Earnings Measure

Market Experience Gains / Losses

Assumption changes that flow directly through income (e.g. CSM is nil)

Other¹

Tax, income attributed to non-controlling interest and participating policyholders³

- A non-GAAP earnings measure will continue to be presented under IFRS 17
- The non-GAAP earnings measure will exclude:
 - Direct impact of markets in the period
 - Changes in insurance and economic assumptions which are reflected immediately in income
 - A number of other items some of which may be excluded from non-GAAP earnings today¹
- The removal of the direct link between asset and insurance liability discount rates and the new requirements related to financial guarantees may result in additional period-to-period volatility, which will be excluded from the non-GAAP earnings measures

¹ Please refer to 2021 Annual MD&A non-GAAP disclosures for the current definition of the non-GAAP earnings measure used by each company available on their respective websites and at www.SEDAR.com.

² Related to items reported within non-GAAP earnings measure.

³ Related to items reported outside of non-GAAP earnings measure.

CSM Movement Analysis will be one of the key aspects of understanding the insurance results

CSM Movement Analysis (illustrative)

CSM Beginning of Period

Impact of New Insurance Business

CSM Amortization

Interest Accretion

Insurance Experience Gains / Losses

CSM Movement excluding the items below

Impact of change in assumptions (e.g. CSM is positive)

Impact of Financial Risk (for contracts that use VFA measurement)

Currency Impact

Other³

Total CSM Movement

CSM End of Period

- The CSM¹ is an important metric for some insurance contracts, as it represents unearned profit and is expected to count as available capital for regulatory capital purposes²
- CSM balance is by its nature positive and is expected to amortize into earnings over time
- Growth in the CSM balance will result in growth in the CSM amortization and future period earnings
- “CSM movement excluding the items below” excludes items not expected to be representative of CSM trends
 - However, all items impacting the CSM will flow through earnings over time as the CSM amortizes

¹ Not applicable to products measured using PAA.

² As indicated in OSFI's revised draft *Life Insurance Capital Adequacy Test (LICAT) 2023* guideline issued on June 21, 2021.

³ Includes other items reported outside of non-GAAP earnings measure.

Notable KPI Definitions¹

	Metric	Definition
Profitability	Non-GAAP Earnings Measure	<i>Please refer to Slide 8 for details.</i>
	Non-GAAP ROE	$\frac{\text{Non-GAAP Earnings Measure} - \text{Preferred Dividends} - \text{Other Equity Distributions}}{\text{Average Common Shareholders' Equity}}$
	Net Income	IFRS 17 Net Income
	ROE	$\frac{\text{Net Income} - \text{Preferred Dividends} - \text{Other Equity Distributions}}{\text{Average Common Shareholders' Equity}}$
	Non-GAAP Dividend Payout Ratio	$\frac{\text{Dividends per Common Share}}{\text{Non-GAAP EPS}}$
Growth	CSM balance (NEW) <i>CSM represents expected future profits and available capital²</i>	IFRS 17 Contractual Service Margin (CSM) balance growth <i>Quarterly movements will be disclosed in the notes to the financial statements. Please refer to slide 9 for details.</i>
Financial Strength	Capital <i>Expect IFRS 17 LICAT guideline to be released in August 2022 IFRS 17 is an accounting regime change and does not impact balance sheet strength</i>	LICAT ratio

¹ Not an exhaustive list.

² As indicated in OSFI's revised draft *Life Insurance Capital Adequacy Test (LICAT) 2023* guideline issued on June 21, 2021.

Appendix A – Glossary (1/2)

- **Contractual Service Margin (CSM):** A liability which is established at the outset of a contract to offset new business profits at issue¹. The CSM liability is gradually amortized as services are provided.
- **Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVTOCI):** IFRS 9 is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognized in profit and loss as they arise, unless criteria are met for classifying and measuring the asset at either Amortized Cost or Fair Value Through Other Comprehensive Income.
- **Fulfilment cash flows (FCF):** An explicit, unbiased, and probability-weighted estimate (i.e. expected value) of the present value of the future cash flows that will arise as the insurer fulfils its insurance contract obligations, including a risk adjustment for non-financial risk.
- **General Measurement Model (GMM):** Under IFRS 17, an insurance contract is measured under one of three measurement models. The General Measurement Model (GMM) is the 'default' model, which applies to insurance contracts with limited, or no pass-through of investment risks to policyholders.
- **Insurance contract:** A contract under which one party (the insurer) accepts **significant insurance risk** from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
- **Insurance risk:** Risk, other than financial risk, transferred from the holder of a contract to the issuer.
- **Insurance service result:** Reflects profit earned from providing insurance coverage and includes the release of the risk adjustment and CSM as well as insurance related experience variances.
- **Initial recognition:** Refers to the accounting of a contract at its outset.

¹ Upon transition to IFRS 17, a CSM for in-force business will be determined.

Appendix A – Glossary (2/2)

- **Investment component:** The amounts that an insurance contract requires the entity to pay a policyholder even if an insured event does not occur.
- **Loss Component:** For contracts which have a loss at issue, a loss is recognized in earnings, and a loss component (a notional amount) is established. The loss component must be tracked over time and disclosed. Furthermore, the loss component impacts the presentation in the Income Statement.
- **Net investment result:** Investment income from managing financial assets; less the effects of discount rates and other financial variables on the value of insurance obligations.
- **Onerous contracts:** An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract and premiums, acquisition expenses and commissions arising from the contract at the date of initial recognition, in total are a net outflow (i.e. if there is a loss at initial recognition).
- **Portfolio of insurance contracts:** Insurance contracts subject to similar risks and managed together.
- **Premium Allocation Approach (PAA):** Under IFRS 17, an insurance contract is measured under one of three measurement models. PAA is a simplification which can be applied to short-term contracts, or contracts where PAA produces similar results to a FCF plus CSM measurement.
- **Risk adjustment for non-financial risk:** The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.
- **Variable Fee Approach (VFA):** Under IFRS 17, an insurance contract is measured under one of three measurement models. VFA applies to insurance contracts with significant investment-related pass-through elements. VFA differs to GMM in the treatment of financial risk.