

GREAT-WEST  
**LIFECO** INC.

# IFRS 17 Information Session

June 28th 2022



# Cautionary notes

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This presentation and conference call may reference forward-looking information. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "will", "may", "expects", "anticipates", "intends", "plans", "believes", "estimates", "objective", "target", "potential" and other similar expressions or negative versions thereof. These statements include, without limitation, statements about the expected impact (or lack of impact) of IFRS 17 on Great-West Lifeco's business strategy, financial strength, deployable capital, Life Insurance Capital Adequacy Test (LICAT) ratio, base and net earnings, shareholders' equity, ratings and leverage ratios. Forward-looking information also includes statements about Great-West Lifeco's operations, business (including business mix), financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, anticipated global economic conditions and possible future actions by Great-West Lifeco. Forward-looking statements are based on expectations, forecasts, estimates, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about Great-West Lifeco, economic factors and the financial services industry generally, including the insurance, mutual fund and retirement solutions industries. They are not guarantees of future performance, and you are cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Many of these assumptions are based on factors and events that are not within the control of Great-West Lifeco and there is no assurance that they will prove to be correct. Whether or not actual results differ from forward-looking information may depend on numerous factors, developments and assumptions, including, without limitation, the severity, magnitude and impact of the COVID-19 pandemic (including the effects of the COVID-19 pandemic and the effects of governments' and other businesses' responses to the COVID-19 pandemic on the economy and Great-West Lifeco's financial results, financial condition and operations), the duration of COVID-19 impacts and the availability and adoption of vaccines, the effectiveness of vaccines, the emergence of COVID-19 variants, geopolitical tensions and related economic impacts, assumptions around sales, fee rates, asset breakdowns, lapses, plan contributions, redemptions and market returns, the ability to integrate recent acquisitions of Personal Capital and the retirement services business of MassMutual and Prudential, the ability to leverage Empower's, Personal Capital's and MassMutual's and Prudential's retirement services businesses and achieve anticipated synergies, customer behaviour (including customer response to new products), Great-West Lifeco's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy and plan lapse rates, participant net contribution, reinsurance arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets (including continued access to equity and debt markets), industry sector and individual debt issuers' financial conditions (including developments and volatility arising from the COVID-19 pandemic, particularly in certain industries that may comprise part of Great-West Lifeco's investment portfolio), business competition, impairments of goodwill and other intangible assets, Great-West Lifeco's ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, changes in actuarial standards, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, Great-West Lifeco's ability to complete strategic transactions and integrate acquisitions, unplanned material changes to Great-West Lifeco's facilities, customer and employee relations or credit arrangements, levels of administrative and operational efficiencies, changes in trade organizations, and other general economic, political and market factors in North America and internationally. You are cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in filings with securities regulators, including factors set out in Great-West Lifeco's 2021 Annual MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates" and in Great-West Lifeco's annual information form dated February 9, 2022 under "Risk Factors", which, along with other filings, is available for review at [www.sedar.com](http://www.sedar.com). You are also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking information. Other than as specifically required by applicable law, Great-West Lifeco does not intend to update any forward-looking information whether as a result of new information, future events or otherwise.

## CAUTIONARY NOTE REGARDING NON-GAAP FINANCIAL MEASURES AND RATIOS







This document contains some non-GAAP financial measures and non-GAAP ratios as defined in National Instrument 52-112 "Non-GAAP and Other Financial Measures Disclosure". Terms by which non-GAAP financial measures are identified include, but are not limited to, "base earnings (loss)", "base earnings (loss) (US\$)", "core net earnings (loss)", "premiums and deposits", "assets under management" and "assets under administration". Terms by which non-GAAP ratios are identified include, but are not limited to, "base earnings per common share (EPS)", "base return on equity (ROE)", "base dividend payout ratio", "effective income tax rate – base earnings – common shareholders" and "effective income tax rate – base earnings – total Lifeco". Non-GAAP financial measures and ratios are used to provide management and investors with additional measures of performance to help assess results where no comparable GAAP (IFRS) measure exists. However, non-GAAP financial measures and ratios do not have standard meanings prescribed by GAAP (IFRS) and are not directly comparable to similar measures used by other companies. Refer to the "Non-GAAP Financial Measures and Ratios" section in Great-West Lifeco's Q1 2022 MD&A for the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP as well as additional details on each measure and ratio.



## Paul Mahon

President & CEO  
Great-West Lifeco

# Great-West Lifeco is not anticipating material financial impacts and its business strategy remains unchanged with the transition to IFRS 17

-  Great-West Lifeco business strategy not impacted by IFRS 17
-  Businesses representing over 70% of base earnings<sup>1</sup> expected to see limited or no impact
-  Shareholders' equity expected to decrease by 10-15%, driven by the establishment of the new Contractual Service Margin (CSM) on in-force business at transition
-  Low-single digit percentage decrease in proforma<sup>1</sup> base earnings expected as a result of transition
-  Medium-term financial objectives for base EPS growth and dividend payout ratio unchanged, base ROE objective increased by 2% to 16-17% reflecting the change in shareholders' equity
-  Excellent financial strength maintained; positive impact to LICAT expected

1. Proforma Base & Net Earnings are calculated based on the expected 2022 IFRS 4 earnings mix and composition as at the start of 2022, adjusted to reflect fully synergized earnings from the acquisitions of Mass Mutual's and Prudential's retirement businesses. Many of these assumptions are based on factors and events that are not within the control of Great-West Lifeco management and there is no assurance that they will prove to be correct.



# Garry MacNicholas

EVP & CFO  
Great-West Lifeco

# Limited or no impact expected from IFRS 17 to businesses representing over 70% of base earnings

| Type of business  | Products  | Mix of Business <sup>1</sup> | Impact on Earnings |  |
|---|---|------------------------------|--------------------|--|
| Wealth and Asset Management                                 | Workplace savings, Individual retirement accounts, Mutual funds                                     | 35%                          | No Impact          | IFRS 17 is either not applicable or produces similar earnings as IFRS 4  |
| Short-term business   | Group life and health, Structured and P&C reinsurance   | 25%                          | Limited            |  |
| Pass through and fee-based insurance business               | Segregated funds, participating insurance   | 10%                          | Limited            |  |
| Medium-duration individual insurance and longevity business | Term, disability, critical illness, traditional life reinsurance, payout annuities, longevity swaps | 25%                          | Moderate           | Deferral of new business gains, leading to smoother earnings   |
| Long-duration individual insurance                          | Universal Life, lifetime critical illness   | <5%                          | More Significant   | Deferral of new business gains and smoothed recognition of yield enhancement. Increased sensitivity to market volatility |

1. Proforma Base & Net Earnings are calculated based on the expected 2022 IFRS 4 earnings mix and composition as at the start of 2022, adjusted to reflect fully synergized earnings from the acquisitions of Mass Mutual's and Prudential's retirement businesses. Many of these assumptions are based on factors and events that are not within the control of Great-West Lifeco management and there is no assurance that they will prove to be correct.

# IFRS 17 does not impact the higher growth U.S. segment, modest impacts expected in other segments

| Canada  | U.S.   | Europe  | CRS   |
|---|--|---|---|
| Moderate impact   | No impact <sup>1</sup>   | Limited impact  | Moderate impact   |
| <ul style="list-style-type: none"> <li>Group Wealth business is not impacted</li> <li>Limited impact on Group Life &amp; Health and Individual Segregated Fund businesses</li> <li>Smoothing of yield-enhancement gains on long-duration individual insurance business</li> </ul> | <ul style="list-style-type: none"> <li>Empower (including Personal Capital) is not impacted<sup>1</sup></li> <li>Putnam is not impacted</li> </ul> | <ul style="list-style-type: none"> <li>Limited impact on UK and Irish Group Life &amp; Health, and German pension businesses</li> <li>Moderate impact due to smoothing of new business gains on mature book of UK annuity business</li> </ul> | <ul style="list-style-type: none"> <li>Limited impact on structured life and P&amp;C reinsurance</li> <li>Moderate impact on longevity swaps similar to annuities</li> <li>Moderate impact to mature block of U.S. traditional life reinsurance business</li> </ul> |

**Growth priorities are focused on wealth management and other capital-light businesses largely unaffected by IFRS 17**

1. U.S. segment has an immaterial exposure to IFRS 17 through closed blocks of business.

# Medium-term<sup>1</sup> financial objectives: base EPS growth objective and target dividend payout ratio unchanged; base ROE objective increased by 2%<sup>2</sup> on transition

**8-10%** base EPS<sup>3</sup> growth p.a.

- Modest transitional impact to the level of base earnings
- No material change to base earnings trajectory
- No change to objective

**16-17%** base ROE<sup>3</sup>

- Diversified business continues to support strong and stable returns
- Wealth management extensions that drive capital-light growth are not impacted by IFRS 17
- Increase in ROE objective due to reduction in shareholders' equity driven by creation of the CSM

**45-55%** target dividend payout ratio (base earnings)<sup>3</sup>

- Modest transitional impact to the level of base earnings and continued strong base earnings trajectory supports objective
- Business remains highly cash generative
- No change to objective

**Medium-term financial objectives supported by a diversified portfolio with significant organic, consolidation and extension growth**

1. Medium-term defined as the next 3-5 years.

2. Base ROE objective increased from 14-15% to 16-17%.

3. Base earnings per common share (EPS), base return on common shareholders' equity (ROE) and target dividend payout ratio (base) are non-GAAP ratios calculated using base earnings, a non-GAAP financial measure. These ratios/measures do not have standardized meanings under GAAP and might not be comparable to similar financial measures disclosed by other issuers. Additional information on these ratios/measures is incorporated by reference and can be found under "Non-GAAP Financial Measures and Ratios" in our Q1 2022 Management's Discussion and Analysis (MD&A), which can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

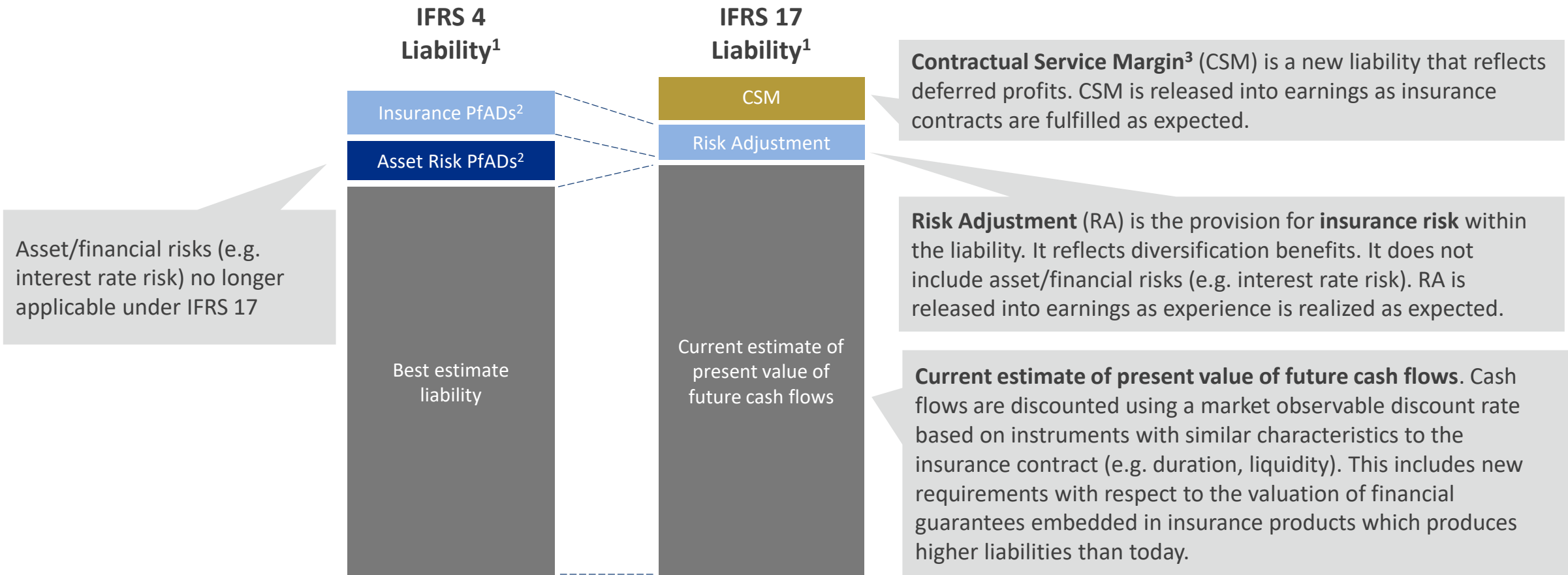




## Dervla Tomlin

EVP & Chief Actuary  
Great-West Lifeco

# Overview of change in insurance contract liability on transition

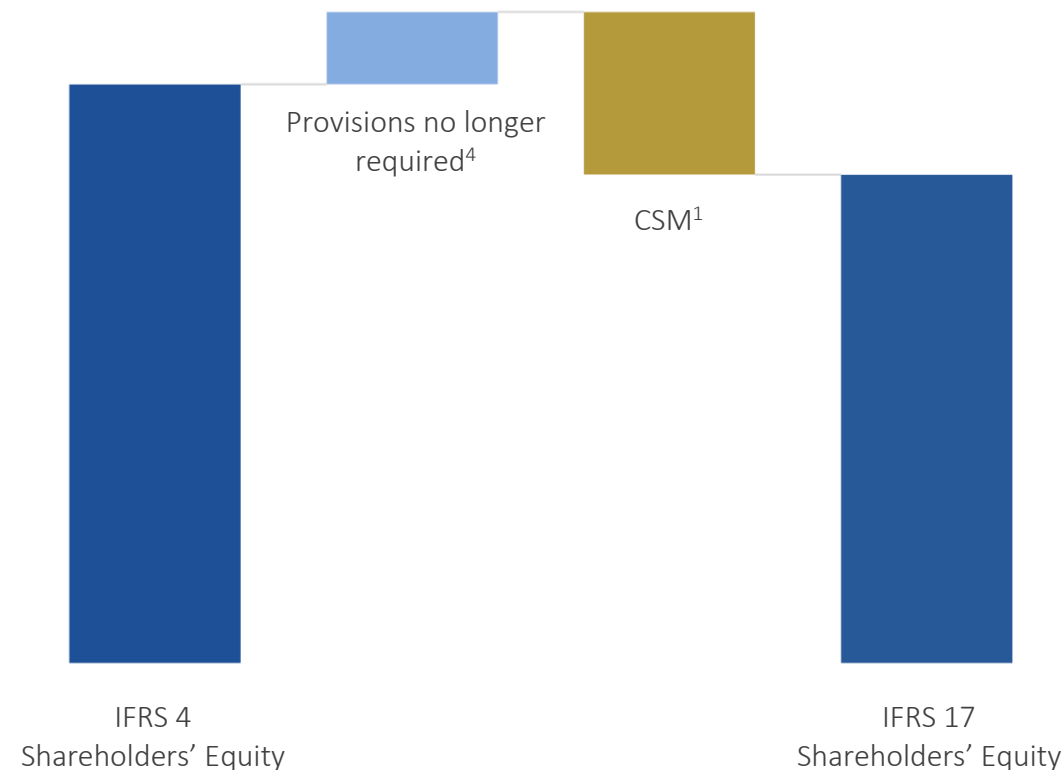


1. This is an illustrative example. The size of the bar does not represent actual transition impacts. This illustrative example does not cover business measured under the Premium Allocation Approach, such as Group Life and Health business
2. PfADs are Provisions for Adverse Deviation, which allow for 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.

# Shareholders' equity expected to reduce by 10 to 15% on transition

- Establishment of the CSM related to in force business is the main driver of the decrease in shareholders' equity
  - A meaningful portion of the new CSM is "funded" by provisions within the current IFRS 4 liability that are no longer required under IFRS 17
- Positive impact on LICAT is expected as a result of the introduction of IFRS 17<sup>2</sup>
- Financial strength, ratings, leverage and deployable capital not expected to be impacted<sup>3</sup>

## Impact on Shareholders' Equity *(illustrative, not to scale)*



1. Excludes CSM on participating business

2. Based on OSFI's draft revised LICAT 2023 guideline and its stated objective to minimize industry-wide capital impacts on transition to IFRS17. The actual impact will depend on the final LICAT guideline and market and economic conditions at the time of transition.

3. Based on initial indications from rating agencies with whom we are in discussions.

4. Excluding the CSM, the insurance contract liability reduces on transition primarily due to release of provisions no longer required under IFRS 17, for example provisions for interest rate risk and non-directly attributable expenses

# Base earnings<sup>1</sup> expected to decrease by low single-digits on transition to IFRS 17; base earnings trajectory unchanged

## Base earnings impact on transition

- Modest transitional impact to the level of base earnings<sup>1</sup>
- The deferral of new business gains, smoother recognition of yield enhancement, and lower release of provisions lead to a reduction in current base earnings, with increases in later years. The reduction is largely offset by the amortization of the in-force CSM.
- Comparative year impact will depend on the composition of the actual 2022 earnings

## Base earnings growth under IFRS 17

- No material change to base earnings trajectory
- Our growth priorities focus on businesses with limited to no impact due to IFRS 17
- Large initial CSM will support stability in base earnings, CSM growth will moderate over time as earnings mix shifts to U.S. and other less impacted product lines

1. Proforma Base & Net Earnings are calculated based on the expected 2022 IFRS 4 earnings mix and composition as at the start of 2022, adjusted to reflect fully synergized earnings from the acquisitions of Mass Mutual's and Prudential's retirement businesses. Many of these assumptions are based on factors and events that are not within the control of Great-West Lifeco management and there is no assurance that they will prove to be correct.

# IFRS 17 liability discount rates are generally set using yields derived by designating our own assets as the reference portfolios

Liability portfolios where supporting assets reflect the duration and liquidity characteristics of the liability

[Example – UK payout annuities]



The yields on our own assets<sup>1</sup> are used to set the IFRS 17 liability discount rate for these portfolios:

- Aligns with asset-liability management of the business
- Limited net earnings volatility
- Trading activity will be reflected in the liability discount rate in period

Liability portfolios where supporting assets do not sufficiently reflect the duration and liquidity characteristics of the liability

[Example - Canada Universal Life]



The yields on our own assets<sup>1</sup> plus an illiquidity adjustment are used to set the IFRS 17 liability discount rate for these portfolios:

- Aligns with asset-liability management of the business
- Modest net earnings volatility
- The impact of trading activity emerges over time

1. Net of an allowance for credit risk and other characteristics of the assets that are not representative of the liabilities

# Conclusion



Financial strength maintained



Low impact on base earnings



Medium-term financial objectives reconfirmed



No impact to business strategy



# QUESTIONS