



POWER FINANCIAL  
CORPORATION



2014  
Annual  
Report

This Annual Report is intended to provide shareholders and other interested persons with selected information concerning Power Financial Corporation. For further information concerning the Corporation, shareholders and other interested persons should consult the Corporation's disclosure documents, such as its Annual Information Form and Management's Discussion and Analysis. Copies of the Corporation's continuous disclosure documents can be obtained from the Corporation's website at [www.powerfinancial.com](http://www.powerfinancial.com), from [www.sedar.com](http://www.sedar.com), or from the Office of the Secretary at the addresses shown at the end of this report.

Readers should also review the note further in this report, in the section entitled Review of Financial Performance, concerning the use of Forward-Looking Statements, which applies to the entirety of this Annual Report.

In addition, selected information concerning the business, operations, financial condition, financial performance, priorities, ongoing objectives, strategies and outlook of Power Financial Corporation's subsidiaries and associates is derived from public information published by such subsidiaries and associates and is provided here for the convenience of the shareholders of Power Financial Corporation. For further information concerning such subsidiaries and associates, shareholders and other interested persons should consult the websites of, and other publicly available information published by, such subsidiaries and associates.

All figures mentioned in this report are as of December 31, 2014 unless otherwise noted.

#### NON-IFRS FINANCIAL MEASURES AND PRESENTATION

In analyzing the financial results of the Corporation and consistent with the presentation in previous years, net earnings attributable to common shareholders are presented in the section Results of Power Financial Corporation in the Review of Financial Performance and are comprised of:

- operating earnings attributable to common shareholders; and
- other items or non-operating earnings, which include the after-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Other items also include the Corporation's share of any such item presented in a comparable manner by a subsidiary or a jointly controlled corporation or associate.

Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. Operating earnings, as defined by the Corporation, assist the reader in comparing the current period's results to those of previous periods as items that are not part of ongoing activities are excluded from this non-IFRS measure.

Operating earnings attributable to common shareholders and operating earnings per share are non-IFRS financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-IFRS measures to results reported in accordance with IFRS, see the Results of Power Financial Corporation – Earnings Summary – Condensed Supplementary Statements of Earnings section further in this report.

#### ABBREVIATIONS

The following abbreviations are used throughout this report: Power Financial Corporation (Power Financial or the Corporation); Great-West Life & Annuity Insurance Company (Great-West Life & Annuity or Great-West Financial); Great-West Lifeco Inc. (Great-West Lifeco or Lifeco); Groupe Bruxelles Lambert (GBL); IGM Financial Inc. (IGM Financial or IGM); Investment Planning Counsel Inc. (Investment Planning Counsel); Investors Group Inc. (Investors Group); Irish Life Group Limited (Irish Life); Lafarge SA (Lafarge); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie or Mackenzie Investments); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Power Corporation of Canada (Power Corporation); Putnam Investments, LLC (Putnam Investments or Putnam); SGS SA (SGS); Suez Environnement Company (Suez Environnement); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life); Total SA (Total). In addition, IFRS refers to International Financial Reporting Standards.

## FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)	2014	2013
Revenues	41,775	28,830
Operating earnings <sup>[1]</sup> – attributable to common shareholders	2,105	1,708
Operating earnings <sup>[1]</sup> – per common share	2.96	2.40
Net earnings – attributable to common shareholders	2,136	1,896
Net earnings – per common share	3.00	2.67
Dividends declared – per common share	1.40	1.40
Consolidated assets	373,843	341,682
Consolidated assets and assets under management	709,406	639,161
Shareholders' equity	17,019	15,993
Total equity	28,902	26,934
Book value per common share	20.29	18.61
Common shares outstanding (in millions)	711.7	711.2

[1] Non-IFRS financial measures. Please refer to the reconciliation of non-IFRS financial measures to financial measures in accordance with IFRS in the Review of Financial Performance.

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# THIS IS POWER FINANCIAL

THROUGH GREAT-WEST LIFECO AND IGM FINANCIAL

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**\$709** BILLION  
of assets under  
management

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**\$1.2** TRILLION  
of assets under  
administration

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**25** MILLION  
customers and  
retirement plan  
participants

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**24,000**  
employees and  
**11,600**  
financial advisors

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**\$41.8** BILLION  
of revenue

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**\$2.1** BILLION  
of net earnings  
attributable to  
common shareholders

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**15.1%**  
return on equity<sup>[1]</sup>

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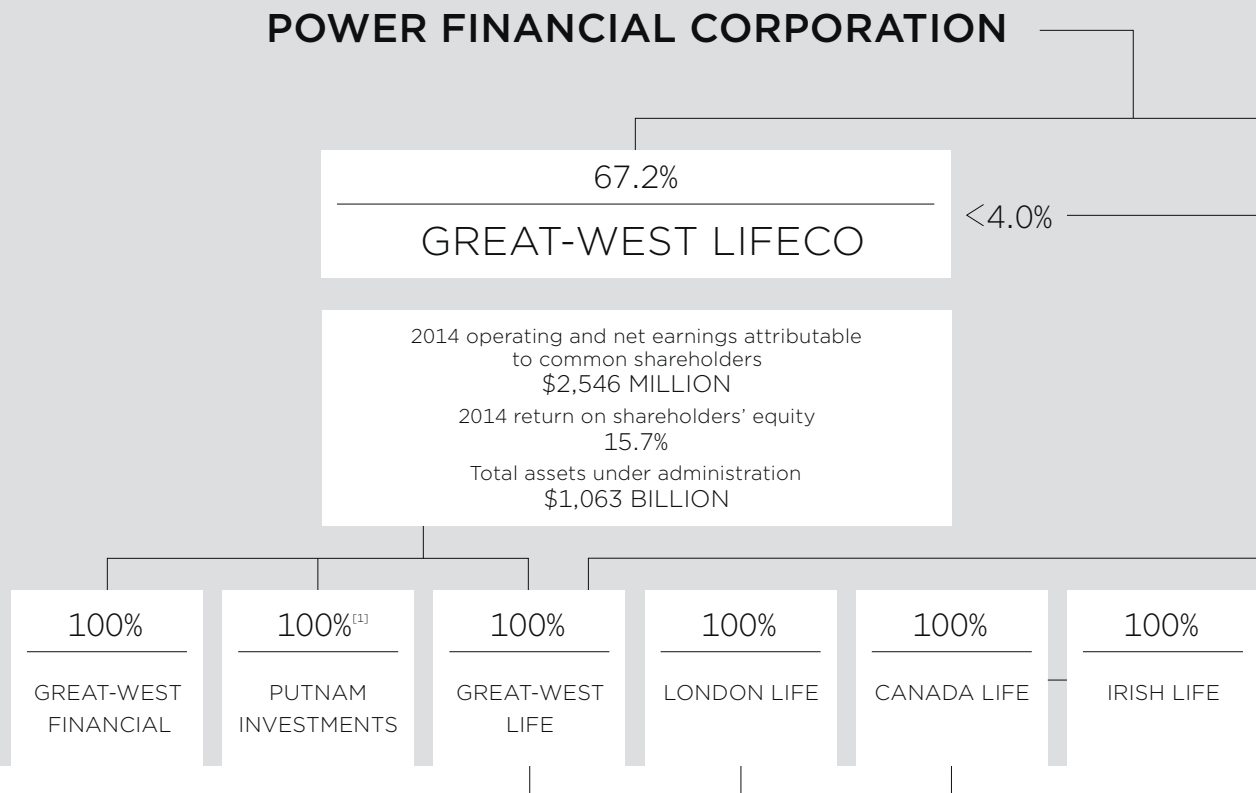
THROUGH THE PARGESA GROUP

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Significant shareholdings in  
six leading European-based multinationals

[1] Return on equity is calculated using operating earnings.

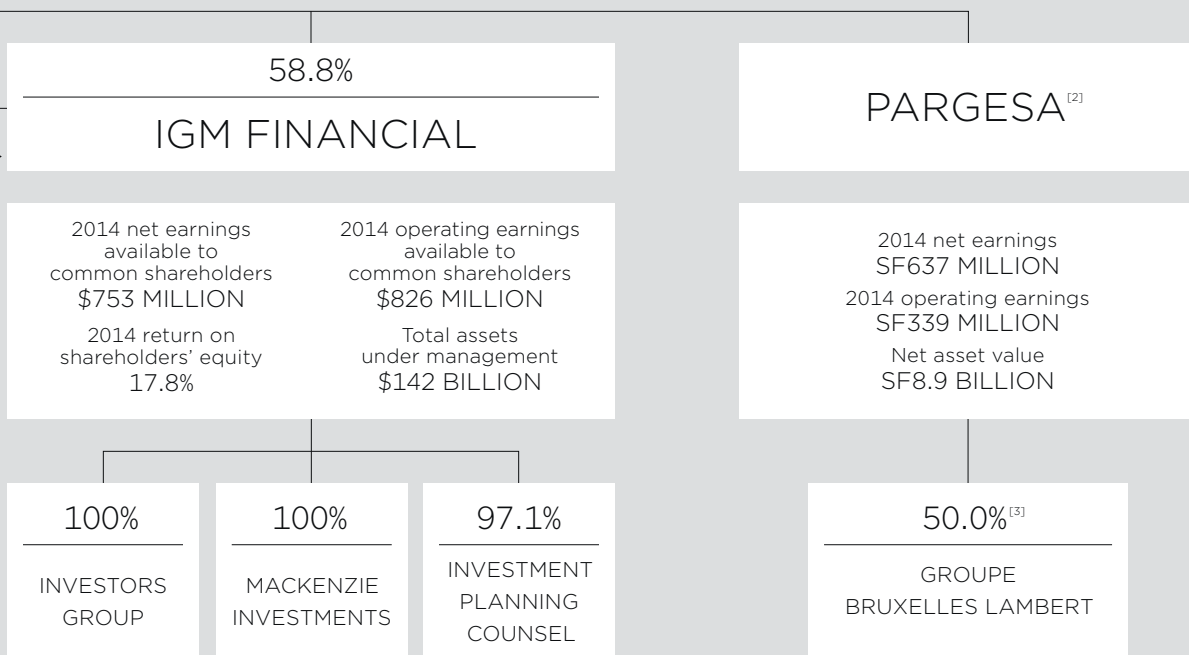
# GROUP ORGANIZATION CHART







3.7% >



Percentages denote participating equity interest as at December 31, 2014.

Return on shareholders' equity is calculated using operating earnings.

Operating earnings is a non-IFRS financial measure.

[1] Denotes voting interest.

[2] Through its wholly owned subsidiary, Power Financial Europe B.V., Power Financial held a 50% interest in Parjointco. Parjointco held a voting interest of 75.4% and an equity interest of 55.5% in Pargesa.

[3] Representing 52% of the voting rights.

# DIRECTORS' REPORT TO SHAREHOLDERS

Power Financial reported the highest earnings in its history in 2014, driven by strong financial results reported by its subsidiaries. The record earnings resulted from increased business volumes, higher market levels and the benefits of acquisition activity.



Great-West Lifeco substantially completed the integration of Irish Life in 2014. Irish Life has surpassed the synergy, profitability and market share goals established at the time of the acquisition in 2013.

Great-West Lifeco also acquired J.P. Morgan's U.S.-based Retirement Plan Services business in 2014, and then combined it with the existing retirement businesses of Great-West Financial and Putnam Investments to create Empower Retirement. Empower is now the second-largest defined contribution retirement provider in the United States and serves over seven million Americans in 401(k) and similar retirement plans.

At IGM Financial, Investors Group's consultant-driven financial planning model continued to deliver high value to its clients in 2014, as evidenced by its outstanding client satisfaction scores. The consultant network continues to grow, now surpassing 5,000 consultants in number, the largest ever. These factors contributed to strong sales of mutual funds and other products and low redemption rates, resulting in a record level of client assets under management.

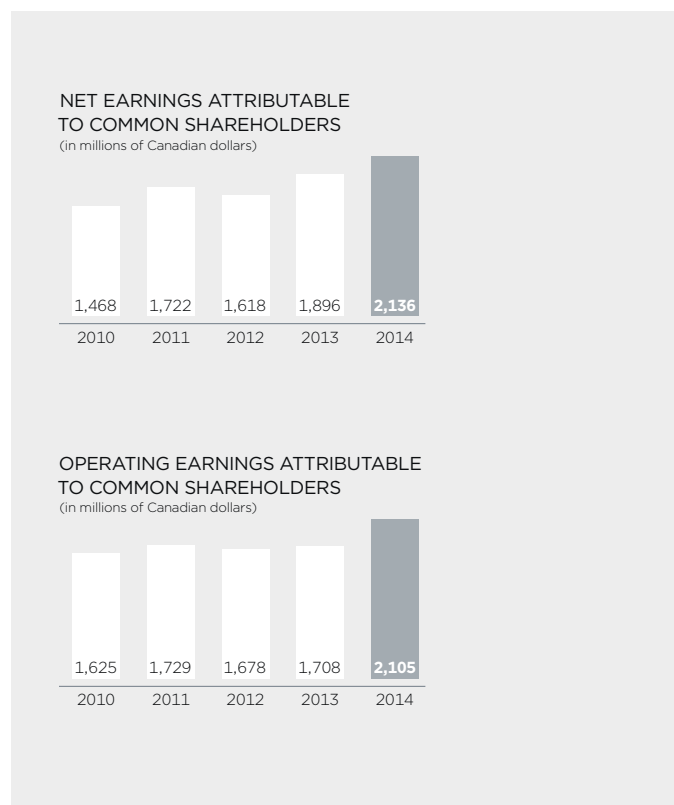
Mackenzie Investments, also part of IGM Financial, continued to invest in a number of key initiatives in 2014 to execute on its new investor-focused vision and strategy. The product line-up was revitalized, pricing was simplified and significant talent was added to an already strong investment team.

During 2014, Lafarge, one of the principal investments held by Pargesa, announced plans to merge with Holcim to create LafargeHolcim, the most advanced group in the building materials industry worldwide. LafargeHolcim will operate in 90 countries upon closing of the transaction.

The companies in our group benefit from strong balance sheets, enabling them to honour the long-term commitments they have made to clients and to invest from a position of strength in the people, products and technology to serve our clients in the future.

At Power Financial, we continue to develop our active governance model, guiding the growth and development of our subsidiary companies through our participation on their boards of directors, as a long-term, committed owner.

Our companies also have a long and proud history of contributing to the well-being of the communities in which they operate. The principles underlying our approach in this area are outlined later in this report under “Responsible Management.”



## FINANCIAL RESULTS

Power Financial's operating earnings attributable to common shareholders for the year ended December 31, 2014 were \$2,105 million or \$2.96 per share, compared with \$1,708 million or \$2.40 per share in 2013.

Other items represented a contribution of \$31 million in 2014, compared with \$188 million in 2013.

Net earnings attributable to common shareholders were \$2,136 million or \$3.00 per share, compared with \$1,896 million or \$2.67 per share in 2013.

Dividends declared by Power Financial totalled \$1.40 per common share in 2014, unchanged from 2013.

## RESULTS OF GROUP COMPANIES

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### GREAT-WEST LIFECO

Great-West Lifeco's operating earnings attributable to common shareholders were \$2.5 billion or \$2.549 per share in 2014, compared with \$2.1 billion or \$2.108 per share in 2013.

Net earnings attributable to common shareholders were \$2.5 billion or \$2.549 per common share, compared with \$2.3 billion or \$2.340 per common share a year ago.

Great-West Lifeco maintained a strong return on equity (ROE) of 15.7 per cent, based on both operating and net earnings for the twelve months ended December 31, 2014.

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 224 per cent on a consolidated basis at December 31, 2014. This measure of capital strength is slightly higher than the upper end of Great-West Life's target operating range of 175-215 per cent.

In 2014, Great-West Lifeco's companies grew organically and through acquisitions in their target segments, while investing in initiatives that will strengthen the businesses and position them for growth in the years to come. Through their continued focus on growth, Great-West Lifeco achieved a major milestone in 2014—over \$1 trillion in assets under administration.

### IGM FINANCIAL

Operating earnings available to common shareholders, excluding other items, were \$826 million or \$3.27 per share in 2014, compared with \$764 million or \$3.02 per share in 2013.

Net earnings available to common shareholders were \$753 million or \$2.98 per share in 2014, compared with \$762 million or \$3.02 per share in 2013.

Total assets under management at December 31, 2014 totalled \$142 billion, compared with \$132 billion at December 31, 2013, an increase of 7.7 per cent.

IGM Financial continues to build its business through its extensive network of distribution opportunities, delivering high-quality advice and innovative, flexible solutions for investors.

The company's investment in technology and operations continues to help it manage its resources effectively and develop long-term growth in the business.

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## PARGESA

Pargesa's operating earnings were SF339 million in 2014, compared with SF251 million in 2013. Including non-operating earnings consisting primarily of gains on the partial disposals by GBL of its interests in Total and in Suez Environnement, Pargesa's net earnings in 2014 were SF637 million, compared with SF394 million in 2013.

In addition to its strategic holdings, GBL is developing an incubator-type portfolio comprised of: interests of smaller size in a limited number of listed and unlisted companies — these investments would be smaller commitments than the strategic holdings — and investments in private equity and other funds where GBL acts as an anchor investor.

Albert Frère has announced that he will step down as Director and CEO of GBL and will not seek another term as Vice-Chairman and Executive Director of Pargesa. Mr. Frère has worked in partnership with Power Corporation and Power Financial since 1981 and has been a key player in the growth and success of Pargesa and GBL for more than three decades. Power Financial would like to acknowledge and thank Albert Frère for his exceptional contribution to the group.

## GOVERNANCE

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In March 2015, the Corporation's Board of Directors adopted a Board and Senior Management Diversity Policy, expressing its belief in increased diversity on boards and in business in general. The Board recognizes that gender diversity is a significant aspect of diversity and acknowledges the important role of women in contributing to diversity of perspective in the boardroom and in senior management roles.

As part of its ongoing commitment to effective governance, the Corporation has enhanced its Board assessment process by implementing a formal Board effectiveness survey, which is completed by each of the Directors. The survey assists the Board and its committees in assessing their overall performance and in continuing to improve their deliberations and decision-making process.

The companies in our group benefit from strong balance sheets, enabling them to honour the long-term commitments they have made to clients and to invest from a position of strength in the people, products and technology to serve our clients in the future.

## CANADA'S RETIREMENT SYSTEM – THE CRISIS THAT WASN'T!

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The vast majority of Canadians are on track to sustain their standard of living in retirement. A recent study by the global consulting firm McKinsey & Company concludes that 83 per cent of Canadians are on track and well prepared. McKinsey's work is based upon the most comprehensive survey and analysis of Canadians' financial affairs ever done. And yet, numerous surveys also show that a majority of Canadians believe they will not have enough income in retirement.

There are a number of possible reasons for the major gap between perception and reality. These include lingering fear created by the financial crisis, pension plans reporting funding challenges due to persistent low interest rates, and the financial services industry's call to Canadians for more savings.

Many groups in society are advocating for universal solutions to the "pension crisis," such as an increase in the benefits of the Canada Pension Plan, or the creation of an Ontario Retirement Pension Plan.

These universal pension proposals, while well intentioned, may have some serious negative consequences. By forcing everyone to save more, they reduce today's standard of living, hurting in particular lower- and middle-income Canadians, whose future consumption in retirement is already well provided for through existing programs.

To be clear, there are issues to be addressed in the Canadian retirement system. While our balanced system has resulted in Canada having one of the strongest retirement systems in the world, there are still a number of groups in Canadian society who are not faring well.

The research shows that to be effective the solutions need to be specific and targeted. There are three areas where focus could materially reduce the number of people ill prepared for retirement: facilitating low-cost workplace savings plans for Canadians who work at smaller employers; addressing anomalies in existing government programs that are punitive to single people in old age; and creating collective solutions to help Canadians manage the financial challenge of outliving their individual savings.

Fact-based and targeted solutions to Canada's specific retirement challenges will leave the country in the best financial position to tackle other significant challenges yet to be addressed, such as funding future health care costs for an ever-aging Canadian population.

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## THE POWER FINANCIAL GROUP

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In March of 2015, Power Financial announced that it was increasing the quarterly dividend payable to its common shareholders by 6.4 per cent to \$0.3725 per share. This was the first dividend increase by the Corporation since the start of the financial crisis in the fall of 2008. Record earnings in 2014, recent dividend increases by the Corporation's principal subsidiaries and positive momentum in the underlying businesses all contributed to the Board's decision to increase the dividend.

Our financial services businesses are focused upon providing financial security and peace of mind to millions of people through various investment, retirement and insurance solutions. These are provided to our clients through one-on-one relationships with their financial advisors and through workplace programs. Excellence and innovation in products and services and value to the customer are critical factors in meeting client needs. Financial strength and the ability to honour long-term commitments are equally important.

The need for these products and services is expected to continue to grow in the future. The strategies being pursued by our group companies to serve these growing markets are focused upon organic growth, based upon delivering ever-improving client outcomes and experiences. Acquisitions are expected to continue to complement these strategies as opportunities arise.

Power Financial and its subsidiaries are committed to creating long-term value for shareholders based upon the success of our clients, our employees and our business partners, while contributing positively to the communities in which we operate.

Your Directors wish to express gratitude, on behalf of all shareholders, for the important contribution of the management and employees of our Corporation and its associated companies to the successful results achieved in 2014.

On behalf of the Board of Directors,

signed,

R. Jeffrey Orr  
President and  
Chief Executive Officer

signed,

Paul Desmarais, Jr., o.c., o.q.  
Executive Co-Chairman  
of the Board

signed,

André Desmarais, o.c., o.q.  
Executive Co-Chairman  
of the Board

March 18, 2015



# RESPONSIBLE MANAGEMENT

Corporate Social Responsibility (CSR) is fundamental to the way we and our group companies do business – what we refer to as responsible management. Responsible management is a core tenet of our business philosophy, enabling us to build a resilient and sustainable business through our role as an investor, employer and contributor to the communities where we operate. This approach has earned us the confidence of our various stakeholders.



WE SUPPORT

## UNITED NATIONS GLOBAL COMPACT

We further strengthened our commitment to responsible management by becoming a signatory to the United Nations Global Compact (UNGC) in 2014. The UNGC is a voluntary strategic policy initiative for businesses committed to establishing a consistent approach to corporate social responsibility within ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

## ENTRENCHING OUR **CSR COMMITMENTS**

Over the past year, we made solid progress in strengthening our CSR commitments, developing broader relationships with our stakeholders, and ensuring transparent communication on our CSR performance.

Our CSR commitments are now firmly embedded in our Code of Business Conduct and Ethics and CSR Statement. In 2014, all of our employees received training on our Code of Business Conduct and Ethics and acknowledged their compliance with the Code.

The Governance and Nominating Committee of the Board continues to provide oversight on the implementation and performance of our CSR initiatives, through the leadership of the Vice-President and General Counsel.

## **CREATING VALUE THROUGH ACTIVE OWNERSHIP**

Our active ownership approach enables us to ensure our investments are managed consistent with our responsible management philosophy, including our Code of Business Conduct and Ethics, our CSR Statement and our commitment to the UNGC.

In 2014, our executives continued to engage regularly with the senior management of our portfolio companies through their respective boards of directors, including on CSR matters when relevant. We also engaged with our group companies to share knowledge and best practices on CSR issues that impact our business. Many of our group companies also continued to enhance their CSR commitments, strategic programs, and communications with their stakeholders.

## INVESTING IN SUSTAINABLE COMPANIES

As long-term investors, we invest in quality companies with sustainable franchises, with attractive growth prospects, and that are managed in a responsible manner.

We integrate environmental, social and governance factors into our investment analysis process, which serve to mitigate risk and identify possible growth opportunities. A majority of our investments are in companies operating in the financial services sector. These companies have their own responsible investment approaches, including commitments that align with the United Nations-supported Principles for Responsible Investment.

## EMPOWERING OUR PEOPLE

As an employer and investor, we believe the hallmark of great, value-creating companies is their ability to attract and retain a talented and diverse workforce. Our group companies are committed to building teams of truly exceptional people by actively supporting a culture of development and performance and by creating flexible, balanced workplaces that recognize the value of diversity and personal well-being.

In 2014, we implemented a new performance and career management program at Power Financial and provided our employees with access to an Employee and Family Assistance Program.

## STRENGTHENING RELATIONSHIPS

Engaging with key stakeholders is an integral part of our responsible management approach. It enables us to promote understanding and trust, and lets us stay connected to those who have an interest in our business. We take the necessary time to understand and consider our stakeholders' views in order to build strong relationships.

We also continue to strengthen our relationships within the communities where we operate. Through our parent company, Power Corporation, we invest in the areas of community development, arts and culture, the environment, education, and health. Over the past year, Power Corporation has continued to update its community investment microsite, [www.powercorporationcommunity.com](http://www.powercorporationcommunity.com), which showcases some of the exceptional work being done by the organizations we support.

Our officers and employees are also very active in both charitable giving and volunteering, and sit on the boards of a number of non-profit organizations they support.



## FINANCIAL SECURITY AND INCLUSION

Our financial services companies represent a positive force in society, offering financial security through life and health insurance, retirement savings programs and a suite of investment vehicles, including socially responsible investment funds. These services are making a difference for a broad spectrum of society in all age and income groups - including those with lower incomes.

## IMPROVING ENVIRONMENTAL PERFORMANCE

As a holding company, we have a limited direct environmental impact. Our head office has no production, manufacturing or service operations. Despite this limited impact, our leased head office building has an environmental management system driven through the Building Owners and Managers Association (BOMA) Building and Environmental Standards (BEST®) benchmarks and supported by our environmental policy.

Our environmental management programs focus on resource conservation, energy efficiency and waste management.

In 2014, for the third year in a row, our efforts on energy and carbon management were recognized through the Carbon Disclosure Project.

# 2014 AT A GLANCE

For Power Financial, 2014 was a year characterized by continued growth and progress. The companies in our group consolidated their market reach, introduced new products, won numerous awards, helped in the community and broke new ground with social media.

## MACKENZIE INVESTMENTS



Mackenzie Investments launched LIVE IT™ (talkliveit.com), a new framework for investment conversations based on the six concerns that investors said matter most to them: Longevity, Income, Volatility, Estate, Inflation, and Taxes — creating the LIVE IT acronym. Investors can use LIVE IT resources to guide conversations with their advisor, helping them to better define their financial aspirations and find the solutions to get them there.



## GREAT-WEST FINANCIAL & PUTNAM INVESTMENTS

### A NEW ERA IN RETIREMENT SERVICES

In 2014, three highly complementary retirement businesses — Great-West Financial, Putnam Investments and J.P. Morgan Retirement Plan Services — came together to create Empower Retirement. Empower's goal is simple: to transform

the retirement industry in America. At year-end, the newly combined organization emerged as the second-largest retirement services provider in the United States, with over seven million participants and US\$415 billion in plan assets.



OVER 7 MILLION  
participants

US\$415 BILLION  
in plan assets



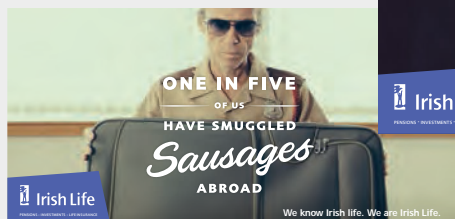


## IRISH LIFE

### UNIQUE CAMPAIGN MARKS 75 YEARS

Irish Life, Ireland's largest life insurance and pension company, celebrated 75 years of looking after the financial well-being of Irish citizens with a national advertising campaign supporting its integrated business.

The campaign featured a series of uniquely-Irish humorous and insightful facts about Irish life, highlighting the fact that after 75 years, Irish Life is the company that knows Irish people best.



## GREAT-WEST LIFE

### CONNECTING WITH CUSTOMERS DIGITALLY

Over one million group insurance plan members connect to Great-West Life through its GroupNet and GroupNet Mobile portals.

The company continues to add features that make it more convenient and efficient to access services. In 2014, this included an innovative way for plan members to easily find out the amount of dental, vision and paramedical benefit dollars they've used and the amount they have remaining through text message, mobile or online.



BARRON'S

DRIVING LONG-TERM  
**INVESTMENT  
PERFORMANCE**

On the investment front, *Barron's*/Lipper named Putnam one of the best mutual fund families — No. 6 out of 56 — for the five-year period ending December 31, 2014, based on investment performance across asset classes. Since 2009, Putnam has consistently been recognized as a top fund family — across multiple time periods — in this prestigious annual survey.



GREAT-WEST FINANCIAL

FOCUS ON **FINANCIAL LITERACY**



Great-West Financial combines its financial expertise and employees' passions to create meaningful community partnerships. The company's signature financial literacy initiative contributed more than US\$1.1 million in 2014 to train 8,500 teachers and provide programs for over 300,000 students in the state of Colorado. The firm also reinforced its employees' generosity with over a half-million

dollars in matching funds for their volunteer work, fundraising and charitable giving in communities around the United States.



## PUTNAM INVESTMENTS

### MARKETPLACE MOMENTUM CONTINUES

Putnam's growing body of strong mutual fund performance is increasingly attracting attention in the marketplace. The firm experienced notable net inflows of US\$5.9 billion into its mutual funds in 2014, building upon a solid tally of US\$3.7 billion in net sales from the previous year. Financial advisors and their clients gravitated toward an array of Putnam mutual funds that seek to address a range of challenges — and opportunities — presented in today's financial markets.

## MACKENZIE INVESTMENTS



### FUELLING THE PASSION OF CANADA'S WINTER ATHLETES

Mackenzie Investments launched two major sponsorships in 2014: a four-year sponsorship of Snow Sports Canada, touching seven premier national sport organizations; and a five-year partnership with Alpine Ontario, the sport organization and promoter of competitive ski racing in Ontario. The funding will help the organizations develop high-performance teams by providing elite coaches, high-calibre training facilities, technology and innovation; enhance youth participation; and provide financial support for less established athletes.



## GREAT-WEST LIFE

### ONE OF CANADA'S TOP 100 EMPLOYERS

A workplace where people can perform at their best underpins Great-West Life's ability to advance their goals as an organization — meeting clients' needs and becoming their trusted partner in helping them to realize their own goals.

The company was very pleased to be recognized as one of Canada's Top 100 Employers. The recognition affirmed Great-West Life's focus on workplace health and wellness, professional development and support for staff volunteerism.

## PUTNAM INVESTMENTS

### A LEADER IN CUSTOMER SERVICE

Putnam has long been dedicated to providing the highest level of customer service to clients, a commitment that has only strengthened over time. In late 2014, DALBAR, a leading financial services market research and consulting firm, honored Putnam for mutual fund service quality for the 25th consecutive year. Additionally, Putnam has been the sole recipient of DALBAR's Total Client Experience Award for the past four years.





# 2014 AT A GLANCE

## INVESTORS GROUP

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### HIGH MARKS IN NEW CLIENT SURVEY

Investors Group enhanced its client feedback loop with a new client experience survey, emailed to every new client after three months and to every existing client annually. In 2014, 96 per cent of new clients and 92 per cent of existing clients responding said they were satisfied with the service they receive from their Investors Group consultant, with similar high marks for financial planning and goal setting. The survey complements the company's Client Satisfaction Survey, which has been measuring client sentiment for over 15 years.



## GREAT-WEST LIFE & IGM FINANCIAL

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### RECOGNIZED FOR ENVIRONMENTAL LEADERSHIP

The Carbon Disclosure Project, an international, not-for-profit initiative, helps companies disclose and reduce their environmental footprint.

Great-West Life scored a ranking of 98B while IGM Financial was awarded a score of 96B. These scores distinguished both companies, earning them a spot on the CDP's Canada 200 Climate Disclosure Leadership Index. The scores reflect the companies' transparency, measurement and continuous improvement as cornerstones of their environmental approach.

In both instances the scores were well above industry averages, as the two companies have long-standing commitments to responsible management and environmental performance. Power Financial also participated in the CDP and was awarded a score of 91B.



## MERGER TO CREATE **LAFARGEHOLCIM**

In April 2014, Lafarge and Holcim announced their plans to combine the two companies to create LafargeHolcim, the most advanced and innovative group in the building materials industry operating in 90 countries, which should provide superior value creation for its shareholders.

Pargesa subsidiary Groupe Bruxelles Lambert, which currently holds a 21.1 per cent interest in Lafarge, would own in the order of 10 per cent in the new entity following the exchange offer to be launched by Holcim once all regulatory approvals have been granted.

## PUTNAM INVESTMENTS

### SOCIAL MEDIA INNOVATION

In recent years, Putnam has expanded its outreach to clients, advisors, consultants and other stakeholders with social media by building out a robust presence on Twitter, YouTube and Facebook. The firm has been widely recognized for developing and adopting best practices in social media. In 2014, Putnam was ranked the No. 1 social media leader in the asset management industry, based on the firm's innovative work across social media platforms.



## INVESTORS GROUP & MACKENZIE INVESTMENTS

### WORKING TOWARDS A MORE SUSTAINABLE GLOBAL FINANCIAL SYSTEM



Principles for Responsible Investment

In July 2014, Investors Group and Mackenzie Investments became

signatories to the United Nations-supported Principles for Responsible Investment (PRI). The PRI is a set of six aspirational principles — a framework for integrating environmental, social and governance factors into the investment analysis and decision-making process for mainstream investment managers.

In becoming signatories, the two companies join with a number of the world's largest investment managers committed to developing a stronger global financial system.

## GREAT-WEST FINANCIAL

### SCORES WITH ADVISORS

Great-West Financial's focus on quality service and strong relationships received top marks in a distinguished industry survey. The company placed first in six categories of PLANADVISER's 2014 Retirement Plan Adviser Survey, tying for the most No. 1 finishes. The firm was voted best in overall perception, value for the price, wholesalers, fee structure for advisers, and overall service for both micro plans and small plans. In six additional categories, Great-West Financial placed in the top three providers.

# GREAT-WEST LIFECO

Total assets under administration

**\$1,063** BILLION

Great-West Lifeco Inc. is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Great-West Lifeco has operations in Canada, the United States, Europe and Asia through Great-West Life, London Life, Canada Life, Irish Life, Great-West Financial and Putnam Investments. Great-West Lifeco and its companies have over \$1 trillion in total assets under administration.



2014 operating earnings attributable to common shareholders

**\$2,546** MILLION

2014 return on shareholders' equity<sup>[2]</sup>

**15.7%**

<sup>[2]</sup> Return on shareholders' equity is calculated using operating earnings.

[1] Denotes voting interest.

CANADA



Great-West Life is a leading Canadian insurer, with interests in life insurance, health insurance, investment, savings and retirement income and reinsurance businesses, primarily in Canada and Europe.

In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions and serve the financial security needs of more than 12 million people.

\$161 billion  
Assets under administration

\$1.2 billion  
2014 net earnings

More than \$2 billion  
in life insurance claims paid out to support more than 40,000 families

More than 50 million claims representing more than \$4 billion in health and dental benefits paid to plan members

EUROPE



Canada Life and its Irish Life subsidiary in Europe provide a broad range of protection and wealth management products, including: payout annuities, investments and group insurance in the United Kingdom; investments and individual insurance in the Isle of Man; insurance, pension and investment products in Ireland; and pensions, critical illness and disability insurance in Germany.

\$205 billion  
Total assets under administration

\$12.4 billion  
2014 insurance and annuities sales

\$19.4 billion  
Annual premiums and deposits

1 million  
customers in Ireland

UNITED STATES



Empower Retirement is the second-largest retirement services provider in the U.S. by customers. Empower serves all segments of the employer-sponsored retirement plan market: small, mid-size and large corporate clients, government plans, non-profit entities and private-label record-keeping clients. It also offers individual retirement accounts and advisory services. Great-West Financial® provides life insurance, annuities, executive benefits products and investment services. Empower Retirement and Great-West Financial® are marks of Great-West Life & Annuity Insurance Company.

US\$441 billion  
Total assets under administration

Nearly 7.7 million  
Retirement, insurance and annuity customers

2nd-largest defined contribution record keeper in the U.S.

No. 3 in sales of executive benefits markets life insurance to financial institutions

UNITED STATES • EUROPE • ASIA



Putnam Investments is a U.S.-based global asset manager, offering investment management services across a range of asset classes, including fixed income, equity—both U.S. and global—global asset allocation and alternatives, including absolute return, risk parity and hedge funds.

Putnam, including its subsidiary PanAgora Asset Management, Inc., distributes services through financial advisors, institutional investors and retirement plan sponsors via its offices and strategic alliances in North America, Europe, and Asia.

US\$158 billion  
Assets under management

200+ investment professionals

100+ mutual funds available

75+ years of investment experience

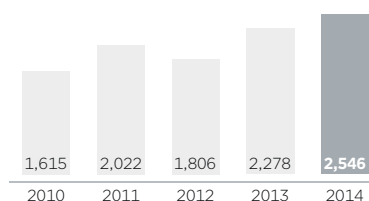
150+ institutional mandates

168,000 advisors distribute Putnam products

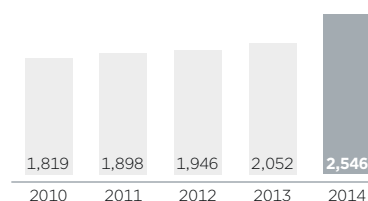


GREAT-WEST LIFECO

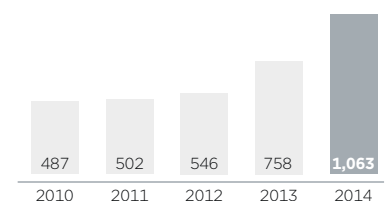
NET EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS  
(in millions of Canadian dollars)



OPERATING EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS  
(in millions of Canadian dollars)



TOTAL ASSETS UNDER ADMINISTRATION  
(in billions of Canadian dollars)



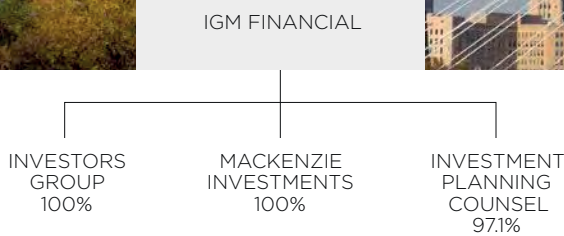


# IGM FINANCIAL

Total assets under management

**\$142** BILLION

IGM Financial Inc. is one of Canada's premier financial services companies with \$142 billion in total assets under management. The company serves the financial needs of Canadians through multiple businesses, each operating distinctly within the advice segment of the financial services market. The company is committed to building on its record of delivering long-term growth and value to its clients and shareholders.



2014 operating earnings available to common shareholders

**\$826** MILLION

2014 return on shareholders' equity<sup>[1]</sup>

**17.8%**

[1] Return on shareholders' equity is calculated using operating earnings.



Investors Group is committed to comprehensive planning delivered through long-term client and consultant relationships. The company provides advice and services through a network of over 5,000 consultants to nearly one million Canadians.

**\$73.5 billion**  
Total assets under management

**\$7.5 billion**  
Mutual fund sales

110 offices across Canada

5,145 consultants



Mackenzie Investments provides investment management services through multiple product offerings utilizing proprietary investment research and experienced investment professionals. The company distributes its investment services through industry distribution channels to both retail and institutional investors.

**\$70.9 billion**  
Total assets under management

**\$7.1 billion**  
Mutual fund sales

Investment products offered through  
**30,000**  
independent financial advisors

74% of Mackenzie Funds rated  
3, 4 or 5 Star by Morningstar



Investment Planning Counsel is an integrated financial services company focused on providing Canadians with high-quality financial products, services, and advice. The company is dedicated to providing independent financial planners with the tools, products, and support they need to build a better business.

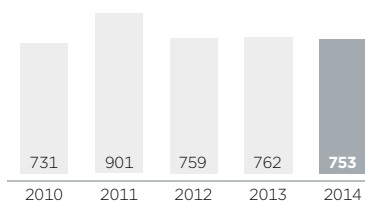
**\$3.9 billion**  
Assets under management  
in Counsel Portfolio Services

**\$22.7 billion**  
Assets under administration

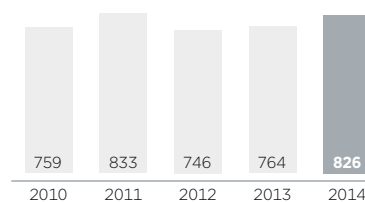
Partners with almost  
**900**  
advisors across the country

## IGM FINANCIAL

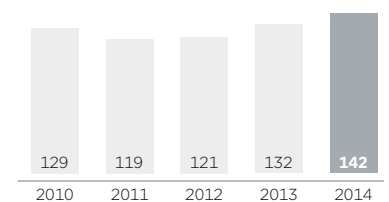
**NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS**  
(in millions of Canadian dollars)



**OPERATING EARNINGS AVAILABLE TO COMMON SHAREHOLDERS**  
(in millions of Canadian dollars)



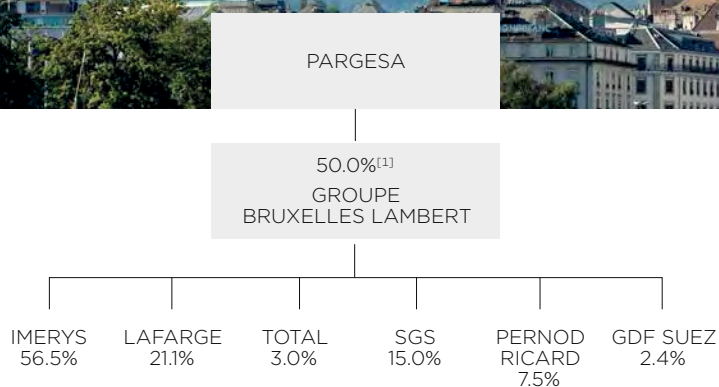
**TOTAL ASSETS UNDER MANAGEMENT**  
(in billions of Canadian dollars)



# PARGESA GROUP

Power Financial, through its wholly owned subsidiary, Power Financial Europe B.V., and the Frère family group of Belgium each hold a 50 per cent interest in Parjointco, a Netherlands-based company. Parjointco's principal holding is a 55.5 per cent equity interest (75.4 per cent of the voting rights) in Pargesa Holding SA, the Pargesa group's parent company based in Geneva, Switzerland.

Pargesa, through its affiliated Belgian holding company, Groupe Bruxelles Lambert, has holdings in major global companies based in Europe.



2014 operating earnings

SF339 MILLION

Net asset value

SF8.9 BILLION

[1] Representing 52% of the voting rights.





Imerys is the world leader in specialty minerals. The company extracts, transforms, develops and combines a unique range of minerals to provide functionalities that are vital to its customers' products and production processes. These specialty products have a very wide range of uses in the consumer goods, industrial equipment and construction fields.

Value of investment €2,614 million	Capital/voting rights 56.5% / 71.9%
---------------------------------------	--

KEY 2014 FINANCIAL DATA	
Market capitalization	4,623
Turnover	3,688
Operating earnings	495



Lafarge is a global leader in construction materials, including cement, aggregates and concrete. The group has two strategic priorities: high-growth cement markets and innovation, particularly in the areas of urbanization and sustainable construction. The planned merger between Lafarge and Holcim is expected to be completed in July 2015, once all regulatory approvals have been granted.

Value of investment €3,518 million	Capital/voting rights 21.1% / 29.3%
---------------------------------------	--

KEY 2014 FINANCIAL DATA	
Market capitalization	16,700
Turnover	12,843
Operating earnings	1,881



Total is one of the leading global oil and gas groups. The company operates in more than 130 countries and covers every oil industry segment, from upstream to downstream. Total is also a major player in chemicals and is committed to the development of renewable energies.

Value of investment €3,052 million	Capital/voting rights 3.0% / 2.7%
---------------------------------------	--------------------------------------

KEY 2014 FINANCIAL DATA	
Market capitalization	101,374
Turnover (US\$ million)	236,122
Operating earnings (US\$ million)	14,247



Based in Geneva, Switzerland, SGS is the world leader in inspection, verification, testing and certification. With more than 84,000 employees, SGS operates a network of more than 1,650 offices and laboratories in more than 150 countries.

Value of investment €1,995 million	Capital/voting rights 15.0% / 15.0%
---------------------------------------	--

KEY 2014 FINANCIAL DATA	
Market capitalization (SF million)	15,997
Turnover (SF million)	5,883
Operating earnings (SF million)	947



Since its inception in 1975, Pernod Ricard has achieved significant organic growth and made numerous acquisitions, in particular Seagram in 2001, Allied Domecq in 2005 and Vin&Sprit in 2008, thus becoming the world's co-leader in the wine and spirits market.

Value of investment €1,835 million	Capital/voting rights 7.5% / 6.9%
---------------------------------------	--------------------------------------

KEY 2014 FINANCIAL DATA	
Market capitalization	24,488
Turnover	7,945 <sup>[1]</sup>
Operating earnings	2,056 <sup>[1]</sup>

[1] June 30, 2014 year-end



Created from the merger between Suez and Gaz de France in 2008, GDF Suez covers the whole energy chain, in electricity, natural gas and services. Its acquisition of International Power in 2011 strengthens its leading position in the European and international energy market.

Value of investment €1,002 million <sup>[2]</sup>	Capital/voting rights 2.4% / 2.4%
--	--------------------------------------

KEY 2014 FINANCIAL DATA	
Market capitalization	47,318
Turnover	74,686
Operating earnings	7,161

[2] Value capped at the exchangeable bond's conversion price

Key 2014 financial data in millions of euros, unless otherwise indicated.



# REVIEW OF FINANCIAL PERFORMANCE

All tabular amounts are in millions of Canadian dollars, unless otherwise noted.

## MARCH 18, 2015

This Annual Report is intended to provide interested shareholders and others with selected information concerning Power Financial Corporation. For further information concerning the Corporation, shareholders and other interested persons should consult the Corporation's disclosure documents, such as its Annual Information Form and Management's Discussion and Analysis (MD&A). Copies of the Corporation's continuous disclosure documents can be obtained on the Corporation's website at [www.powerfinancial.com](http://www.powerfinancial.com), at [www.sedar.com](http://www.sedar.com), or from the office of the Secretary at the addresses shown at the end of this report.

**FORWARD-LOOKING STATEMENTS** › Certain statements in this document, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks,

changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the list of factors in the previous paragraph, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by applicable Canadian law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including its most recent MD&A and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available at [www.sedar.com](http://www.sedar.com).

Readers are reminded that a list of the abbreviations used throughout can be found on the inside front cover of this report. In addition, the following abbreviations are used in the Review of Financial Performance and in the Financial Statements and Notes thereto: Audited Consolidated Financial Statements of Power Financial and Notes thereto for the year ended December 31, 2014 (the 2014 Consolidated Financial Statements or the Financial Statements); International Financial Reporting Standards (IFRS).

## OVERVIEW

Power Financial, a subsidiary of Power Corporation, is a diversified management and holding company with substantial interests in the financial services sector in Canada, the United States, Europe and Asia, through its controlling interests in Lifeco and IGM. Power Financial also holds, together with the Frère Group of Belgium, a controlling interest in Pargesa, a holding company which focuses on a limited number of significant and strategic core holdings, held through its subsidiary, GBL. Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARG).

### LIFECO

Lifeco is an international financial services holding company with subsidiaries offering life insurance, health insurance, retirement and investment services and engaged in the asset management and reinsurance businesses.

As at December 31, 2014, Power Financial and IGM held 67.2% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65.0% of the voting rights attached to all outstanding Lifeco voting shares.

On August 29, 2014, Great-West Financial announced it had completed the acquisition of J.P. Morgan Retirement Plan Services (RPS) large-market recordkeeping business, expanding the Great-West Financial footprint in the U.S. retirement services business. As part of this acquisition, a new combined brand – Empower Retirement – was launched to consolidate and support the retirement services businesses of Great-West Financial, RPS and Putnam. Total assets under administration of Lifeco grew to approximately \$1.1 trillion as at December 31, 2014, up 40.2% from December 31, 2013. This includes \$207 billion of assets under administration related to the RPS acquisition and strong organic growth in all geographies.

Lifeco continued the integration of Irish Life through 2014. While focused on integration, Irish Life exceeded sales targets and increased its market share. In 2014, Irish Life contributed \$261 million, excluding restructuring costs, to Lifeco's net earnings. Since the acquisition of Irish Life, Lifeco has disclosed it has achieved €40.8 million in annualized synergies.

### IGM FINANCIAL

IGM is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market.

As at December 31, 2014, Power Financial and Great-West Life, a subsidiary of Lifeco, held 58.8% and 3.7%, respectively, of IGM's common shares.

## BASIS OF PRESENTATION

The 2014 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

Lifeco and IGM are controlled by Power Financial and their financial statements are consolidated with those of Power Financial. Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its operating subsidiaries (consolidated financial statements represent the financial results of Power Financial (parent) and Lifeco and IGM (its operating subsidiaries) and the elimination of intercompany balances and transactions).

Power Financial's investment in Pargesa is held through Parjointco. Parjointco's only investment is its joint controlling interest in Pargesa. The investment in Parjointco is accounted for by Power Financial in accordance with the equity method. The equity method is a method of accounting whereby:

> The investment is initially recognized at cost and adjusted thereafter for post-acquisition changes in Power Financial's share of Pargesa's net assets (shareholders' equity);

### PARGESA AND GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group of Belgium each hold a 50% interest in Parjointco, which, as at December 31, 2014, held a 55.5% interest in Pargesa, representing 75.4% of the voting rights in that company.

Pargesa is a holding company, which at December 31, 2014, held a 50% interest in GBL, representing 52% of the voting rights in that company. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange (EBR: GBLB).

As at December 31, 2014, GBL's portfolio was comprised of investments in: Imerys—mineral-based specialties for industry (EPA: NK); Lafarge—cement, aggregates and concrete (EPA: LG); Total—oil, gas and alternative energies (EPA: FP); SGS—testing, inspection and certification (SIX:SGSN); Pernod Ricard—wines and spirits (EPA: RI); GDF Suez—electricity, natural gas, and energy and environmental services (EPA: GSZ); and Suez Environnement—water and waste management services (EPA: SEV).

On April 7, 2014, Holcim and Lafarge announced their intention to combine their companies through a merger of equals, unanimously approved by their respective boards of directors and which could create the most advanced group in the building materials industry. This operation could lead to enhanced performance through incremental synergies totalling more than €1.4 billion on a full run-rate basis phased in over three years with one third in year one. As Lafarge's largest shareholder, GBL, with a 21.1% shareholding, supports this merger and has committed to contribute all its Lafarge shares to the public exchange offer, which will be initiated by Holcim after the regulatory authorizations have been received. GBL would hold 10% in the new entity.

Lafarge announced on March 16, 2015 that the board of Holcim has decided not to pursue the execution of the Combination Agreement under the terms approved by the boards of directors of Lafarge and Holcim and concluded on July 7, 2014 and challenged the financial terms and governance structure of the proposed merger of equals. Lafarge also announced that its board of directors remains committed to the project and that it intends to see it implemented. The board of Lafarge said it is willing to explore the possibility of a revision of the parity, in line with recent market conditions, but it will not accept any other modification of the terms of the existing agreements.

Additional information on GBL is also available on GBL's website ([www.gbl.be](http://www.gbl.be)).

> Power Financial's profit or loss includes its share of Pargesa's profit or loss; and

> Power Financial's other comprehensive income includes its share of Pargesa's other comprehensive income.

Pargesa consolidates its subsidiary GBL. GBL's portfolio consists primarily of investments in Imerys, Lafarge, Total, SGS, Pernod Ricard, GDF Suez, and Suez Environnement. GBL's financial statements are consolidated with Pargesa's financial statements.

> GBL holds a 56.5% controlling interest in Imerys and consolidates the financial statements of Imerys.

> Lafarge, over which GBL has significant influence (holding a 21.1% equity interest), is accounted for using the equity method.

> Portfolio investments in which GBL holds less than a 20% equity interest (consisting of: Total, SGS, Pernod Ricard, GDF Suez and Suez Environnement), are classified for accounting purposes as available-for-sale investments.

## REVIEW OF FINANCIAL PERFORMANCE

The following table summarizes the accounting presentation for the Corporation's holdings:

DEGREE OF CONTROL	BASIS OF ACCOUNTING	EARNINGS AND OTHER COMPREHENSIVE INCOME	IMPAIRMENT TESTING	IMPAIRMENT REVERSAL
The Corporation has a controlling interest in the entity (a subsidiary)	> Consolidation	> Consolidated with non-controlling interests	> Goodwill and indefinite life intangible assets are tested annually for impairment	> Impairment of goodwill cannot be reversed > Impairment of intangible assets is reversed if there is evidence of recovery of value
Holdings over which the Corporation exercises significant influence or joint control	> Equity method of accounting	> Corporation's share of earnings and other comprehensive income	> Entire investment is tested for impairment	> Reversed if there is evidence the investment has recovered its value
Portfolio investments	> Available for sale (AFS)	> Earnings consist of dividends received and gains or losses on disposals > The investments are marked to market through other comprehensive income > Earnings are reduced by impairment charges, if any	> Impairment testing is done at the individual investment level > A significant or prolonged decline in the value of the investment results in an impairment charge	> Cannot be reversed even if there is a subsequent recovery of value > A stock price decrease subsequent to an impairment leads to a further impairment

This summary of accounting should be read in conjunction with the following notes to the Corporation's 2014 Consolidated Financial Statements: Basis of presentation and summary of significant accounting policies, Investments, Investments in jointly controlled corporations and associates, Goodwill and intangible assets, and Non-controlling interests.

### NON-IFRS FINANCIAL MEASURES AND PRESENTATION

In analyzing the financial results of the Corporation and consistent with the presentation in previous years, net earnings attributable to common shareholders are presented in the section "Results of Power Financial Corporation" and are comprised of:

- > **operating earnings** attributable to common shareholders; and
- > **other items** or non-operating earnings, which include the after-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Other items also include the Corporation's share of any such item presented in a comparable manner by a subsidiary or a jointly controlled corporation or associate.

Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. Operating earnings, as defined by the Corporation, assist the reader in comparing the current period's results to those of previous periods as items that are not part of ongoing activities are excluded from this non-IFRS measure.

Operating earnings attributable to common shareholders and operating earnings per share are non-IFRS financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-IFRS measures to results reported in accordance with IFRS, see the "Results of Power Financial Corporation – Earnings Summary – Condensed Supplementary Statements of Earnings" section below.

In this review of financial performance, a non-consolidated basis of presentation is also used by the Corporation to present and analyze its results, financial position and cash flows. In this basis of presentation, Power Financial's interests in Lifeco and IGM are accounted for using the equity method. Presentation on a non-consolidated basis is a non-IFRS presentation. However it is useful to the reader as it presents the parent's corporate operations apart from those of its operating subsidiaries, thereby reflecting the individual respective contributions to the consolidated results. Reconciliations of the non-IFRS basis of presentation with the presentation in accordance with IFRS are included elsewhere in this review of financial performance as appropriate.

## RESULTS OF POWER FINANCIAL CORPORATION

### EARNINGS SUMMARY — CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

The following table is a reconciliation of non-IFRS financial measures: operating earnings, non-operating earnings, operating earnings per share and non-operating earnings per share with financial measures presented in accordance with IFRS: net earnings and net earnings per share. In this section, the contributions from Lifeco and IGM, which represent most of the earnings of Power Financial, are accounted for using the equity method.

## NON-CONSOLIDATED BASIS

TWELVE MONTHS ENDED DECEMBER 31	2014	2013
Contribution to operating earnings from:		
Lifeco	1,710	1,391
IGM	488	446
Pargesa	112	76
	2,310	1,913
Results from corporate operations	(73)	(74)
Dividends on perpetual preferred shares	(132)	(131)
Operating earnings (attributable to common shareholders)	2,105	1,708
Other items (non-operating) <sup>[1]</sup>		
Lifeco	(1)	151
IGM	(43)	(1)
Pargesa	75	38
	31	188
Net earnings (attributable to common shareholders)	2,136	1,896
Earnings per share (attributable to common shareholders)		
Operating earnings	2.96	2.40
Non-operating earnings	0.04	0.27
Net earnings	3.00	2.67

[1] See "Other Items" below

### NET EARNINGS (ATTRIBUTABLE TO COMMON SHAREHOLDERS)

Net earnings attributable to common shareholders for the twelve-month period ended December 31, 2014 were \$2,136 million or \$3.00 per share, compared with \$1,896 million or \$2.67 per share in the corresponding period in 2013, an increase of 12.4% on a per share basis.

### OPERATING EARNINGS (ATTRIBUTABLE TO COMMON SHAREHOLDERS)

Operating earnings attributable to common shareholders for the twelve-month period ended December 31, 2014 were \$2,105 million or \$2.96 per share, compared with \$1,708 million or \$2.40 per share in the corresponding period in 2013, an increase of 23.3% on a per share basis.

> Summary of Lifeco's operating segment results:

TWELVE MONTHS ENDED DECEMBER 31	2014	2013
Operating earnings (attributable to Lifeco common shareholders)		
Canada	1,228	1,148
Europe	1,038	701
United States	306	276
Lifeco Corporate	(26)	(73)
	2,546	2,052

> Operating earnings for the twelve-month period ended December 31, 2014 include \$30 million (after tax) of acquisition and restructuring costs related to the integration of Irish Life and RPS. For the twelve-month period ended December 31, 2013, operating earnings include costs related to the Irish Life acquisition and restructuring of \$97 million (after tax).

### CONTRIBUTION TO OPERATING EARNINGS — LIFECO, IGM AND PARGESA

Power Financial's share of operating earnings from Lifeco, IGM and Pargesa increased by 20.8% for the year ended December 31, 2014, compared with the same period in 2013, from \$1,913 million to \$2,310 million.

#### Lifeco

Lifeco's contribution to Power Financial's operating earnings for the twelve-month period ended December 31, 2014, was \$1,710 million, compared with \$1,391 million for the corresponding period in 2013.

> Lifeco reported operating earnings attributable to common shareholders of \$2,546 million or \$2.549 per share for the twelve-month period ended December 31, 2014, compared with \$2,052 million or \$2.108 per share in the corresponding period in 2013, an increase of 20.9% on a per share basis. The year ended December 31, 2014 includes twelve months of Irish Life results while the comparative period includes Irish Life results from the date of acquisition by Lifeco, being, July 18, 2013.

> The acquisition of Irish Life in the third quarter of 2013 resulted in significant growth in the Europe segment. For the twelve-month period ended December 31, 2014, Irish Life contributed \$261 million (excluding restructuring costs) to Lifeco's earnings, compared with \$85 million in the corresponding period in 2013.

## REVIEW OF FINANCIAL PERFORMANCE

> During the quarter ended December 31, 2014, the average currency translation rates of the U.S. dollar and British pound increased, while the average currency translation rates of the euro declined as compared to the fourth quarter of 2013. The overall impact of currency movement on Lifeco's net earnings was an increase of \$114 million for the twelve-month period ended December 31, 2014 compared to translation rates a year ago.

### IGM Financial

IGM's contribution to Power Financial's operating earnings was \$488 million for the twelve-month period ended December 31, 2014, compared with \$446 million for the corresponding period in 2013.

> IGM reported operating earnings available to common shareholders of \$826 million or \$3.27 per share for the twelve-month period ended December 31, 2014, compared with \$764 million or \$3.02 per share in the same period in 2013, an increase of 8.3% on a per share basis.

> Operating earnings before interest and taxes (a non-IFRS measure) of IGM's segments and operating earnings available to IGM common shareholders were as follows:

TWELVE MONTHS ENDED DECEMBER 31	2014	2013
Investors Group	777	718
Mackenzie	246	251
Corporate and other	133	110
Operating earnings (before interest and taxes)	1,156	1,079
Interest expense, income taxes, preferred share dividends and other	(330)	(315)
Operating earnings (available to IGM common shareholders)	826	764

> Total assets under management were \$141.9 billion as at December 31, 2014, compared with \$131.8 billion as at December 31, 2013. The average daily mutual fund assets under management were as follows:

IN BILLIONS OF DOLLARS	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average daily mutual fund assets	124.6	126.2	123.6	119.7	114.6	110.2	108.4	106.9

### Pargesa

Pargesa's contribution to Power Financial's operating earnings was \$112 million for the twelve-month period ended December 31, 2014, compared with \$76 million in the corresponding period in 2013.

The components of Pargesa's operating earnings were:

TWELVE MONTHS ENDED DECEMBER 31 IN MILLIONS OF SWISS FRANCS	2014	2013
Contribution from principal holdings		
Consolidated		
Imerys	113	110
Equity method		
Lafarge	55	72
Non-consolidated		
Total	97	121
SGS	40	-
Pernod Ricard	20	21
GDF Suez	35	75
Suez Environnement	2	15
Other holdings and operating earnings (loss) from holding companies	362	414
Operating earnings	(23)	(163)
Operating earnings	339	251
Power Financial's share (in millions of Canadian dollars)	112	76

A significant portion of Pargesa's earnings consists of dividends received from Total (approved for payment in the second, third and fourth quarters), SGS (approved for payment in the first quarter), Pernod Ricard (approved for payment in the second and fourth quarters), and GDF Suez (approved for payment in the second and third quarters). Pargesa records dividends as earnings in the period they are approved.

The changes in dividends from non-consolidated holdings reflect decreases in Pargesa's ownership of Total (from 3.6% in 2013 to 3.0% in 2014), GDF Suez (from 5.1% in 2013 to 2.4% in 2014) and Suez Environnement (from 7.2% in 2013 to 1.1% in 2014) and the acquisition of an interest in SGS in June 2013.

Operating earnings for the twelve-month period ended December 31, 2014 include Pargesa's share of a charge recorded by GBL in the amount of SF61 million, compared with SF83 million in the corresponding period in 2013.

- > These amounts relate to call options embedded in bonds exchangeable for Suez Environnement shares (issued in 2012) and GDF Suez shares (issued in 2013) and in bonds issued by GBL in 2013 which are convertible for GBL shares.
- > The charge is the result of the rise in the price of the respective shares underlying the bonds. This rise in the share price of Suez Environnement and GDF Suez is reflected in other comprehensive income and will be recorded in earnings at the time the shares are exchanged.

Operating earnings for the twelve-month period ended December 31, 2014, also included Pargesa's share of contribution from private equity and other investment funds, primarily held by GBL, for an amount of SF51 million.

In 2014, holders of the Suez Environnement bonds exercised their right to exchange approximately 85% of the bonds for shares of Suez Environnement. Pargesa's share of the gain recorded by GBL on this exchange was SF129 million (including a positive foreign currency impact of SF40 million). A portion of this gain, SF55 million, representing the reversal of the cumulative negative

marked to market adjustment on the call options mentioned above, was recorded in operating earnings. The remaining portion, SF74 million, which represents the economic gain measured at the exchange price set at the time of the issuance of the exchangeable bonds in 2012, has been recognized as non-operating earnings.

## RESULTS FROM CORPORATE OPERATIONS OF POWER FINANCIAL

Results from corporate operations include interest on cash and cash equivalents, operating expenses, financing charges, depreciation and income taxes.

Corporate operations represented a net charge of \$73 million in the twelve-month period ended December 31, 2014, compared with a net charge of \$74 million in the corresponding period in 2013. Results from corporate operations in 2013 include a charge of \$18 million related to the six-month equity put options on the S&P 500 purchased by the Corporation.

### OTHER ITEMS (NON-OPERATING)

The following table presents the Corporation's share of Lifeco, IGM and Pargesa's Other Items:

TWELVE MONTHS ENDED DECEMBER 31	2014	2013
Lifeco		
Litigation provision	–	156
IGM		
Restructuring and other charges	(8)	(6)
Distribution to clients	(36)	–
Pargesa		
Gain on partial disposal of Total	70	38
Gain on partial exchange of Suez Environnement	17	–
Impairment charges on GDF Suez	–	(13)
Gain on partial disposal of GDF Suez	–	15
Other (charge) income	(12)	(2)
	31	188

Other items in 2014 are comprised of the Corporation's share of:

#### IGM Financial

- > Restructuring and other charges: recorded by IGM in the second quarter primarily reflecting severance and other costs associated with Mackenzie's cost rationalization activities as well as senior management changes announced and implemented during the second quarter, for an amount of \$8 million. These costs represent the continuation of efforts undertaken in the fourth quarter of 2013.
- > Distribution to clients: reported by IGM in the fourth quarter of \$36 million. In the third quarter of 2012, Investors Group introduced investment solutions for clients with household account balances in excess of \$500,000. At December 31, 2014, an accrual was recorded related to these lower fee investment solutions. This amount primarily reflects distributions to clients who did not transfer to these lower priced solutions when eligible.

#### Pargesa

- > Gain on partial disposal of Total: in the first, second, third and fourth quarters of 2014, GBL disposed of 0.6% of its interest for gains of \$26 million, \$17 million, \$2 million and \$25 million, respectively.
- > Gain on partial exchange of Suez Environnement: a gain recorded by GBL in the second quarter resulting from the delivery of Suez Environnement shares pursuant to the exercise of exchange rights by certain holders of Suez Environnement's exchangeable bonds of \$17 million, as discussed above.

Other items in 2013 are comprised of the Corporation's share of:

#### Lifeco

- > A recovery recorded by Lifeco in the fourth quarter relating to a decision of the Court of Appeal for Ontario on February 3, 2014 in regards to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the London Insurance Group acquisition in 1997, for an amount of \$156 million.

#### IGM Financial

- > After-tax restructuring and other charges recorded by IGM in the fourth quarter of \$6 million.

#### Pargesa

- > An impairment charge of \$13 million recorded by GBL in the first quarter on its investment in GDF Suez.
- > A gain of \$15 million recorded by GBL in the second quarter on the disposal of 2.7% of its interest in GDF Suez.
- > A gain of \$38 million recorded by GBL in the fourth quarter on the disposal of 0.4% of its interest in Total.

## REVIEW OF FINANCIAL PERFORMANCE

### FINANCIAL POSITION

#### CONSOLIDATED BALANCE SHEETS (CONDENSED)

The condensed balance sheet of Lifeco and IGM, and Power Financial's non-consolidated balance sheet are presented below:

	POWER FINANCIAL	LIFECO	IGM	CONSOLIDATION ELIMINATIONS AND RECLASSIFICATIONS	POWER FINANCIAL CONSOLIDATED BALANCE SHEETS	
					DECEMBER 31, 2014	DECEMBER 31, 2013 <sup>[1]</sup>
<b>ASSETS</b>						
Cash and cash equivalents	786	2,498	1,216	(511)	3,989	4,344
Investments	31	143,265	7,108	438	150,842	134,910
Investments in Lifeco and IGM	14,342	356	794	(15,492)	–	–
Investment in Parjointco	2,440	–	–	–	2,440	2,437
Investments in jointly controlled corporations and associates	–	237	–	–	237	227
Funds held by ceding insurers	–	12,154	–	–	12,154	10,832
Reinsurance assets	–	5,151	–	–	5,151	5,070
Other assets	135	8,602	770	(89)	9,418	8,697
Intangible assets	–	3,625	1,872	–	5,497	5,281
Goodwill	–	5,855	2,657	637	9,149	9,105
Interest on account of segregated fund policyholders	–	174,966	–	–	174,966	160,779
<b>Total assets</b>	<b>17,734</b>	<b>356,709</b>	<b>14,417</b>	<b>(15,017)</b>	<b>373,843</b>	<b>341,682</b>
<b>LIABILITIES</b>						
Insurance and investment contract liabilities	–	146,055	–	–	146,055	132,063
Obligations to securitization entities	–	–	6,754	–	6,754	5,572
Debentures and debt instruments	250	5,355	1,325	(43)	6,887	7,275
Other liabilities	465	8,436	1,497	(119)	10,279	9,059
Insurance and investment contracts on account of segregated fund policyholders	–	174,966	–	–	174,966	160,779
<b>Total liabilities</b>	<b>715</b>	<b>334,812</b>	<b>9,576</b>	<b>(162)</b>	<b>344,941</b>	<b>314,748</b>
<b>EQUITY</b>						
Perpetual preferred shares	2,580	2,514	150	(2,664)	2,580	2,755
Common shareholders' equity	14,439	16,740	4,691	(21,431)	14,439	13,238
Non-controlling interests	–	2,643	–	9,240	11,883	10,941
<b>Total equity</b>	<b>17,019</b>	<b>21,897</b>	<b>4,841</b>	<b>(14,855)</b>	<b>28,902</b>	<b>26,934</b>
<b>Total liabilities and equity</b>	<b>17,734</b>	<b>356,709</b>	<b>14,417</b>	<b>(15,017)</b>	<b>373,843</b>	<b>341,682</b>

[1] Comparative figures have been restated as described in Note 33 to the Corporation's 2014 Consolidated Financial Statements.

Total assets of the Corporation increased to \$373.8 billion at December 31, 2014, compared with \$341.7 billion at December 31, 2013.

> Investments at December 31, 2014 were \$150.8 billion, a \$15.9 billion increase from December 31, 2013, primarily related to Lifeco.

> Interest on account of segregated fund policyholders increased by \$14.2 billion, primarily as a result of market value gains and investment income as well as positive currency movements. See also the discussion on liabilities below.

Liabilities increased to \$344.9 billion at December 31, 2014, compared with \$314.7 billion at December 31, 2013, mainly due to the following, as disclosed by Lifeco:

> Insurance and investment contract liabilities increased by \$14.0 billion, primarily due to the impact of new business, an increase in fair value adjustments driven by declining interest rates and currency movements as a result of a strengthening of the U.S. dollar and British pound against the Canadian dollar.

> Insurance and investment contract liabilities on account of segregated fund policyholders increased by \$14.2 billion, primarily due to the combined impact of market value gains and investment income of \$14.0 billion as well as the impact of currency movements of \$0.8 billion, partially offset by net withdrawals of \$0.1 billion.



## NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation, Lifeco and IGM are presented by the Corporation using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the review of financial performance and assist the reader by identifying changes in Power Financial's non-consolidated balance sheets, which include its investments in Lifeco and IGM at equity.

DECEMBER 31	2014	2013 <sup>[2]</sup>
<b>ASSETS</b>		
Cash and cash equivalents <sup>[1]</sup>	786	925
Investments	31	27
Investments in subsidiaries at equity	14,342	13,165
Investment in Parjointco at equity	2,440	2,437
Other assets	135	120
<b>Total assets</b>	<b>17,734</b>	<b>16,674</b>
<b>LIABILITIES</b>		
Debentures	250	250
Other liabilities	465	431
<b>Total liabilities</b>	<b>715</b>	<b>681</b>
<b>EQUITY</b>		
Perpetual preferred shares	2,580	2,755
Common shareholders' equity	14,439	13,238
<b>Total equity</b>	<b>17,019</b>	<b>15,993</b>
<b>Total liabilities and equity</b>	<b>17,734</b>	<b>16,674</b>

[1] In these non-consolidated balance sheets, cash equivalents include \$511 million (\$454 million at December 31, 2013) of fixed income securities with maturities of more than 90 days. In the 2014 Consolidated Financial Statements, this amount is classified in investments.

[2] Comparative figures have been restated as described in Note 33 to the Corporation's 2014 Consolidated Financial Statements.

Cash and cash equivalents held by Power Financial amounted to \$786 million at December 31, 2014, compared with \$925 million at the end of December 2013. This decrease in cash and cash equivalents is mainly due to the redemption of the First Preferred Shares, Series M, for an amount of \$175 million in the first quarter of 2014 (see also the "Non-consolidated Statements of Cash

Flows" section below for details). The fourth quarter dividend declared by the Corporation and paid on January 30, 2015, amounted to \$282 million. Dividends declared in the fourth quarter by IGM and received on January 30, 2015 by the Corporation amounted to \$83 million.

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, at equity, increased to \$16,782 million at December 31, 2014, compared with \$15,602 million at December 31, 2013:

	LIFECO	IGM	PARJOINTCO	TOTAL
Carrying value, at the beginning of the year	10,452	2,713	2,437	15,602
Share of operating earnings	1,710	488	112	2,310
Share of other items	(1)	(43)	75	31
Share of other comprehensive income	196	(27)	(97)	72
Dividends	(824)	(322)	(75)	(1,221)
Other, including effect of change in ownership	15	(15)	(12)	(12)
<b>Carrying value, at December 31, 2014</b>	<b>11,548</b>	<b>2,794</b>	<b>2,440</b>	<b>16,782</b>

## REVIEW OF FINANCIAL PERFORMANCE

### SHAREHOLDERS' EQUITY

#### PERPETUAL PREFERRED SHARES

On January 31, 2014, the Corporation redeemed all of its \$175 million 6.00% Non-cumulative 5-year Rate Reset First Preferred Shares, Series M.

#### COMMON SHAREHOLDERS' EQUITY

Common shareholders' equity was \$14,439 million at December 31, 2014, compared with \$13,238 million at December 31, 2013. This \$1,201 million increase was primarily due to:

- > A \$1,079 million increase in retained earnings, reflecting mainly net earnings of \$2,268 million, less dividends declared of \$1,128 million and other decreases of \$61 million mainly due to changes in the level of ownership of their subsidiaries.
- > An increase in reserves (other comprehensive income and amounts related to share-based compensation) of \$100 million, consisting of:
  - > Positive foreign currency translation adjustments of \$403 million.
  - > An increase of \$61 million related to the Corporation and its subsidiaries' available-for-sale investments and cash flow hedges.
  - > A net increase of \$47 million related to share-based compensation of the Corporation and its subsidiaries.
  - > A decrease of \$300 million due to actuarial losses related to pension plans of the Corporation and of its subsidiaries.
  - > A decrease of \$111 million mainly related to the Corporation's share of other comprehensive income of investments in Pargesa and other associates.

- > In the twelve-month period ended December 31, 2014, 550,000 common shares were issued by the Corporation (2,069,600 common shares in the corresponding period of 2013) pursuant to the Corporation's Employee Stock Option Plan.

As a result of the above, the book value per common share of the Corporation was \$20.29 at December 31, 2014, compared with \$18.61 at the end of 2013.

#### OUTSTANDING NUMBER OF COMMON SHARES

As of the date hereof, there were 713,238,680 common shares of the Corporation outstanding, compared with 711,173,680 as at December 31, 2013. As of the date hereof, options were outstanding to purchase up to an aggregate of 7,418,589 common shares of the Corporation under the Corporation's Employee Stock Option Plan.

The Corporation filed a short-form base shelf prospectus dated November 24, 2014, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of \$3 billion of First Preferred Shares, common shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.

## CASH FLOWS

### CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

The condensed cash flow of Lifeco and IGM, and Power Financial's non-consolidated cash flow are presented below:

TWELVE MONTHS ENDED DECEMBER 31	POWER FINANCIAL	LIFECO	IGM	CONSOLIDATION ELIMINATIONS AND RECLASSIFICATIONS	POWER FINANCIAL CONSOLIDATED CASH FLOWS	
					2014	2013
Cash flow from:						
Operating activities	1,162	5,443	741	(1,210)	6,136	5,651
Financing activities	(1,286)	(1,685)	625	1,210	(1,136)	618
Investing activities	(15)	(4,129)	(1,232)	(57)	(5,433)	(5,428)
Effect of changes in exchange rates on cash and cash equivalents	–	78	–	–	78	190
Increase (decrease) in cash and cash equivalents	(139)	(293)	134	(57)	(355)	1,031
Cash and cash equivalents, at the beginning of the year	925	2,791	1,082	(454)	4,344	3,313
Cash and cash equivalents, at December 31	786	2,498	1,216	(511)	3,989	4,344

On a consolidated basis, cash and cash equivalents decreased by \$355 million in the twelve-month period ended December 31, 2014, compared with an increase of \$1,031 million in the corresponding period of 2013.

Operating activities produced a net inflow of \$6,136 million in the twelve-month period ended December 31, 2014, compared with a net inflow of \$5,651 million in the corresponding period of 2013.

Cash flows from financing activities, which include dividends paid on the common and preferred shares of the Corporation, as well as dividends paid by subsidiaries to non-controlling interests, represented a net outflow of \$1,136 million in the twelve-month period ended December 31, 2014, compared with a net inflow of \$618 million in the corresponding period of 2013.

Cash flows from investing activities resulted in a net outflow of \$5,433 million in the twelve-month period ended December 31, 2014, compared with a net outflow of \$5,428 million in the corresponding period of 2013.

The Corporation increased its level of fixed income securities with maturities of more than 90 days, resulting in a net outflow of \$57 million, compared with a net inflow of \$171 million in the corresponding period of 2013.

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Financial is a holding company, corporate cash flows from operating activities, before payment of preferred and common share dividends, are primarily comprised of dividends received from Lifeco, IGM and Parjointco and income from investments, less operating expenses, financing charges, and income taxes.

The following non-consolidated cash flows statement of the Corporation, which is not presented in accordance with IFRS, has been prepared to assist the reader in isolating the cash flows of Power Financial, the parent company.

TWELVE MONTHS ENDED DECEMBER 31	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net earnings before dividends on perpetual preferred shares	2,268	2,027
Earnings from Lifeco, IGM and Parjointco not received in cash	(1,123)	(910)
Other	17	(11)
	1,162	1,106
<b>FINANCING ACTIVITIES</b>		
Dividends paid on preferred shares	(132)	(128)
Dividends paid on common shares	(996)	(995)
Issuance of preferred shares	–	500
Repurchase of preferred shares	(175)	–
Issuance of common shares	17	45
Share issue costs	–	(14)
	(1,286)	(592)
<b>INVESTING ACTIVITIES</b>		
Acquisition of Lifeco common shares	–	(545)
Purchase of investment	–	(26)
Other	(15)	(2)
	(15)	(573)
Decrease in cash and cash equivalents	(139)	(59)
Cash and cash equivalents, at the beginning of the year	925	984
Cash and cash equivalents, at December 31	786	925

On a non-consolidated basis, cash and cash equivalents decreased by \$139 million in the twelve-month period ended December 31, 2014, compared with a decrease of \$59 million in the corresponding period in 2013.

Operating activities produced net inflow of \$1,162 million in the twelve-month period ended December 31, 2014, compared with a net inflow of \$1,106 million in the corresponding period in 2013.

- > Dividends declared by Lifeco during the twelve-month period ended December 31, 2014 on its common shares were \$1.23 per share, same as in the corresponding period of 2013. In the twelve-month period ended December 31, 2014, the Corporation recorded dividends from Lifeco of \$824 million, compared with \$810 million in the corresponding period of 2013. On February 12, 2015, Lifeco announced an increase of its quarterly dividend from \$0.3075 to \$0.3260 per share, payable March 31, 2015.
- > Dividends declared by IGM during the twelve-month period ended December 31, 2014 on its common shares were \$2.175 per share, compared with \$2.15 per share in the corresponding period of 2013. In the twelve-month period ended December 31, 2014, the Corporation recorded dividends from IGM of \$322 million, compared with \$318 million in the corresponding period of 2013. On February 13, 2015, IGM declared a quarterly dividend of \$0.5625 per share on its common share, payable April 30, 2015.
- > Pargesa declares and pays an annual dividend in the second quarter ending June 30. The dividend paid by Pargesa to Parjointco in 2014 was SF2.64 per bearer share, compared with SF2.57 in 2013. The Corporation received dividends of SF62 million from Parjointco in 2014 (SF59 million in 2013). At its upcoming annual meeting in May, the board of directors of Pargesa will propose a 2014 dividend of SF2.27 per bearer share, to be paid on May 11, 2015.

The Corporation's financing activities during the twelve-month period ended December 31, 2014 were a net outflow of \$1,286 million, compared with a net outflow of \$592 million in the corresponding period in 2013, and included:

- > Dividends paid on common and preferred shares by the Corporation of \$1,128 million, compared with \$1,123 million in the corresponding period of 2013. In the twelve-month period ended December 31, 2014, dividends declared on the Corporation's common shares were \$1.40 per share, the same as in the corresponding period of 2013.
- > Issuance of common shares of the Corporation for \$17 million pursuant to the Corporation's Employee Stock Option Plan, compared with an issuance of \$45 million in the corresponding period of 2013.
- > The Corporation repurchased the Series M preferred shares for \$175 million, compared with an issuance of \$500 million in the corresponding period of 2013.

The Corporation's investing activities during the twelve-month period ended December 31, 2014 represented a net outflow of \$15 million, compared with a net outflow of \$573 million in the corresponding period of 2013.

## REVIEW OF FINANCIAL PERFORMANCE

### CAPITAL MANAGEMENT

As a holding company, Power Financial's objectives in managing its capital are to:

- > provide attractive long-term returns to shareholders of the Corporation;
- > provide sufficient financial flexibility to pursue its growth strategy and invest in its group companies as it determines to be appropriate; and
- > maintain an appropriate credit rating to ensure stable access to the capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of

common shares, perpetual preferred shares and debentures. The boards of directors of public subsidiaries are responsible for their respective company's capital management.

The Corporation is a long-term investor. The majority of the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of preferred shares, debentures, common shareholders' equity, and non-controlling interests. The Corporation views perpetual preferred shares as a permanent and cost-effective source of capital consistent with its strategy of maintaining a relatively low level of debt.

In the following table, consolidated capitalization reflects the consolidation of the Corporation's majority owned subsidiaries. The Corporation's consolidated capitalization includes the debentures and debt instruments of its consolidated subsidiaries. Debentures and debt instruments issued by Lifeco and IGM are non-recourse to the Corporation. Perpetual preferred shares and total equity account for 81% of consolidated capitalization at December 31, 2014.

	2014	2013
<b>DEBENTURES AND DEBT INSTRUMENTS</b>		
Power Financial	250	250
Lifeco	5,355	5,740
IGM	1,325	1,325
Consolidating eliminations	(43)	(40)
	<b>6,887</b>	<b>7,275</b>
<b>PREFERRED SHARES</b>		
Power Financial	2,580	2,755
Lifeco	2,514	2,314
IGM	150	150
	<b>5,244</b>	<b>5,219</b>
<b>EQUITY</b>		
Common shareholders' equity	14,439	13,238
Non-controlling interests <sup>[1]</sup>	9,219	8,477
	<b>23,658</b>	<b>21,715</b>
	<b>35,789</b>	<b>34,209</b>

[1] Represents the equity non-controlling interests of the Corporation's subsidiaries and excludes Lifeco and IGM preferred shares which are shown as preferred shares.

The Corporation is not subject to externally imposed regulatory capital requirements. Certain of the Corporation's major operating subsidiaries (Lifeco and IGM) are subject to regulatory capital requirements.

### RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debenture is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debenture is "AA (Low)" with a stable rating trend. Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites. These ratings are not a recommendation to buy, sell or hold the securities of the Corporation and do not address market price or other factors that might determine suitability

of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The "A+" rating assigned to the Corporation's debenture by S&P is the fifth highest of the 22 ratings used for long-term debt. A long-term debenture rated "A+" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories, however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The "AA (Low)" rating assigned to Power Financial's debenture by DBRS is the fourth highest of the 26 ratings used for long-term debt. Long-term debt rated "AA" by DBRS is of superior credit quality, and the capacity for the payment of financial obligations is considered high. In many cases they differ from long-term debt rated "AAA" only to a small degree and are unlikely to be significantly vulnerable to future events.

## RISK MANAGEMENT

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following risks and others discussed elsewhere in this review of financial performance, which investors should carefully consider before investing in securities of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

Power Financial is a holding company that holds substantial interests in the financial services sector through its controlling interest in each of Lifeco and IGM. As a result, the Corporation bears the risks associated with being a significant shareholder of these holdings and operating companies. The respective boards of directors of Lifeco and IGM are responsible for the risk oversight function. The risk committee of the board directors of Lifeco is responsible for risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Officers of the Corporation are members of these boards and committees of these boards and consequently in their role as directors they participate in the risk oversight function at the operating companies. Pargesa, a holding company, is also subject to risk due to the nature of its activities and also those of its direct subsidiary GBL. These risks relate to credit, liquidity and market risk as described in Pargesa's consolidated financial statements for the year ended December 31, 2014.

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors of the Corporation has overall responsibility for monitoring management's implementation and maintenance of policies and controls to manage the risks associated with the Corporation's business as a holding company.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- > The Audit Committee addresses risks related to financial reporting.
- > The Compensation Committee considers risk associated with the Corporation's compensation policies and practices.
- > The Governance and Nominating Committee oversees the Corporation's approach to appropriately address potential risks related to governance matters.
- > The Related Party and Conduct Review Committee oversees the risks related to transactions with related parties of the Corporation.

The share price of Power Financial and its subsidiaries (Lifeco and IGM) may be volatile and subject to fluctuations in response to numerous factors beyond Power Financial's control. Economic conditions may adversely affect Power Financial and its subsidiaries, including fluctuations in foreign exchange, inflation and interest rates, as well as monetary policies, business investment and the health of capital markets in Canada, the United States, Europe and Asia. In recent years, financial markets have experienced significant price and volume fluctuations that have affected the market prices of equity securities held by the Corporation and its subsidiaries and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. These factors may cause decreases in asset values that are deemed to be significant or prolonged, which may result in impairment charges. In periods of increased levels of volatility and related market turmoil, Power Financial subsidiaries' operations could be adversely impacted and the trading price of Power Financial's securities may be adversely affected.

## FINANCIAL INSTRUMENTS RISK

Power Financial has established policies, guidelines or procedures designed to identify, measure, monitor and mitigate material risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- > Liquidity risk is the risk that the Corporation will not be able to meet all cash outflow obligations as they come due.
- > Credit risk is the potential for financial loss to the Corporation if a counterparty in a transaction fails to meet its obligations.
- > 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. Market factors include three types of risks: currency risk, interest rate risk and equity price risk.
  - > Currency risk relates to the Corporation operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
  - > Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.
  - > Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

## LIQUIDITY RISK

As a holding company, Power Financial's ability to meet its obligations, including payment of interest, other operating expenses and dividends, and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon dividends from its principal subsidiaries (Lifeco and IGM) and Pargesa, and its ability to raise additional capital. Dividends to shareholders of Power Financial will be dependent on the operating performance, profitability, financial position and creditworthiness of the subsidiaries of Power Financial and on their ability to pay dividends to Power Financial. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their subsidiaries. The payment of interest and dividends by Lifeco's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained. The payment of dividends by IGM's principal subsidiaries is subject to corporate laws and regulations which require that solvency standards be maintained. In addition, certain subsidiaries of IGM must also comply with capital and liquidity requirements established by regulatory authorities.

Power Financial regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time. If required, the ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Financial and its subsidiaries. There can be no assurance that debt or equity financing will be available, or, together with internally generated funds, will be sufficient to meet or satisfy Power Financial's objectives or requirements or, if the foregoing are available to Power Financial, that they will be on terms acceptable to Power Financial. The inability of Power Financial to access sufficient capital on acceptable terms could have a material adverse effect on Power Financial's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

Power Financial's management of liquidity risk have not changed materially since December 31, 2013.

## REVIEW OF FINANCIAL PERFORMANCE

### CREDIT RISK

Fixed income securities and derivatives are subject to credit risk. Power Financial mitigates credit risk on its fixed income securities by adhering to an investment policy that outlines credit risk parameters and concentration limits.

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where Power Financial operates as well as bonds and short-term securities of, or guaranteed by, the Canadian and U.S. government. Power Financial regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives continue to be utilized on a basis consistent with the risk management guidelines of Power Financial and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. Power Financial regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Power Financial's exposure to and management of credit risk related to fixed income securities and derivatives have not changed materially since December 31, 2013.

### MARKET RISK

#### a) Currency risk

Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities and long-term debt. In managing its own cash and cash equivalents, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2014, approximately 90% of Power Financial's cash and cash equivalents and fixed income securities were denominated in Canadian dollars or in foreign currencies with currency hedges in place.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income.

#### b) Interest rate risk

Power Financial's financial instruments are cash and cash equivalents, fixed income securities and long-term debt that do not have significant exposure to interest rate risk.

#### c) Equity price risk

Power Financial's financial instruments are cash and cash equivalents, fixed income securities and long-term debt that do not have exposure to equity price risk.

Pargesa indirectly holds substantial investments classified as available for sale; unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

## OFF-BALANCE SHEET ARRANGEMENTS

### GUARANTEES

In the normal course of their operations, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

### LETTERS OF CREDIT

In the normal course of Lifeco's reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit's maturity. (See also Note 31 to the Corporation's 2014 Consolidated Financial Statements.)

### CONTINGENT LIABILITIES

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. 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 Corporation. 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 Corporation.

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

PAYMENTS DUE BY PERIOD	TOTAL	LESS THAN 1 YEAR	1-5 YEARS	MORE THAN 5 YEARS
Debentures and debt instruments <sup>[1]</sup>	6,887	596	1,005	5,286
Deposits and certificates	223	212	8	3
Obligations to securitization entities	6,754	1,249	5,468	37
Operating leases <sup>[2]</sup>	713	165	428	120
Purchase obligations <sup>[3]</sup>	180	71	93	16
Pension contributions <sup>[4]</sup>	204	204	–	–
Contractual commitments <sup>[5]</sup>	591	591	–	–
<b>Total</b>	<b>15,552</b>	<b>3,088</b>	<b>7,002</b>	<b>5,462</b>
Power Financial <sup>[6]</sup>	267	8	6	253
Lifeco	6,750	1,540	848	4,362
IGM	8,535	1,540	6,148	847
<b>Total</b>	<b>15,552</b>	<b>3,088</b>	<b>7,002</b>	<b>5,462</b>

[1] Please refer to Note 14 to the Corporation's 2014 Consolidated Financial Statements for further information.

[2] Includes office space and equipment used in the normal course of business. Lease payments are charged to operations over the period of use.

[3] Purchase obligations are commitments of Lifeco to acquire goods and services, essentially related to information services.

[4] Pension contributions include post-retirement benefits and are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond one year are excluded due to variability on the assumptions required to project the timing of future contributions.

[5] Represents commitments by Lifeco. These contractual commitments are essentially commitments to investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

[6] Includes debenture of the Corporation of \$250 million.

Lifeco uses letters of credit in the normal course of business; refer to Note 31 to the Corporation's 2014 Consolidated Financial Statements.

## TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Great-West Life enters into various transactions with related companies which include providing insurance benefits to other companies within the Power Financial group of companies. Such transactions are at market terms and conditions and are reviewed by the appropriate Related Party and Conduct Review Committee.

Lifeco provides reinsurance, asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Financial, and Lifeco and its subsidiaries. Such transactions are at market terms and conditions and are reviewed by the appropriate Related Party and Conduct Review Committee.

IGM also enters into transactions with subsidiaries of Lifeco. These transactions are in the normal course of operations and include (i) providing certain administrative services, (ii) distributing insurance products and (iii) the sale of residential mortgages to Great-West Life and London Life. These transactions are at market terms and conditions.

On November 14, 2013, the Board of Directors approved a loss consolidation program with IGM. This program allows Power Financial to generate sufficient taxable income to use its non-capital losses. At the same time, IGM incurs tax deductions, which are used to reduce its taxable income. On January 6, 2015, the Corporation increased its loss consolidation transactions with IGM. The increase was put in place to ensure that non-capital losses of Power Financial, which would otherwise expire in 2015, will be utilized. The Corporation acquired \$330 million of 4.50% secured debentures of IGM. As sole consideration for the debentures, a wholly owned subsidiary of Power Financial issued \$330 million of 4.51% preferred shares to IGM. The Corporation has legally enforceable rights to settle these financial instruments on a net basis and the Corporation intends to exercise these rights.

## REVIEW OF FINANCIAL PERFORMANCE

### FINANCIAL INSTRUMENTS

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair value of the Corporation's financial assets and financial liabilities. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table excludes fair value information for financial assets and financial liabilities not measured at the fair value if the carrying amount is a reasonable approximation of fair value.

The excluded items are cash and cash equivalents, dividends, interest and accounts receivable, income tax receivable, loans to policyholders, certain other financial assets, accounts payable, repurchase agreements, dividends

payable, interest payable, income tax payable and certain other financial liabilities. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values represent management's estimates and are generally calculated using market information and at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment (please refer to Note 26 to the Corporation's 2014 Consolidated Financial Statements).

AS AT DECEMBER 31	2014		2013	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>FINANCIAL ASSETS</b>				
Financial assets recorded at fair value				
Bonds				
Fair value through profit or loss	79,957	79,957	70,104	70,104
Available for sale	10,501	10,501	8,370	8,370
Mortgage loans				
Fair value through profit or loss	366	366	324	324
Shares				
Fair value through profit or loss	6,697	6,697	7,297	7,297
Available for sale	60	60	117	117
Investment properties	4,613	4,613	4,288	4,288
Derivative instruments	693	693	654	654
Other assets	421	421	396	396
	103,308	103,308	91,550	91,550
Financial assets recorded at amortized cost				
Bonds				
Loans and receivables	13,178	14,659	11,855	12,672
Mortgage loans				
Loans and receivables	27,199	29,016	24,591	25,212
Shares				
Available for sale <sup>[1]</sup>	560	560	632	632
	40,937	44,235	37,078	38,516
<b>Total financial assets</b>	<b>144,245</b>	<b>147,543</b>	<b>128,628</b>	<b>130,066</b>
<b>FINANCIAL LIABILITIES</b>				
Financial liabilities recorded at fair value				
Investment contract liabilities	857	857	889	889
Derivative instruments	1,225	1,225	779	779
Other liabilities	16	16	20	20
	2,098	2,098	1,688	1,688
Financial liabilities recorded at amortized cost				
Obligation to securitization entities	6,754	6,859	5,572	5,671
Debentures and debt instruments	6,887	8,065	7,275	8,066
Capital trust debentures	162	220	163	205
Deposits and certificates	223	225	187	188
	14,026	15,369	13,197	14,130
<b>Total financial liabilities</b>	<b>16,124</b>	<b>17,467</b>	<b>14,885</b>	<b>15,818</b>

[1] Fair value of some investments cannot be reliably measured, therefore the investments are held at cost.



## DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market-makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the Corporation and by senior management of its subsidiaries. The Corporation and its subsidiaries have each established operating policies, guidelines or procedures relating to the use of derivative financial instruments, which in particular aim at:

- > prohibiting the use of derivative instruments for speculative purposes;
- > documenting transactions and ensuring their consistency with risk management policies;

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the twelve-month period ended December 31, 2014. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio at December 31:

	2014			2013		
	NOTIONAL	MAXIMUM CREDIT RISK	TOTAL FAIR VALUE	NOTIONAL	MAXIMUM CREDIT RISK	TOTAL FAIR VALUE
Power Financial	8	1	1	3,549	4	4
Lifeco	15,460	652	(543)	21,582	593	(151)
IGM	2,621	40	10	3,428	57	22
	18,089	693	(532)	28,559	654	(125)

There has been a decrease in the notional amount outstanding and an increase in the exposure to credit risk that represents the market value of those instruments, which are in a gain position. The decrease in the notional amount for the Corporation and Lifeco is mainly due to six-month

- > demonstrating the effectiveness of the hedging relationships; and
- > monitoring the hedging relationship.

The Corporation and its subsidiaries have policies, guidelines or procedures relating to the identification, measurement, monitoring, mitigating and controlling 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 price risk). (See Note 21 to the Corporation's 2014 Consolidated Financial Statements and the "Risk Management" section of this Review of Financial Performance for more information.)

equity put options on the S&P 500 outstanding as of December 31, 2013. See Note 25 to the Corporation's 2014 Consolidated Financial Statements for more information on the type of derivative financial instruments used by the Corporation and its subsidiaries.

## SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the financial statements, management of the Corporation and management of its subsidiaries – Lifeco and IGM – are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Significant judgments made by the management of the Corporation and the management of its subsidiaries and key sources of estimation uncertainty concern: the entities to be consolidated, insurance and investment contract liabilities, fair value measurement, investment impairment, goodwill and intangible assets, income taxes, employee future benefits and deferred selling commissions. These are described in the notes to the 2014 Consolidated Financial Statements. There were no changes in the Corporation's critical accounting estimates and judgments in the twelve-month period ended December 31, 2014.

### CONSOLIDATION

Management of the Corporation consolidates all subsidiaries and entities in which it is determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the activities of the subsidiary or other structured entities in order to derive variable returns. Management of the Corporation and each of its subsidiaries apply judgment to determine if it has control of the investee when it has less than a majority of the voting rights.

### INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Insurance and investment 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 Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the insurance and investment contract liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation of insurance contracts uses the Canadian Asset Liability Method (CALM). 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 and 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.

Additional details regarding these estimates can be found in Note 12 to the Corporation's 2014 Consolidated Financial Statements.

## REVIEW OF FINANCIAL PERFORMANCE

### FAIR VALUE MEASUREMENT

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon. The following is a description of the methodologies used to determine fair value.

#### a) *Bonds at fair value through profit or loss and available for sale*

Fair values for bonds classified at 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. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain 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. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate 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 are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

#### b) *Shares at fair value through profit or loss and available for sale*

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are determined by discounting expected future cash flows. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheets dates to measure shares at fair value in its fair value through profit or loss and available-for-sale portfolios.

#### c) *Mortgage loans and bonds classified as loans and receivables*

For disclosure purposes only, fair values for bonds, and mortgage loans, classified as loans and receivables, are determined by discounting expected future cash flows using current market rates. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

#### d) *Investment properties*

Fair values for investment properties are determined using independent qualified appraisal services and include Lifeco 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 properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

### INVESTMENT IMPAIRMENT

Investments are reviewed regularly on an individual basis to determine impairment status. The Corporation and its subsidiaries consider 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 no longer reasonable assurance of collection. 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.

For impaired mortgage loans, and bonds classified as loans and receivables, provisions are established or impairments recorded 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 net realizable value. For impaired available-for-sale bonds, the accumulated loss recorded in 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, mortgage loans and shares classified or designated as fair value through profit or loss are already recorded in net earnings, therefore, a reduction due to impairment of these assets will be recorded in net earnings. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed. Impairment losses on available-for-sale shares are recorded if the loss is significant or prolonged and subsequent losses are recorded in net earnings.

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 contract liabilities are largely offset by corresponding changes in the fair value of liabilities, except when the bond has been deemed impaired.

### GOODWILL AND INTANGIBLES IMPAIRMENT TESTING

Goodwill and indefinite life intangible assets 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 Corporation would be required to reverse the impairment charge or a portion thereof.

Goodwill and indefinite life intangible assets have been allocated to groups of cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of the groups of CGU to the recoverable amount to which the goodwill has been allocated. Intangible assets are tested for impairment by comparing the asset's carrying value to its recoverable amount.

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 cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

## 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 the statements of earnings except to the extent that it relates to items that are not recognized in the statements of earnings (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized in other comprehensive income or directly in equity.

### CURRENT INCOME TAX

Current income tax is based on taxable income for the year. Current 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 rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current 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 uncertainties which meets the probable threshold for recognition is measured based on the probability weighted average approach.

### 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 financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Deferred 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 tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

## PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation's 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 earnings.

The cost of the defined benefit plans earned by eligible employees and advisors is actuarially determined using the projected unit credit method prorated on service based upon management of the Corporation and its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefits obligations. The Corporation and its subsidiaries' accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets. The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA-rated corporate debt securities.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings. Net interest costs, current service costs, past service costs and curtailment gains or losses are included in operating and administrative expenses.

Remeasurements arising from defined benefit plans represent actuarial gains and losses, and the actual return on plan assets, less interest calculated at the discount rate and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not reclassified to net earnings.

The accrued benefit asset (liability) represents the plan surplus (deficit).

Payments to the defined contribution plans are expensed as incurred.

### DEFERRED SELLING COMMISSIONS

Commissions paid by IGM on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value. At December 31, 2014, there were no indications of impairment to deferred selling commissions.

## REVIEW OF FINANCIAL PERFORMANCE

### CHANGES IN ACCOUNTING POLICIES

On January 1, 2014, the Corporation and its subsidiaries adopted the following amendments and interpretation: IAS 32, *Financial Instruments: Presentation*, IAS 36, *Impairment of Assets*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRIC 21, *Levies*. The adoption of these amendments and interpretation did not have a significant impact on the Corporation's financial statements.

### FUTURE ACCOUNTING CHANGES

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

#### IFRS 4 — INSURANCE CONTRACTS

In June 2013, the IASB issued a revised IFRS 4, *Insurance Contracts* exposure draft proposing changes to the accounting standard for insurance contracts. The IASB continues to deliberate the proposals in this exposure draft. The proposed standard differs significantly from Lifeco's current accounting and actuarial practices under the Canadian Asset Liability Method (CALM) and is expected to produce more volatile financial results.

Lifeco is actively monitoring developments in this area; it will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until a new IFRS for insurance contract measurement is issued and effective.

#### IFRS 9 — FINANCIAL INSTRUMENTS

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments* to replace IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- > Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- > Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- > Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

The standard will be effective January 1, 2018. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

#### IFRS 15 — REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15 — *Revenue from Contracts with Customers*, which provides a single model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to customers in an amount that reflects the expected consideration. The revenue recognition requirements in IFRS 15 do not apply to the revenue arising from insurance contracts, leases and financial instruments.

The standard will be effective January 1, 2017. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

### DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluations as of December 31, 2014, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as at December 31, 2014.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation's management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2014, based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. The Corporation transitioned to the COSO 2013 Framework during 2014. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective as at December 31, 2014.

There have been no changes in the Corporation's internal control over financial reporting during the three-month period ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## SELECTED ANNUAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31	2014	2013	2012
Total revenue <sup>[1]</sup>	41,775	28,830	32,934
Operating earnings attributable to common shareholders <sup>[2, 3]</sup>	2,105	1,708	1,678
per share – basic	2.96	2.40	2.37
Net earnings attributable to common shareholders <sup>[2]</sup>	2,136	1,896	1,618
per share – basic	3.00	2.67	2.29
per share – diluted	3.00	2.63	2.27
Consolidated assets <sup>[1, 2]</sup>	373,843	341,682	268,428
Total financial liabilities <sup>[1, 2]</sup>	16,124	14,885	12,138
Debt and debt instruments	6,887	7,275	5,817
Shareholders' equity <sup>[1]</sup>	17,019	15,993	13,451
Book value per share <sup>[1]</sup>	20.29	18.61	15.79
Number of common shares outstanding [millions]	711.7	711.2	709.1
Dividends per share [declared]			
Common shares	1.4000	1.4000	1.4000
First preferred shares			
Series A	0.5250	0.5250	0.5250
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	1.3125
Series F	1.4750	1.4750	1.4750
Series H	1.4375	1.4375	1.4375
Series I	1.5000	1.5000	1.5000
Series K	1.2375	1.2375	1.2375
Series L	1.2750	1.2750	1.2750
Series O	1.4500	1.4500	1.4500
Series P	1.1000	1.1000	1.1000
Series R <sup>[4]</sup>	1.3750	1.3750	1.2837
Series S <sup>[5]</sup>	1.2000	1.1006	
Series T <sup>[6]</sup>	1.1902		

[1] Comparative figures have been restated as described in Note 33 to the Corporation's 2014 Consolidated Financial Statements.

[2] The 2012 figures have been restated for the retroactive impact of new and revised IFRS standards during 2013, most notably IAS 19R, *Employee Benefits* and IFRS 10, *Consolidated Financial Statements*.

[3] Operating earnings and operating earnings per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Basis of Presentation – Non-IFRS Financial Measures and Presentation" section of this Review of Financial Performance.

[4] Issued in February 2012.

[5] Issued in February 2013. The first dividend payment was made in April 30, 2013, in the amount of \$0.2006 per share.

[6] Issued in December 2013. The first dividend payment was made on April 30, 2014 in the amount of \$0.4027 per share. Regular annual dividend is \$1.0500 per share.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2014	2013 [NOTE 33]
<b>ASSETS</b>		
Cash and cash equivalents [Note 4]	3,989	4,344
Investments [Note 5]		
Bonds	103,636	90,329
Mortgage loans	27,565	24,915
Shares	7,317	8,046
Investment properties	4,613	4,288
Loans to policyholders	7,711	7,332
	150,842	134,910
Funds held by ceding insurers [Note 6]	12,154	10,832
Reinsurance assets [Note 12]	5,151	5,070
Investments in jointly controlled corporations and associates [Note 7]	2,677	2,664
Owner-occupied properties and capital assets [Note 8]	986	925
Derivative financial instruments [Note 25]	693	654
Other assets [Note 9]	6,032	5,907
Deferred tax assets [Note 16]	1,707	1,211
Intangible assets [Note 10]	5,497	5,281
Goodwill [Note 10]	9,149	9,105
Investments on account of segregated fund policyholders [Note 11]	174,966	160,779
<b>Total assets</b>	<b>373,843</b>	<b>341,682</b>
<b>LIABILITIES</b>		
Insurance contract liabilities [Note 12]	145,198	131,174
Investment contract liabilities [Note 12]	857	889
Obligation to securitization entities [Note 13]	6,754	5,572
Debentures and debt instruments [Note 14]	6,887	7,275
Derivative financial instruments [Note 25]	1,225	779
Other liabilities [Note 15]	7,293	7,061
Deferred tax liabilities [Note 16]	1,761	1,219
Insurance and investment contracts on account of segregated fund policyholders [Note 11]	174,966	160,779
<b>Total liabilities</b>	<b>344,941</b>	<b>314,748</b>
<b>EQUITY</b>		
Stated capital [Note 17]		
Perpetual preferred shares	2,580	2,755
Common shares	743	721
Retained earnings	13,164	12,085
Reserves	532	432
<b>Total shareholders' equity</b>	<b>17,019</b>	<b>15,993</b>
Non-controlling interests [Note 19]	11,883	10,941
<b>Total equity</b>	<b>28,902</b>	<b>26,934</b>
<b>Total liabilities and equity</b>	<b>373,843</b>	<b>341,682</b>

Approved by the Board of Directors

Signed,  
Raymond Royer  
Director

Signed,  
R. Jeffrey Orr  
Director

## CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS]	2014	2013
<b>REVENUES</b>		
Premium income		
Gross premiums written	24,686	23,441
Ceded premiums	(3,464)	(3,205)
Total net premiums	21,222	20,236
Net investment income [Note 5]		
Regular net investment income	6,038	5,635
Change in fair value through profit or loss	7,525	(2,974)
	13,563	2,661
Fee income	6,990	5,933
Total revenues	41,775	28,830
<b>EXPENSES</b>		
Policyholder benefits		
Insurance and investment contracts		
Gross	19,363	18,464
Ceded	(1,928)	(1,744)
	17,435	16,720
Policyholder dividends and experience refunds	1,496	1,371
Change in insurance and investment contract liabilities	10,229	(280)
Total paid or credited to policyholders	29,160	17,811
Commissions	2,901	2,590
Operating and administrative expenses [Note 22]	5,162	4,474
Financing charges [Note 23]	413	400
Total expenses	37,636	25,275
	4,139	3,555
Share of earnings of investments in jointly controlled corporations and associates [Note 7]	211	134
Earnings before income taxes	4,350	3,689
Income taxes [Note 16]	834	678
Net earnings	3,516	3,011
Attributable to		
Non-controlling interests [Note 19]	1,248	984
Perpetual preferred shareholders	132	131
Common shareholders	2,136	1,896
	3,516	3,011
Earnings per common share [Note 28]		
Net earnings attributable to common shareholders		
– Basic	3.00	2.67
– Diluted	3.00	2.63

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2014	2013 [NOTE 33]
Net earnings	3,516	3,011
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings		
Net unrealized gains (losses) on available-for-sale assets		
Unrealized gains (losses)	313	(156)
Income tax (expense) benefit	(62)	35
Realized (gains) losses transferred to net earnings	(52)	(70)
Income tax expense (benefit)	10	15
	209	(176)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	(110)	(85)
Income tax (expense) benefit	42	33
Realized (gains) losses transferred to net earnings	2	2
Income tax expense (benefit)	(1)	(1)
	(67)	(51)
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation arising during the year	543	847
Unrealized gains (losses) on euro debt designated as hedge of net assets of foreign operations	35	(52)
	578	795
Share of other comprehensive income (losses) of jointly controlled corporations and associates	(86)	251
Total – items that may be reclassified	634	819
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit pension plans	(601)	633
Income tax (expense) benefit	150	(174)
Share of other comprehensive income (losses) of jointly controlled corporations and associates	(31)	23
Total – items that will not be reclassified	(482)	482
Other comprehensive income	152	1,301
Total comprehensive income	3,668	4,312
Attributable to		
Non-controlling interests	1,347	1,295
Perpetual preferred shareholders	132	131
Common shareholders	2,189	2,886
	3,668	4,312



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES				TOTAL EQUITY
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	OTHER COMPREHENSIVE INCOME [NOTE 27]	TOTAL	NON-CONTROLLING INTERESTS	
Balance, beginning of year	2,755	721	12,085	95	337	432	10,941	26,934
Net earnings	–	–	2,268	–	–	–	1,248	3,516
Other comprehensive income	–	–	–	–	53	53	99	152
Total comprehensive income	–	–	2,268	–	53	53	1,347	3,668
Redemption of preferred shares	(175)	–	–	–	–	–	–	(175)
Dividends to shareholders								
Common shares	–	–	(996)	–	–	–	–	(996)
Perpetual preferred shares	–	–	(132)	–	–	–	–	(132)
Dividends to non-controlling interests	–	–	–	–	–	–	(693)	(693)
Share-based compensation	–	–	–	35	–	35	15	50
Stock options exercised	–	22	–	(11)	–	(11)	(4)	7
Effects of changes in ownership, capital and other	–	–	(61)	23	–	23	277	239
Balance, end of year	2,580	743	13,164	142	390	532	11,883	28,902

FOR THE YEAR ENDED DECEMBER 31, 2013 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES				TOTAL EQUITY
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	OTHER COMPREHENSIVE INCOME [NOTE 27]	TOTAL	NON-CONTROLLING INTERESTS	
Balance, beginning of year	2,255	664	11,201	110	(667)	(557)	10,102	23,665
Prior period adjustment [Note 33]	–	–	(119)	–	7	7	(46)	(158)
Restated balance, beginning of year	2,255	664	11,082	110	(660)	(550)	10,056	23,507
Net earnings	–	–	2,027	–	–	–	984	3,011
Other comprehensive income	–	–	–	–	990	990	311	1,301
Total comprehensive income	–	–	2,027	–	990	990	1,295	4,312
Issue of perpetual preferred shares	500	–	–	–	–	–	–	500
Dividends to shareholders								
Common shares	–	–	(996)	–	–	–	–	(996)
Perpetual preferred shares	–	–	(131)	–	–	–	–	(131)
Dividends to non-controlling interests	–	–	–	–	–	–	(685)	(685)
Share-based compensation	–	–	–	11	–	11	4	15
Stock options exercised	–	57	–	(26)	–	(26)	(6)	25
Effects of changes in ownership, capital and other	–	–	103	–	7	7	277	387
Balance, end of year	2,755	721	12,085	95	337	432	10,941	26,934

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2014	2013
<b>OPERATING ACTIVITIES</b>		
Earnings before income taxes	4,350	3,689
Income tax paid, net of refunds received	(660)	(426)
Adjusting items		
Change in insurance and investment contract liabilities	9,726	(567)
Change in funds held by ceding insurers	428	269
Change in funds held under reinsurance contracts	(34)	(99)
Change in reinsurance assets	(160)	321
Change in fair value through profit or loss	(7,525)	2,974
Other	11	(510)
	6,136	5,651
<b>FINANCING ACTIVITIES</b>		
Dividends paid		
By subsidiaries to non-controlling interests	(691)	(685)
Perpetual preferred shares	(132)	(128)
Common shares	(996)	(995)
	(1,819)	(1,808)
Issue of common shares by the Corporation [Note 17]	17	45
Issue of preferred shares by the Corporation	–	500
Redemption of preferred shares by the Corporation [Note 17]	(175)	–
Issue of common shares by subsidiaries	44	742
Issue of preferred shares by subsidiaries	200	–
Repurchase of common shares by subsidiaries	(175)	(122)
Redemption of preferred shares by subsidiaries	–	(230)
Issue of euro-denominated debentures	–	659
Changes in debt instruments	(446)	183
Change in obligations related to assets sold under repurchase agreements	–	(225)
Change in obligations to securitization entities	1,185	873
Other	33	1
	(1,136)	618
<b>INVESTMENT ACTIVITIES</b>		
Bond sales and maturities	27,263	28,776
Mortgage loan repayments	2,525	1,910
Sale of shares	3,171	2,158
Change in loans to policyholders	73	70
Business acquisitions, net of cash and cash equivalents acquired	(43)	(1,234)
Investment in bonds	(31,462)	(31,252)
Investment in mortgage loans	(4,703)	(3,541)
Investment in shares	(2,156)	(2,048)
Investment in investment properties and other	(101)	(267)
	(5,433)	(5,428)
Effect of changes in exchange rates on cash and cash equivalents	78	190
Increase (decrease) in cash and cash equivalents	(355)	1,031
Cash and cash equivalents, beginning of year	4,344	3,313
Cash and cash equivalents, end of year	3,989	4,344
<b>NET CASH FROM OPERATING ACTIVITIES INCLUDES</b>		
Interest and dividends received	5,479	4,965
Interest paid	533	490

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.

## NOTE 1 CORPORATE INFORMATION

Power Financial Corporation (Power Financial or the Corporation) is a publicly listed company (TSX: PWF) incorporated and domiciled in Canada whose registered address is 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Financial is a diversified international management and holding company that holds interests, directly or indirectly, in companies in the financial services sector in Canada, the United States, Europe and Asia. Through its investment in Pargesa Holding SA, Power Financial also has substantial holdings based in Europe.

The Consolidated Financial Statements of Power Financial for the year ended December 31, 2014 were approved by its Board of Directors on March 18, 2015. The Corporation is controlled by Power Corporation of Canada.

## NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Power Financial at December 31, 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS).

Effective January 1, 2014, the Corporation adopted the guidance in the following amendments and interpretations: IAS 32, *Financial Instrument: Presentation*, IAS 36, *Impairment of Assets*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRIC 21, *Levies*. The adoption of the amendments and interpretations did not have a significant impact on the Corporation's financial statements.

### BASIS OF PRESENTATION

The financial statements include the accounts of Power Financial and all its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Corporation controls which means that the Corporation has power over the entity, it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its use of power over the entity. Subsidiaries of the Corporation are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The Corporation will reassess whether or not it controls an entity if facts and circumstances indicate there are changes to one or more of the elements of control listed above.

The principal subsidiaries of the Corporation, whose accounts are included on a consolidated basis, are:

- > Great-West Lifeco Inc., a public company (direct interest of 67.2% (2013 – 67.0%)), whose major operating subsidiary companies are The Great-West Life Assurance Company, Great-West Life & Annuity Insurance Company, London Life Insurance Company, The Canada Life Assurance Company, Irish Life Group Limited and Putnam Investments, LLC.
- > IGM Financial Inc., a public company (direct interest of 58.8% (2013 – 58.6%)), whose major operating subsidiary companies are Investors Group Inc. and Mackenzie Financial Corporation.
- > The Great-West Life Assurance Company holds 3.7% (2013 – 3.6%) of the common shares of IGM Financial Inc., and IGM Financial Inc. holds 4.0% (2013 – 4.0%) of the common shares of Great-West Lifeco Inc.

These financial statements of Power Financial include the results of Great-West Lifeco Inc. and IGM Financial Inc. on a consolidated basis; the amounts shown in the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are based upon the publicly disclosed consolidated financial statements of Great-West Lifeco Inc. and IGM Financial Inc., both as at and for the year ended December 31, 2014, and the comparative year. The notes to Power Financial's financial statements are based upon the notes to the financial statements of Great-West Lifeco Inc. and IGM Financial Inc.

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without exercising control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Under the equity method, the share of net earnings, other comprehensive income and the changes in equity of the jointly controlled corporations and associates are recognized in the statements of earnings, statements of comprehensive income and statements of changes in equity, respectively.

The Corporation holds a 50% (2013 – 50%) interest in Parjointco N.V., a jointly controlled corporation that is considered to be a joint venture. Parjointco holds a 55.5% (2013 – 55.6%) equity interest in Pargesa Holding SA. Accordingly, the Corporation accounts for its investment in Parjointco using the equity method.

The following abbreviations are used throughout this report: Power Corporation of Canada (Power Corporation); Great-West Life & Annuity Insurance Company (Great-West Financial or Great-West Life & Annuity); Great-West Lifeco Inc. (Lifeco); IGM Financial Inc. (IGM or IGM Financial); Investors Group Inc. (Investors Group); Irish Life Group Limited (Irish Life); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Putnam Investments, LLC (Putnam); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life); International Financial Reporting Standards (IFRS).

### USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the preparation of the financial statements, management of the Corporation and its subsidiaries are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Significant judgments have been made and key sources of estimation uncertainty have been made in certain areas, and are discussed throughout the notes in these financial statements, including:

- > Management consolidates all subsidiaries and entities which it is determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the activities of the subsidiary or other structured entities in order to derive variable returns. Management applies judgment to determine if it has control of the investee when it has less than a majority of the voting rights.
- > The actuarial assumptions made by management of Lifeco, include policyholder behaviour, mortality and morbidity of policyholders, which are used in the valuation of insurance and investment contract liabilities in accordance with the Canadian Asset Liability Method (Note 12).

**NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

- > Management of Lifeco 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 used in determining the expense and defined benefit obligations for the Corporation and its subsidiaries' pension plans and other post-employment benefits. Management of the Corporation and its subsidiaries review previous experience of its plan members and market conditions, including interest rates and inflation rates, in evaluating the assumptions used in determining the expense (Note 24).
- > Management of the Corporation and of its subsidiaries evaluate the synergies and future benefits for initial recognition and measurement of goodwill and intangible assets, as well as testing for impairment. The determination of the carrying value and recoverable amount of the cash generating units (to which goodwill and intangible assets are assigned to) relies upon the use of forecasts of future financial results and other key assumptions (Note 10).
- > Cash generating units for which goodwill has been assigned to, have been determined by management of the Corporation and of its subsidiaries as the lowest level at which goodwill is monitored for internal reporting purposes. Management of the Corporation and of its subsidiaries use judgment in determining the lowest level of monitoring (Note 10).
- > The Corporation and its subsidiaries operate 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 Corporation and of its subsidiaries' tax provisions and the carrying amounts of its tax assets and liabilities (Note 16).
- > In the determination of the fair value of financial instruments, management of the Corporation and its subsidiaries exercise judgment in the determination of fair value inputs, particularly those items categorized within Level 3 of the fair value hierarchy including the significant observable inputs used in measuring investment properties (Note 26).
- > Legal and other provisions are recognized resulting from a past event which, in the judgment of management of the Corporation and its subsidiaries, has resulted in a probable outflow of economic resources which would be passed onto a third party to settle the obligation. Management of the Corporation and its subsidiaries use judgment to evaluate the possible outcomes and risks and determine the best estimate of the provision at the balance sheet date (Note 30).
- > Management of Lifeco uses independent qualified appraisal services which include 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 in determining the fair value of investment properties (Note 5).
- > The determination by IGM's management of whether securitized mortgages are derecognized is based on the extent to which the risk and rewards of ownership are transferred (Note 13).
- > The determination by IGM's management of the estimated useful lives of deferred selling commissions (Note 10).
- > In the consolidated statements of cash flows, purchases and sales of portfolio investments are recorded within investment activities due to the long-term nature of these investing activities.
- > Management of Lifeco uses judgments, such as the risks and benefits associated with the transaction that are used in determining whether Lifeco retains the primary obligation with a client in sub-advisor arrangements. Where Lifeco retains the risks and benefits, revenue and expenses are recorded on a gross basis.

- > The results reflect judgments of management of the Corporation and its subsidiaries regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

**REVENUE RECOGNITION**

Interest income is accounted for on an accrual basis using the effective interest method for bonds and mortgage loans. 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. Interest income and dividend income are recorded in net investment income in the Consolidated Statements of Earnings (statements of earnings).

**LIFECO**

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.

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 primarily includes fees earned from the management of segregated fund assets, proprietary mutual fund assets, fees earned on administrative services only for Group health contracts and fees earned from management services. Fee income is recognized when the service is performed, the amount is collectible and can be reasonably estimated.

Lifeco has sub-advisor arrangements where Lifeco 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.

**IGM FINANCIAL**

Management fees are based on the net asset value of the investment fund or other assets under management and are recognized on an accrual basis as the service is performed. Administration fees are also recognized on an accrual basis as the service is performed. Distribution fees derived from investment fund and securities transactions are recognized on a trade-date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. These management, administration and distribution fees are included in fee income in the statements of earnings.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed income securities with an original term to maturity of three months or less.

**INVESTMENTS**

Investments include bonds, mortgage loans, shares, investment properties, and loans to policyholders of Lifeco. Investments are classified as either fair value through profit or loss, available for sale, held to maturity, loans and receivables, or non-financial instruments based on management's intention relating to the purpose and nature of the instruments or the characteristics of the investments. The Corporation and its subsidiaries currently have not classified any investments as held to maturity.

Investments in bonds (including fixed income securities), mortgage loans and shares normally actively traded on a public market are either designated or classified as fair value through profit or loss or classified as available for sale and are recorded on a trade-date basis.

## NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. For Lifeco, 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 balance sheets with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recognized at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses are reclassified from other comprehensive income and recorded in the statements of earnings when the available-for-sale investment is sold or impaired.

Investments in mortgage loans 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. Impairments and realized gains and losses on the sale of investments classified as loans and receivables are recorded in net investment income in the statements of earnings.

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 balance sheets. All changes in fair value are recorded as net investment income in the 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 is also included within investment properties.

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

**Fair value measurement** Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon. The following is a description of the methodologies used to determine fair value.

*Bonds at fair value through profit or loss and available for sale* Fair values for bonds classified at 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. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain 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. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate 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 are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

*Shares at fair value through profit or loss and available for sale* Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are determined by discounting expected future cash flows. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheets dates to measure shares at fair value in its fair value through profit or loss and available-for-sale portfolios.

*Mortgage loans and bonds classified as loans and receivables* For disclosure purposes only, fair values for bonds and mortgage loans, classified as loans and receivables, are determined by discounting expected future cash flows using current market rates. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

*Investment properties* Fair values for investment properties are determined using independent qualified appraisal services and include adjustments by Lifeco management 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 properties under construction are 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 Corporation and its subsidiaries consider 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 no longer reasonable assurance of collection. 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.

For impaired mortgage loans, and bonds classified as loans and receivables, provisions are established or impairments recorded 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 net realizable value. For impaired available-for-sale bonds, the accumulated loss recorded in 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, mortgage loans and shares classified or designated as fair value through profit or loss are already recorded in net earnings, therefore, a reduction due to impairment of these assets will be recorded in net earnings. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed. Impairment losses on available-for-sale shares are recorded if the loss is significant or prolonged and subsequent losses are recorded in net earnings.



**NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

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 contract liabilities are largely offset by corresponding changes in the fair value of liabilities, except when the bond has been deemed impaired.

**Securities lending** Lifeco engages in securities lending through its securities custodians as lending agents. Loaned securities are not derecognized, and continue to be reported within investments, as Lifeco retains substantial risks and rewards and economic benefits related to the loaned securities.

**TRANSACTION COSTS**

Transaction costs are expensed as incurred for financial instruments classified or designated 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 rate method for those allocated to loans and receivables. Transaction costs for financial liabilities classified as other than fair value through profit or loss are deducted from the value of the instrument issued and taken into net earnings using the effective interest rate method.

**FUNDS HELD BY CEDING INSURERS / FUNDS HELD UNDER REINSURANCE CONTRACTS**

Funds held by ceding insurers are assets that would normally be paid to Lifeco but are withheld by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds-withheld basis supporting the insurance contract liabilities ceded. For the funds-withheld assets where the underlying asset portfolio is managed by Lifeco, the credit risk is retained by Lifeco. The funds-withheld balance where Lifeco assumes the credit risk is measured at the fair value of the underlying asset portfolio. See Note 6 for funds held by ceding insurers that are managed by Lifeco. 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 Lifeco from ceded business written on a funds-withheld basis. Lifeco withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

**REINSURANCE CONTRACTS**

Lifeco, 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 Lifeco 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, Lifeco 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. Lifeco 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 statements of earnings.

Any gains or losses on buying reinsurance are recognized in the statement 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 in the balance sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

**OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS**

Owner-occupied properties and capital assets are carried at cost less accumulated depreciation and impairments. Depreciation is charged to write off the cost of assets, using the straight-line method, over their estimated useful lives, on the following bases:

- > Building, owner-occupied properties 10–50 years
- > Equipment, furniture and fixtures 3–17 years
- > Other capital assets 3–10 years

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

**OTHER ASSETS**

Other assets include accounts receivable, prepaid expenses, deferred acquisition costs and miscellaneous other assets which are measured at amortized cost. Deferred acquisition costs relating to investment contracts are recognized as assets if the costs are incremental and incurred due to the contract being issued.

**BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS**

Business combinations are accounted for using the acquisition method. Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets comprise finite life and indefinite life intangible assets. Finite life intangible assets include the value of technology and software, customer contract-related and deferred selling commissions. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives on the following basis: i) technology and software (5 to 10 years) and ii) customer contract-related (9 to 20 years).

Commissions paid by IGM on the sale of certain mutual funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a client redeems units in mutual funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by IGM. Any unamortized deferred selling commission asset recognized on the initial sale of these investment fund units or shares is recorded as a disposal. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

## NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Indefinite life intangible assets include brands, trademarks and trade names, some customer contracts, the shareholders' portion of acquired future participating account profit and mutual fund management contracts. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, and when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. 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.

**Impairment testing** Goodwill and indefinite life intangible assets 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 Corporation would be required to reverse the impairment charge or a portion thereof.

Goodwill and indefinite life intangible assets have been allocated to groups of cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of the groups of CGU to the recoverable amount to which the goodwill has been allocated. Intangible assets are tested for impairment by comparing the asset's carrying amount to its recoverable amount.

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 cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

### 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 in the balance 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 corresponding changes in the segregated fund liabilities.

### INSURANCE AND INVESTMENT CONTRACT LIABILITIES

**Contract classification** When significant insurance risk exists, Lifeco's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when Lifeco 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 12 for a 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 and Measurement*. Lifeco 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 21 for a discussion on 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 Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment 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 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.

Investment contract liabilities are measured at fair value through profit and loss, except for certain annuity products measured at amortized cost.

### DERECOGNITION OF SECURITIZED MORTGAGES

IGM enters into transactions where it transfers financial assets recognized on its balance sheets. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred.

If substantially all of the risks and rewards of a financial asset are not retained, IGM derecognizes the financial asset. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in net investment income in the statements of earnings.

If all or substantially all risks and rewards are retained, the financial assets are not derecognized and the transactions are accounted for as secured financing transactions.

### OTHER FINANCIAL LIABILITIES

Debentures and debt instruments, and capital trust debentures are initially recorded on the balance sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the statements of earnings. These liabilities are derecognized when the obligation is cancelled or redeemed.

Accounts payable, current income taxes, and deferred income reserves are measured at amortized cost. Deferred income reserves are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years.

**NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)**REPURCHASE AGREEMENTS**

Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco sells securities and agrees to repurchase substantially similar securities at a specified date and price. As substantially all of the risks and rewards of ownership of assets are retained, Lifeco does not derecognize the assets.

Lifeco accounts for certain forward-settling to-be-announced "TBA" security transactions as derivatives as it does not regularly accept delivery of such securities when issued.

**PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS**

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation's 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 earnings.

The cost of the defined benefit plans earned by eligible employees and advisors is actuarially determined using the projected unit credit method prorated on service, based upon management of the Corporation and its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities. If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings. Net interest costs, current service costs, past service costs and curtailment gains or losses are included in operating and administrative expenses.

Remeasurements arising from defined benefit plans represent actuarial gains and losses, and the actual return on plan assets, less interest calculated at the discount rate and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not reclassified to net earnings.

The accrued benefit asset (liability) represents the plan surplus (deficit) and is included in other assets or other liabilities.

Payments to the defined contribution plans are expensed as incurred.

**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 the statements of earnings, except to the extent that it relates to items that are not recognized in the statements of earnings (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized in other comprehensive income or directly in equity.

**Current income tax** Current income tax is based on taxable income for the year. Current 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 rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current 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 uncertainties which meets the probable threshold for recognition is measured based on the probability weighted average approach.

**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 financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Deferred 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 tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

**DERIVATIVE FINANCIAL INSTRUMENTS**

The Corporation and its subsidiaries use derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Corporation and its subsidiaries' policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

All derivatives are recorded at fair value on the 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 on the 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.

## NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Corporation and its subsidiaries generally use 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.

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, then 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 Corporation and its subsidiaries document 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 balance sheets or to specific firm commitments or forecasted transactions. The Corporation and its subsidiaries also assess, 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.

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

**Cash flow hedges** For cash flow hedges, the effective portion of the change in fair value of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recognized immediately in net investment income. Gains and losses on cash flow hedges 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.

**Net investment hedges** For net investment hedges, the effective portion of changes in the fair value of the hedging instrument is recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

### 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 statement of earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

### EQUITY

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

Reserves are composed of share-based compensation and other comprehensive income. Share-based compensation reserves represent the vesting of share options less share options exercised. Other comprehensive income 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, and the share of other comprehensive income of jointly controlled corporations and associates.

Non-controlling interests represent the proportion of equity that is attributable to minority shareholders.

### SHARE-BASED PAYMENTS

The fair value-based method of accounting is used for the valuation of compensation expense for options granted to employees. Compensation expense is recognized as an increase to operating and administrative expenses in the statements of earnings over the vesting period of the granted options, with a corresponding increase in share-based compensation reserves. When the stock options are exercised, the proceeds, together with the amount recorded in share-based compensation reserves, are added to the stated capital of the entity issuing the corresponding shares.

The Corporation and its subsidiaries recognize a liability for cash-settled awards, including those granted under Performance Share Unit plans and the Deferred Share Unit plans. Compensation expense is recognized as an increase to operating and administrative expenses in the statement of earnings, net of related hedges, and a liability is recognized on the balance sheets over the period, if any. The liability is remeasured at fair value at each reporting period with the change in the liability recorded in operating and administrative expenses.

### FOREIGN CURRENCY TRANSLATION

The Corporation and its subsidiaries operate with multiple functional currencies. The Corporation's financial statements are prepared in Canadian dollars, which is the functional and presentation currency of the Corporation.

Assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at exchange rates prevailing at the balance sheet dates for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses denominated in foreign currencies are translated into each entity's functional currency at an average of daily rates. Realized and unrealized exchange gains and losses are included in net investment income and are not material to the financial statements of the Corporation.

**Translation of net investment in foreign operations** Assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all revenues and expenses are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Corporation's net investment in its foreign operations and jointly controlled corporations and associates are presented as a component of other comprehensive income. Unrealized foreign currency translation gains and losses are recognized in earnings when there has been a disposal of a foreign operation, jointly controlled corporation or associate.

**NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**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.

**LEASES**

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Corporation and its subsidiaries are the lessee, are charged to net earnings over the period of use.

Where the Corporation and its subsidiaries are the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the balance sheets. Income from these leases is recognized in the statements of earnings on a straight-line basis over the lease term.

**EARNINGS PER COMMON SHARE**

Basic earnings per common share is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per common share is determined using the same method as basic earnings per common share, except that the weighted average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Corporation and its subsidiaries, as determined by the treasury stock method.

**FUTURE ACCOUNTING CHANGES**

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

**IFRS 9 — FINANCIAL INSTRUMENTS** In July 2014 the IASB issued a final version of IFRS 9, *Financial Instruments* to replace IAS 39, *Financial Instruments: Recognition and Measurements*, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- > Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- > Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- > Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

The standard is effective January 1, 2018. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

**IFRS 15 — REVENUE FROM CONTRACTS WITH CUSTOMERS** In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which provides a single model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to customers in an amount that reflects the expected consideration. The revenue recognition requirements in IFRS 15 do not apply to the revenue arising from insurance contracts, leases and financial instruments.

The standard is effective January 1, 2017. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

**NOTE 3 BUSINESS ACQUISITIONS**

**J.P. MORGAN RETIREMENT PLAN SERVICES**

On August 29, 2014, Lifeco, through its wholly owned subsidiary Great-West Financial, completed the acquisition of all the voting equity interest in the J.P. Morgan Retirement Plan Services' (RPS) large-market record-keeping business.

The amounts assigned to the assets acquired, goodwill, liabilities assumed and contingent consideration on August 29, 2014 and reported as at December 31, 2014 are below:

DECEMBER 31	2014
Assets acquired and goodwill	
Other assets	41
Intangible assets	18
Goodwill	36
<b>Total assets acquired and goodwill</b>	<b>95</b>
Liabilities assumed and contingent consideration	
Other liabilities	29
Contingent consideration	35
<b>Total liabilities assumed and contingent consideration</b>	<b>64</b>



### NOTE 3 BUSINESS ACQUISITIONS (CONTINUED)

During the fourth quarter of 2014, Lifeco substantially completed its comprehensive evaluation of the fair value of the net assets acquired from RPS and the purchase price allocation. Initial goodwill of \$55 million recognized upon the acquisition of RPS on August 29, 2014 in the Business Acquisitions note to the September 30, 2014 interim condensed consolidated

financial statements has been adjusted in the fourth quarter of 2014, as a result of valuations received during the measurement period. Adjustments were made to the provisional amounts disclosed in the September 30, 2014 interim condensed consolidated financial statements for the recognition and measurement of intangible assets, contingent consideration and other liabilities.

The following provides the change in the carrying value of the goodwill on the acquisition of RPS to December 31, 2014:

Initial RPS goodwill, previously reported	55
Recognition and measurement of intangible assets	(18)
Adjustment to contingent consideration	(2)
Adjustment to other liabilities	1
Adjusted balance	36

The goodwill represents the excess of the purchase price over the fair value of the net assets acquired, representing the synergies or future economic benefits arising from other assets acquired that are not individually identified and separately recognized in the acquisition of RPS. The goodwill is not deductible for tax purposes. Lifeco will finalize the purchase accounting in the first six months of 2015.

At the date of the acquisition, RPS was the named defendant in four pending lawsuits. Per the terms of the acquisition, Lifeco is indemnified from any and all losses incurred in conjunction with the pending lawsuits. Due to Lifeco's limited involvement with the pending legal proceedings, it is unable to make an estimate of the possible loss and related indemnity associated with these claims.

The results of operations of RPS are included in the financial statements from the date of acquisition.

#### IRISH LIFE GROUP LIMITED

On July 18, 2013, Lifeco, through its wholly owned subsidiary Canada Life Limited, completed the acquisition of all of the shares of Irish Life. The Corporation presented the allocation of the purchase price to the amounts of assets acquired, goodwill and liabilities assumed in Note 4 to the December 31, 2013 financial statements.

During the three months ended June 30, 2014, Lifeco completed experience studies on certain insurance contract liabilities assumed on acquisition. There were no changes to the amounts reported in the Corporation's December 31, 2013 consolidated audited financial statements.

### NOTE 4 CASH AND CASH EQUIVALENTS

DECEMBER 31	2014	2013
Cash	1,698	1,930
Cash equivalents	2,291	2,414
Cash and cash equivalents	3,989	4,344

At December 31, 2014, cash amounting to \$142 million was restricted for use by the subsidiaries (\$112 million at December 31, 2013).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5 INVESTMENTS

#### CARRYING VALUES AND FAIR VALUES

Carrying values and estimated fair values of investments are as follows:

DECEMBER 31	2014		2013	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Bonds</b>				
Designated as fair value through profit or loss <sup>[1]</sup>	77,790	77,790	68,051	68,051
Classified as fair value through profit or loss <sup>[1]</sup>	2,167	2,167	2,053	2,053
Available for sale	10,501	10,501	8,370	8,370
Loans and receivables	13,178	14,659	11,855	12,672
	103,636	105,117	90,329	91,146
<b>Mortgage loans</b>				
Loans and receivables	27,199	29,016	24,591	25,212
Designated as fair value through profit or loss <sup>[1]</sup>	366	366	324	324
	27,565	29,382	24,915	25,536
<b>Shares</b>				
Designated as fair value through profit or loss <sup>[1]</sup>	6,697	6,697	7,297	7,297
Available for sale <sup>[2]</sup>	620	620	749	749
	7,317	7,317	8,046	8,046
<b>Investment properties</b>	4,613	4,613	4,288	4,288
<b>Loans to policyholders</b>	7,711	7,711	7,332	7,332
	150,842	154,140	134,910	136,348

[1] A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. For Lifeco 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 of certain shares available for sale cannot be reliably measured, therefore these investments are held at cost.

#### BONDS AND MORTGAGES

Carrying value of bonds and mortgages due over the current and non-current term is as follows:

DECEMBER 31, 2014	TERM TO MATURITY			CARRYING VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL
	Bonds	11,107	19,520	72,644
Mortgage loans	2,546	12,010	12,630	27,186
	13,653	31,530	85,274	130,457

DECEMBER 31, 2013	TERM TO MATURITY			CARRYING VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL
	Bonds	9,571	17,774	62,616
Mortgage loans	2,465	11,472	10,635	24,572
	12,036	29,246	73,251	114,533

The table shown above excludes the carrying value of impaired bonds and mortgages, as the ultimate timing of collectability is uncertain.

## NOTE 5 INVESTMENTS (CONTINUED)

### IMPAIRED INVESTMENTS AND ALLOWANCE FOR CREDIT LOSSES

Carrying amount of impaired investments is as follows:

DECEMBER 31	2014	2013
Impaired amounts by classification		
Fair value through profit or loss	355	384
Available for sale	14	19
Loans and receivables	17	36
Total	386	439

The above carrying values for loans and receivables are net of allowances for credit losses of \$19 million as at December 31, 2014 (\$26 million as at December 31, 2013). The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

### NET INVESTMENT INCOME

YEAR ENDED DECEMBER 31, 2014	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income						
Investment income earned	4,115	996	239	319	457	6,126
Net realized gains	65	40	11	–	–	116
Net recovery (provision) for credit losses (loans and receivables)	(9)	(8)	–	–	–	(17)
Other income (expenses)	–	(15)	–	(75)	(97)	(187)
	4,171	1,013	250	244	360	6,038
Changes in fair value through profit or loss	6,605	2	482	262	174	7,525
Net investment income	10,776	1,015	732	506	534	13,563

YEAR ENDED DECEMBER 31, 2013	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income						
Investment income earned	3,733	927	242	276	461	5,639
Net realized gains	94	55	8	–	–	157
Net recovery (provision) for credit losses (loans and receivables)	–	(2)	–	–	–	(2)
Other income (expenses)	–	(3)	–	(68)	(88)	(159)
	3,827	977	250	208	373	5,635
Changes in fair value through profit or loss	(3,851)	3	860	152	(138)	(2,974)
Net investment income	(24)	980	1,110	360	235	2,661

Investment income earned comprises income from investments that are classified as available for sale, loans and receivables and classified or designated as fair value through profit or loss. Investment income from bonds and mortgage loans includes interest income and premium and discount amortization. Income from shares includes dividends and distributions.

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.

### INVESTMENT PROPERTIES

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

DECEMBER 31	2014	2013
Balance, beginning of year	4,288	3,572
Business acquisitions	–	248
Additions	127	182
Change in fair value through profit or loss	262	152
Disposals	(98)	(82)
Transferred to owner-occupied properties	(13)	–
Foreign exchange rate changes and other	47	216
Balance, end of year	4,613	4,288

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5 INVESTMENTS (CONTINUED)

#### TRANSFERRED FINANCIAL ASSETS

Lifeco engages in securities lending to generate additional income. Lifeco's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with Lifeco'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. Included in

the collateral deposited with Lifeco's lending agent is cash collateral of \$16 million as at December 31, 2014 (\$20 million as at December 31, 2013). In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2014, Lifeco had loaned securities (which are included in investments) having a fair value of \$5,890 million (\$5,204 million as at December 31, 2013).

### NOTE 6 FUNDS HELD BY CEDING INSURERS

Included in funds held by ceding insurers of \$12,154 million at December 31, 2014 (\$10,832 million at December 31, 2013) are agreements with Standard Life Assurance Limited (Standard Life) and a Dutch insurer.

During 2008, Canada Life International Re Limited (CLIRE), Lifeco's indirect wholly owned Irish reinsurance subsidiary, signed an agreement with Standard Life, a U.K.-based provider of life, pension and investment products, to assume by way of indemnity reinsurance a large block of payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life and CLIRE has assumed the credit risk on the portfolio of assets included in the amounts on deposit.

During 2014, an indirect wholly owned reinsurance subsidiary of Lifeco entered into an agreement to assume by way of indemnity reinsurance a block of payout annuities. Under the agreement, Lifeco's subsidiary is required to put amounts on deposit with the counterparty and the subsidiary has assumed the credit risk on the portfolio of assets included in the amounts on deposit.

The amounts on deposit for both agreements are included in funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreements are included in net investment income on the statements of earnings.

At December 31, 2014 Lifeco had amounts on deposit of \$10,758 million (\$9,848 million at December 31, 2013) for these two agreements. The details of the funds on deposit and related credit risk on the funds related to these agreements are as follows:

#### CARRYING VALUES AND ESTIMATED FAIR VALUES

DECEMBER 31	2014		2013	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash and cash equivalents	200	200	70	70
Bonds	10,397	10,397	9,619	9,619
Other assets	161	161	159	159
	10,758	10,758	9,848	9,848
Supporting:				
Reinsurance liabilities	10,386	10,386	9,402	9,402
Surplus	372	372	446	446
	10,758	10,758	9,848	9,848

#### FAIR VALUE BY HIERARCHY LEVEL

The following presents the amounts on deposit for funds held by ceding insurers measured at fair value on a recurring basis by hierarchy level:

DECEMBER 31	2014				2013			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and cash equivalents	200	–	–	200	70	–	–	70
Bonds	–	10,397	–	10,397	–	9,619	–	9,619
Total	200	10,397	–	10,597	70	9,619	–	9,689

## NOTE 6 FUNDS HELD BY CEDING INSURERS (CONTINUED)

### CARRYING VALUE OF BONDS BY ISSUER AND INDUSTRY SECTOR

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

DECEMBER 31	2014	2013
Bonds issued or guaranteed by:		
Canadian federal government	49	75
Provincial, state and municipal governments	16	17
U.S. treasury and other U.S. agencies	25	22
Other foreign governments	1,923	2,097
Government-related	548	508
Supranationals	167	185
Asset-backed securities	260	249
Residential mortgage-backed securities	107	91
Banks	1,944	1,944
Other financial institutions	1,087	1,033
Basic materials	110	70
Communications	168	138
Consumer products	862	704
Industrial products/services	174	108
Natural resources	389	354
Real estate	778	540
Transportation	231	196
Utilities	1,411	1,190
Miscellaneous	130	98
Short-term bonds	18	–
Total bonds	10,397	9,619

### ASSET QUALITY

The following table provides details of the carrying value of the bond portfolio by credit rating:

BOND PORTFOLIO BY CREDIT RATING DECEMBER 31	2014	2013
AAA	2,312	2,669
AA	2,944	2,382
A	4,194	3,666
BBB	596	546
BB and lower	351	356
Total bonds	10,397	9,619



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 7 INVESTMENTS IN JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

Investments in jointly controlled corporations and associates are composed principally of the Corporation's 50% interest in Parjointco. As at December 31, 2014, Parjointco held a 55.5% equity interest in Pargesa (55.6% as at December 31, 2013), representing 75.4% of the voting rights.

Investments in jointly controlled corporations and associates also include Lifeco's 30.4% investment (same as December 31, 2013), held through Irish Life, in Allianz Ireland, an unlisted general insurance company operating in Ireland.

Carrying values of the investments in jointly controlled corporations and associates are as follows:

DECEMBER 31	2014			2013		
	PARJOINTCO	OTHER	TOTAL	PARJOINTCO	OTHER	TOTAL
Carrying value, beginning of year	2,437	227	2,664	2,121	–	2,121
Business acquisitions	–	–	–	–	207	207
Share of earnings	187	24	211	114	20	134
Share of other comprehensive income (loss)	(97)	(20)	(117)	260	14	274
Dividends	(75)	(24)	(99)	(63)	(15)	(78)
Other	(12)	30	18	5	1	6
Carrying value, end of year	2,440	237	2,677	2,437	227	2,664

The net asset value of the Corporation's indirect interest in Pargesa is approximately \$2,878 million as at December 31, 2014. The carrying value of the investment in Pargesa is \$2,440 million, or \$1,942 million excluding the unrealized net gains of its underlying investments. Pargesa's financial information as at and for the year ended December 31, 2014 can be obtained in its publicly available information.

### NOTE 8 OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

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

DECEMBER 31	2014			2013		
	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS	TOTAL	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS	TOTAL
Cost, beginning of year	693	968	1,661	607	907	1,514
Business acquisitions	–	–	–	49	30	79
Additions	15	105	120	23	85	108
Transferred from investment properties	13	–	13	–	–	–
Disposal/retirements	–	(17)	(17)	–	(66)	(66)
Change in foreign exchange rates and other	11	6	17	14	12	26
Cost, end of year	732	1,062	1,794	693	968	1,661
Accumulated amortization, beginning of year	(52)	(684)	(736)	(43)	(680)	(723)
Amortization	(9)	(72)	(81)	(9)	(53)	(62)
Impairment	–	–	–	–	(2)	(2)
Disposal/retirements	–	–	–	–	54	54
Change in foreign exchange rates and other	–	9	9	–	(3)	(3)
Accumulated amortization, end of year	(61)	(747)	(808)	(52)	(684)	(736)
Carrying value, end of year	671	315	986	641	284	925

The following table provides details of the carrying value of owner-occupied properties and capital assets by geographic location:

DECEMBER 31	2014	2013
Canada	638	613
United States	212	188
Europe	136	124
	986	925

## NOTE 9 OTHER ASSETS

DECEMBER 31	2014	2013
Premiums in course of collection, accounts receivable and interest receivable	3,527	3,435
Deferred acquisition costs	644	687
Pension benefits [Note 24]	275	408
Income taxes receivable	71	199
Trading account assets	405	376
Finance leases receivable	285	—
Prepaid expenses	132	115
Other	693	687
	6,032	5,907

Total other assets of \$4,811 million as at December 31, 2014 are to be realized within 12 months.

## NOTE 10 GOODWILL AND INTANGIBLE ASSETS

### GOODWILL

The carrying value of goodwill and changes in the carrying value of goodwill are as follows:

DECEMBER 31	2014			2013		
	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE
Balance, beginning of year	10,058	(953)	9,105	9,563	(890)	8,673
Business acquisitions	51	—	51	395	—	395
Changes in foreign exchange rates	83	(90)	(7)	100	(63)	37
Balance, end of year	10,192	(1,043)	9,149	10,058	(953)	9,105

### INTANGIBLE ASSETS

The carrying value of the intangible assets and changes in the carrying value of the intangible assets are as follows:

#### INDEFINITE LIFE INTANGIBLE ASSETS

DECEMBER 31, 2014	CUSTOMER CONTRACT-RELATED	SHAREHOLDERS' PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	BRANDS, TRADEMARKS AND TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost, beginning of year	2,398	354	1,178	741	4,671
Changes in foreign exchange rates	194	—	28	—	222
Cost, end of year	2,592	354	1,206	741	4,893
Accumulated impairment, beginning of year	(858)	—	(132)	—	(990)
Changes in foreign exchange rates and other	(81)	—	(8)	—	(89)
Accumulated impairment, end of year	(939)	—	(140)	—	(1,079)
Carrying value, end of year	1,653	354	1,066	741	3,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 10** GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

DECEMBER 31, 2013	CUSTOMER CONTRACT- RELATED	SHAREHOLDERS' PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	BRANDS, TRADEMARKS AND TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost, beginning of year	2,264	354	1,002	740	4,360
Business acquisitions	–	–	131	–	131
Additions	–	–	–	1	1
Changes in foreign exchange rates	134	–	45	–	179
Cost, end of year	2,398	354	1,178	741	4,671
Accumulated impairment, beginning of year	(802)	–	(91)	–	(893)
Impairment	–	–	(34)	–	(34)
Changes in foreign exchange rates and other	(56)	–	(7)	–	(63)
Accumulated impairment, end of year	(858)	–	(132)	–	(990)
Carrying value, end of year	1,540	354	1,046	741	3,681

**FINITE LIFE INTANGIBLE ASSETS**

DECEMBER 31, 2014	CUSTOMER CONTRACT- RELATED	TECHNOLOGY AND SOFTWARE	DEFERRED SELLING COMMISSIONS	OTHER	TOTAL
Cost, beginning of year	707	825	1,379	221	3,132
Business acquisitions	18	–	–	–	18
Additions	–	157	256	1	414
Disposal/redemption	–	(16)	(69)	–	(85)
Changes in foreign exchange rates	20	32	–	(1)	51
Other, including write-off of assets fully amortized	–	19	(219)	–	(200)
Cost, end of year	745	1,017	1,347	221	3,330
Accumulated amortization, beginning of year	(280)	(474)	(691)	(87)	(1,532)
Amortization	(47)	(87)	(203)	(11)	(348)
Impairment	–	(7)	–	–	(7)
Disposal/redemption	–	14	38	–	52
Changes in foreign exchange rates	(11)	(20)	–	–	(31)
Other, including write-off of assets fully amortized	–	–	219	–	219
Accumulated amortization, end of year	(338)	(574)	(637)	(98)	(1,647)
Carrying value, end of year	407	443	710	123	1,683

## NOTE 10 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

DECEMBER 31, 2013	CUSTOMER CONTRACT- RELATED	TECHNOLOGY AND SOFTWARE	DEFERRED SELLING COMMISSIONS	OTHER	TOTAL
Cost, beginning of year	564	680	1,448	213	2,905
Business acquisitions	116	–	–	–	116
Additions	–	115	237	2	354
Disposal/redemption	–	(1)	(84)	(1)	(86)
Changes in foreign exchange rates	27	18	–	7	52
Other, including write-off of assets fully amortized	–	13	(222)	–	(209)
Cost, end of year	707	825	1,379	221	3,132
Accumulated amortization, beginning of year	(235)	(377)	(752)	(75)	(1,439)
Amortization	(39)	(82)	(210)	(11)	(342)
Impairment	–	(3)	–	–	(3)
Disposal/redemption	–	–	49	–	49
Changes in foreign exchange rates	(6)	(11)	–	(1)	(18)
Other, including write-off of assets fully amortized	–	(1)	222	–	221
Accumulated amortization, end of year	(280)	(474)	(691)	(87)	(1,532)
Carrying value, end of year	427	351	688	134	1,600

The Corporation and its subsidiaries conducted their annual impairment testings of intangible assets which resulted in impairment charges of \$7 million (\$37 million in 2013) and have been recorded in operating and administrative expenses.

### ALLOCATION TO CASH GENERATING UNITS

Goodwill and indefinite life intangible assets have been assigned to cash generating units (CGUs) as follows:

DECEMBER 31	2014			2013		
	GOODWILL	INTANGIBLE ASSETS	TOTAL	GOODWILL	INTANGIBLE ASSETS	TOTAL
LIFECO						
Canada						
Group	1,156	–	1,156	1,142	–	1,142
Individual insurance / wealth management	3,028	973	4,001	3,028	973	4,001
Europe						
Insurance and annuities	1,950	221	2,171	1,970	226	2,196
Reinsurance	1	–	1	1	–	1
United States						
Financial services	180	–	180	131	–	131
Asset management	–	1,594	1,594	–	1,456	1,456
IGM						
Investors Group	1,443	–	1,443	1,443	–	1,443
Mackenzie	1,251	1,003	2,254	1,251	1,003	2,254
Other and corporate	140	23	163	139	23	162
	9,149	3,814	12,963	9,105	3,681	12,786

No goodwill and intangible assets have been allocated across multiple CGUs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 10 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

#### RECOVERABLE AMOUNT

##### LIFECO

For purposes of annual impairment testing, Lifeco allocates goodwill and indefinite life intangible assets to its CGUs. Any potential impairment of goodwill or indefinite life intangible assets is identified by comparing the recoverable amount to its carrying value. The recoverable amount is determined as the higher of fair value less costs of disposal or value-in-use. In the case of goodwill and indefinite life intangible assets, the higher of the two is the value-in-use method.

Value-in-use is calculated by discounting management's cash flow projections approved by the board of directors of Lifeco covering the initial forecast period of three to five years. Value beyond the initial period is derived by applying a terminal value multiple to the final year of the initial projection period. The

discount rate is reflective of the country and product specific cash flow risks and the terminal growth rate is estimated as the long-term average growth rate, including inflation of the markets in which Lifeco operates.

Fair value is determined using a combination of commonly accepted valuation methodologies, namely comparable trading and transaction multiples. Comparable trading and transaction multiple methodologies calculate fair value by applying multiples observed in the market against historical and projected results approved by management of Lifeco.

In the fourth quarter of 2014, Lifeco conducted its annual impairment testing of goodwill and intangible assets based on September 30, 2014 asset balances. It was determined that the recoverable amounts of goodwill and indefinite life intangible assets were in excess of their carrying values and there was no evidence of impairment.

For the year ended December 31, 2014 the ranges of key assumptions for the CGUs within the Canada, Europe and United States operating segments were as follows:

%	EARNINGS GROWTH RATE	DISCOUNT RATE (AFTER TAX)	TERMINAL GROWTH RATE	INCOME TAX RATE
Canada				
Group	4.0 – 23.0	9.0 – 11.0	1.5 – 2.5	26.5
Individual insurance / wealth management	(3.0) – 15.0	9.5 – 10.5	1.5 – 2.5	26.5
Europe				
Insurance and annuities	(10.0) – 16.0	9.5 – 14.0	1.5 – 3.5	12.5 – 20.0
Reinsurance	(18.0) – 5.0	11.5 – 12.5	1.5 – 2.5	N/A
United States				
Financial services	(11.0) – 10.0	9.5 – 10.5	1.5 – 2.5	39.9
Asset management	2.0 – 15.0	11.0 – 13.0	3.0	39.9

Any reasonable possible change to these assumptions is unlikely to cause the CGUs' carrying value to exceed its recoverable amount.

##### IGM FINANCIAL

IGM tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of IGM's CGUs is based on the best available evidence of fair value less cost of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and precedent business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability).

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 fair value inputs.

The fair value less cost of disposal of IGM's CGUs was compared with the carrying amount and it was determined there was no impairment. Changes in assumptions and estimates used in determining the recoverable amounts of CGUs can result in significant adjustments to the valuation of the CGUs. Any reasonably possible change to these assumptions is unlikely to cause the CGUs' carrying value to exceed its recoverable amount.



## NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES

Lifeco offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective markets. 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 Lifeco has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and Lifeco segregates these investments from those of the corporation itself.

In Canada and the U.S., the segregated fund and separate account assets are legally separated from the general assets of Lifeco under the terms of the policyholder agreement and cannot be used to settle obligations of Lifeco. In Europe, the assets of the funds are functionally and constructively segregated from those of Lifeco. 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 balance sheets titled investments on account of segregated fund policyholders and with an equal liability titled insurance and investment 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, Lifeco 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 \$1,012 million at December 31, 2014 (\$772 million at December 31, 2013).

Within the statement 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 balance sheets. As these amounts do not directly impact the revenues and expenses of Lifeco, these amounts are not included separately in the statements of earnings.

### SEGREGATED FUNDS AND GUARANTEE EXPOSURE

Lifeco offers retail segregated fund products, variable annuity products and unitized with profits products that provide for certain guarantees that are tied to the fair 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 Lifeco's primary exposure on these funds. Lifeco accounts for these guarantees within insurance and investment contract liabilities in the financial statements. In addition to Lifeco's exposure on the guarantees, the fees earned by Lifeco on these products are impacted by the market value of these funds.

In Canada, Lifeco offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits and guaranteed minimum accumulation on maturity benefits.

In the U.S., Lifeco offers variable annuities with guaranteed minimum death benefits through Great-West Financial. Most are a return of premium on death with the guarantee expiring at age 70.

In Europe, Lifeco offers unitized with profits products, which are similar to segregated fund products, but with pooling of policyholders' funds and minimum credited interest rates.

Lifeco also offers guaranteed minimum withdrawal benefits products in Canada, the U.S. and Europe. The guaranteed minimum withdrawal benefits products offered by Lifeco offer levels of death and maturity guarantees. At December 31, 2014, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was \$3,016 million (\$2,674 million at December 31, 2013).

Lifeco's exposure to these guarantees is set out as follows:

DECEMBER 31, 2014	INVESTMENT DEFICIENCY BY BENEFIT TYPE				
	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL <sup>[1]</sup>
Canada	28,958	–	30	97	97
United States	10,014	1	–	43	44
Europe	9,301	351	36	72	422
Total	48,273	352	66	212	563

DECEMBER 31, 2013	INVESTMENT DEFICIENCY BY BENEFIT TYPE				
	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL <sup>[1]</sup>
Canada	26,779	–	32	101	101
United States	8,853	–	–	42	42
Europe	8,683	260	16	74	334
Total	44,315	260	48	217	477

[1] A policy can only receive a payout for one of the three trigger events (income election, maturity, or death).

The investment deficiency measures the point-in-time exposure to a trigger event (i.e. income election, maturity, or death) assuming it occurred on December 31, 2014. The actual cost to Lifeco will depend on the trigger event having occurred and the fair values at that time. The actual claims before tax associated with these guarantees were approximately \$10 million for the year ended December 31, 2014, with the majority arising in the Europe segment.

For further details on Lifeco's risk and guarantee exposure and the management of these risks, refer to "Risk Management and Control Practices" in the Lifeco section of the Corporation's annual Management's Discussion and Analysis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (CONTINUED)

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

#### INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

DECEMBER 31	2014	2013
Cash and cash equivalents	11,052	11,374
Bonds	37,912	34,405
Mortgage loans	2,508	2,427
Shares and units in unit trusts	68,911	62,882
Mutual funds	46,707	41,555
Investment properties	9,533	8,284
	176,623	160,927
Accrued income	364	380
Other liabilities/assets	(3,033)	(1,300)
Non-controlling mutual fund interest	1,012	772
	174,966	160,779

#### INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

YEARS ENDED DECEMBER 31	2014	2013
Balance, beginning of year	160,779	105,432
Additions (deductions):		
Policyholder deposits	20,909	15,861
Net investment income	2,997	1,565
Net realized capital gains on investments	5,683	3,419
Net unrealized capital gains on investments	5,301	7,879
Unrealized gains due to changes in foreign exchange rates	826	7,226
Policyholder withdrawals	(21,057)	(17,141)
Business acquisitions	–	36,348
Segregated fund investment in General Fund <sup>[1]</sup>	(382)	–
General fund investment in Segregated Fund <sup>[1]</sup>	(401)	–
Net transfer from General Fund	71	67
Non-controlling mutual fund interest	240	123
	14,187	55,347
Balance, end of year	174,966	160,779

[1] During the year, Lifeco reclassified certain amounts invested by the Segregated Funds into the General Fund of \$382 million and amounts invested in the General Fund into the Segregated Funds of \$401 million.

#### INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

YEARS ENDED DECEMBER 31	2014	2013
Net investment income	2,997	1,565
Net realized capital gains on investments	5,683	3,419
Net unrealized capital gains on investments	5,301	7,879
Unrealized gains due to changes in foreign exchange rates	826	7,226
Total	14,807	20,089
Change in insurance and investment contract liabilities on account of segregated fund policyholders	14,807	20,089
Net	–	–

## NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (CONTINUED)

### INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS (by fair value hierarchy level)

DECEMBER 31, 2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments on account of segregated fund policyholders <sup>[1]</sup>	112,189	54,942	10,390	177,521

[1] Excludes other liabilities, net of other assets, of \$2,555 million.

DECEMBER 31, 2013	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments on account of segregated fund policyholders <sup>[1]</sup>	106,144	46,515	9,298	161,957

[1] Excludes other liabilities, net of other assets, of \$1,178 million.

During 2014 certain foreign equity holdings valued at \$2,234 million have been transferred from Level 1 to Level 2 (\$1,780 million were transferred from Level 2 to Level 1 at December 31, 2013), based on Lifeco's ability to utilize observable, quoted prices in active markets.

Level 2 assets include those assets where fair value is not available from normal market pricing sources and where Lifeco does not have visibility through to the underlying assets.

The following presents additional information about Lifeco's investments on account of segregated fund policyholders for which Lifeco has utilized Level 3 inputs to determine fair value for the years ended December 31:

DECEMBER 31	2014	2013
Balance, beginning of year	9,298	6,287
Total gains included in segregated fund investment income	782	694
Business acquisitions	–	2,326
Purchases	919	428
Sales	(603)	(440)
Transfers into Level 3	4	4
Transfers out of Level 3	(10)	(1)
Balance, end of year	10,390	9,298

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, Lifeco 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 managed by related parties of Lifeco and Lifeco receives management fees related to these services. Management fees can be variable due to the 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.

Fee and other income earned by Lifeco resulting from Lifeco's interests in these structured entities was \$3,813 million for the year ended December 31, 2014 (\$3,068 million in 2013).

Included within other assets at December 31, 2014 is \$327 million (\$306 million at December 31, 2013) of investments by Lifeco in bonds and stocks of Putnam-sponsored funds and \$78 million (\$70 million at December 31, 2013) of investments in stocks of sponsored unit trusts in Europe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES**

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

DECEMBER 31, 2014	GROSS LIABILITY	REINSURANCE ASSETS	NET
Insurance contract liabilities	145,198	5,151	140,047
Investment contract liabilities	857	–	857
	146,055	5,151	140,904

DECEMBER 31, 2013	GROSS LIABILITY	REINSURANCE ASSETS	NET
Insurance contract liabilities	131,174	5,070	126,104
Investment contract liabilities	889	–	889
	132,063	5,070	126,993

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of insurance and investment contract liabilities of Lifeco is as follows:

DECEMBER 31	2014			2013		
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET
Participating						
Canada	31,181	(156)	31,337	29,107	(132)	29,239
United States	10,362	12	10,350	9,337	11	9,326
Europe	1,377	–	1,377	1,247	–	1,247
Non-participating						
Canada	28,094	832	27,262	25,898	521	25,377
United States	22,611	233	22,378	19,038	238	18,800
Europe	52,430	4,230	48,200	47,436	4,432	43,004
	146,055	5,151	140,904	132,063	5,070	126,993

The composition of the assets supporting liabilities and equity of Lifeco is as follows:

DECEMBER 31, 2014	BONDS	MORTGAGE LOANS	SHARES <sup>[1]</sup>	INVESTMENT PROPERTIES	OTHER	TOTAL
Participating liabilities						
Canada	13,856	7,810	4,270	1,167	4,078	31,181
United States	5,080	278	–	–	5,004	10,362
Europe	968	38	144	63	164	1,377
Non-participating liabilities						
Canada	18,991	3,941	1,740	5	3,417	28,094
United States	18,678	3,330	–	–	603	22,611
Europe	30,723	3,702	191	2,738	15,076	52,430
Other, including segregated funds	9,998	690	4	107	177,958	188,757
Total equity	4,874	757	1,471	533	14,262	21,897
Total carrying value	103,168	20,546	7,820	4,613	220,562	356,709
Fair value	104,649	22,167	7,331	4,613	220,562	359,322

[1] Fair value excludes shares classified as available for sale and carried at cost when a fair value cannot be reliably measured.

## NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

DECEMBER 31, 2013 [NOTE 33]	BONDS	MORTGAGE LOANS	SHARES <sup>[1]</sup>	INVESTMENT PROPERTIES	OTHER	TOTAL
Participating liabilities						
Canada	11,907	7,701	4,923	1,157	3,419	29,107
United States	4,583	141	–	–	4,613	9,337
Europe	852	39	143	35	178	1,247
Non-participating liabilities						
Canada	16,157	3,769	1,796	3	4,173	25,898
United States	15,508	2,911	–	–	619	19,038
Europe	27,273	3,290	225	2,460	14,188	47,436
Other, including segregated funds	9,239	641	96	87	163,920	173,983
Total equity	4,395	571	1,371	546	12,947	19,830
Total carrying value	89,914	19,063	8,554	4,288	204,057	325,876
Fair value	90,731	19,517	8,088	4,288	204,057	326,681

[1] Fair value excludes shares classified as available for sale and carried at cost when a fair value cannot be reliably measured.

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially 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.

### 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:

DECEMBER 31, 2014	PARTICIPATING			NON-PARTICIPATING			TOTAL NET
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	
Balance, beginning of year	39,663	(121)	39,784	91,511	5,191	86,320	126,104
Impact of new business	20	–	20	6,062	152	5,910	5,930
Normal change in force	2,312	8	2,304	2,588	162	2,426	4,730
Management action and changes in assumptions	(42)	(32)	(10)	(440)	(24)	(416)	(426)
Business movement from/to external parties	–	–	–	(100)	(25)	(75)	(75)
Impact of foreign exchange rate changes	940	1	939	2,684	(161)	2,845	3,784
Balance, end of year	42,893	(144)	43,037	102,305	5,295	97,010	140,047

DECEMBER 31, 2013	PARTICIPATING			NON-PARTICIPATING			TOTAL NET
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	
Balance, beginning of year	38,003	(74)	38,077	81,970	2,138	79,832	117,909
Business acquisition	–	–	–	6,160	2,963	3,197	3,197
Impact of new business	16	–	16	5,251	(135)	5,386	5,402
Normal change in force	1,049	(13)	1,062	(5,898)	417	(6,315)	(5,253)
Management action and changes in assumptions	(129)	(36)	(93)	(407)	(323)	(84)	(177)
Business movement from/to external parties	–	–	–	(455)	(234)	(221)	(221)
Impact of foreign exchange rate changes	724	2	722	4,890	365	4,525	5,247
Balance, end of year	39,663	(121)	39,784	91,511	5,191	86,320	126,104

**NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES** (CONTINUED)

Under fair value accounting, 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.

On May 15, 2014, the Canadian Actuarial Standards Board published the Standards of Practice (Standards) effective October 15, 2014, reflecting revisions to economic reinvestment assumptions used in the valuation of insurance contract liabilities.

In 2014, the major contributors to the increase in net insurance contract liabilities were the impact of new business (\$5,930 million increase), the normal change in the in-force business (\$4,730 million increase) which was primarily due to the change in fair value and the impact of foreign exchange rate changes (\$3,784 million increase). This was partially offset by management actions and assumption changes (\$426 million decrease).

Net non-participating insurance contract liabilities decreased by \$416 million in 2014 due to management actions and assumption changes including a \$193 million decrease in Canada, a \$135 million decrease in Europe and an \$88 million decrease in the United States.

The decrease in Canada was primarily due to modelling refinements (\$83 million decrease), updated economic assumptions including the change in Standards (\$77 million decrease), updated policyholder behaviour assumptions (\$60 million decrease), updated morbidity assumptions (\$44 million decrease), updated expenses and taxes (\$10 million decrease) and updates to other provisions (\$6 million decrease), partially offset by updated mortality assumptions (\$62 million increase) and updated longevity assumptions (\$25 million increase).

The decrease in Europe was primarily due to updated longevity assumptions (\$110 million decrease), updated economic assumptions including the change in Standards (\$107 million decrease), modelling refinements (\$63 million decrease) and updated morbidity assumptions (\$22 million decrease), partially offset by updated policyholder behaviour assumptions (\$142 million increase), updated mortality assumptions (\$20 million increase) and updates to other provisions (\$5 million increase).

The decrease in the United States was primarily due to updated mortality assumptions (\$103 million decrease), updated policyholder behaviour assumptions (\$67 million decrease) and updated longevity assumptions (\$6 million decrease), partially offset by modelling refinements (\$51 million increase) and updated economic assumptions including the change in Standards (\$37 million increase).

Net participating insurance contract liabilities decreased by \$10 million in 2014 due to management actions and assumption changes. The decrease was primarily due to higher investment returns (\$152 million decrease), updated expenses and taxes (\$144 million decrease), modelling refinements (\$68 million decrease) and updated mortality assumptions (\$20 million decrease), partially offset by increased provisions for future policyholder dividends (\$360 million increase), updated policyholder behaviour assumptions (\$13 million increase) and updated morbidity assumptions (\$1 million increase).

In 2013, the major contributors to the increase in net insurance contract liabilities were the impact of new business (\$5,402 million increase), the impact of foreign exchange rate changes (\$5,247 million increase) and the Irish Life acquisition (\$3,197 million increase). This was partially offset by the normal change in the in-force business (\$5,253 million decrease) which was partly due to the change in fair value.

Net non-participating insurance contract liabilities decreased by \$84 million in 2013 due to management actions and assumption changes including a \$123 million decrease in Canada, a \$41 million increase in Europe and a \$2 million decrease in the United States.

The decrease in Canada was primarily due to updated mortality assumptions (\$95 million decrease), updated morbidity assumptions (\$70 million decrease), modelling refinements across the Canadian segment (\$15 million decrease), updated economic assumptions (\$5 million decrease) and updated expenses and taxes (\$3 million decrease), partially offset by updated policyholder behaviour assumptions (\$63 million increase) and updated longevity assumptions (\$3 million increase).

The increase in Europe was primarily due to increased updated policyholder behaviour assumptions (\$55 million increase), increased provisions for expenses and taxes (\$30 million increase), updated morbidity assumptions (\$27 million increase) and updates to other provisions (\$4 million increase), partially offset by updates to the life mortality assumptions (\$40 million decrease), updated economic assumptions (\$25 million decrease) and modelling refinements (\$11 million decrease).

The decrease in the United States was primarily due to updated life mortality assumptions (\$12 million decrease), partially offset by updated expenses and taxes (\$9 million increase), and updated longevity assumptions (\$1 million increase).

Net participating insurance contract liabilities decreased by \$93 million in 2013 due to management actions and assumption changes. The decrease was primarily due to decreases from higher investment returns (\$631 million decrease), modelling refinements in Canada (\$109 million decrease) and updated expenses and taxes (\$88 million decrease), partially offset by increased provisions for future policyholder dividends (\$710 million increase), updated policyholder behaviour assumptions (\$20 million increase), updated life mortality assumptions (\$4 million increase) and updated morbidity assumptions (\$1 million increase).



## NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

### CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

DECEMBER 31	2014	2013
Balance, beginning of year	889	739
Business acquisitions	–	194
Normal change in in-force business	(78)	(97)
Investment experience	43	19
Management action and changes in assumptions	(10)	–
Impact of foreign exchange rate changes	13	34
Balance, end of year	857	889

The carrying value of investment contract liabilities approximates their fair value. No investment contract liabilities have been reinsured.

### PREMIUM INCOME

DECEMBER 31	2014	2013
Direct premiums	19,926	18,772
Assumed reinsurance premiums	4,760	4,669
Total	24,686	23,441

### POLICYHOLDER BENEFITS

DECEMBER 31	2014	2013
Direct	14,892	13,516
Assumed reinsurance	4,471	4,948
Total	19,363	18,464

### 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 Lifeco'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. The actuarial standards were amended in 2011 to remove the requirement that, for life insurance, any reduction in liabilities due to mortality improvement assumptions be offset by an equal amount of provision for adverse deviation. 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 industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

**Morbidity** Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco 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 London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities have been established using cash flow valuation techniques, including discounting. The insurance contract liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. 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. LRG 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 (refer to Note 21).

**NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES** (CONTINUED)

**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. Improvements in unit operating expenses are not projected. 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 Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco has significant exposures 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 Reinsurance. Industry experience has guided Lifeco's assumptions for these products as Lifeco'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 Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco 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 Lifeco'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 impacting shareholder earnings is reflected in the impact of changes in best estimate assumptions above.

**RISK MANAGEMENT**

**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.

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

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

	IMPACT ON NET EARNINGS	
	2014	2013
Mortality – 2% increase	(238)	(217)
Annuitant mortality – 2% decrease	(272)	(272)
Morbidity – 5% adverse change	(220)	(208)
Investment returns		
Parallel shift in yield curve		
1% increase	–	–
1% decrease	–	–
Change in range of interest rates		
1% increase	41	12
1% decrease	(383)	(322)
Change in equity markets		
10% increase	34	34
10% decrease	(113)	(150)
Change in best estimate returns for equities		
1% increase	355	353
1% decrease	(372)	(392)
Expenses – 5% increase	(99)	(76)
Policy termination and renewal – 10% adverse change	(568)	(466)

## NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

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

DECEMBER 31	2014			2013		
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET
Canada	59,275	676	58,599	55,005	389	54,616
United States	32,973	245	32,728	28,375	249	28,126
Europe	53,807	4,230	49,577	48,683	4,432	44,251
	146,055	5,151	140,904	132,063	5,070	126,993

**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 Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco 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 Lifeco retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

## NOTE 13 OBLIGATION TO SECURITIZATION ENTITIES

IGM securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC)-sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as IGM retains prepayment risk and certain elements of credit risk. Accordingly, IGM has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as obligations to securitization entities which are carried at amortized cost.

IGM earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, IGM enters into a swap transaction whereby IGM pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage

principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$26 million at December 31, 2014 (a negative fair value of \$16 million in 2013).

Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, IGM has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to IGM's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

DECEMBER 31	2014			2013		
	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value						
NHA MBS and CMB Programs	4,611	4,692	(81)	3,803	3,843	(40)
Bank-sponsored ABCP	2,013	2,062	(49)	1,689	1,729	(40)
Total	6,624	6,754	(130)	5,492	5,572	(80)
Fair value	6,820	6,859	(39)	5,659	5,671	(12)

The carrying value of obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

**NOTE 14 DEBENTURES AND DEBT INSTRUMENTS**

DECEMBER 31	2014		2013	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>DEBT INSTRUMENTS</b>				
GREAT-WEST LIFECO INC.				
Commercial paper and other short-term debt instruments with interest rates from 0.21% to 0.22% (0.24% to 0.33% in 2013)	114	114	105	105
Revolving credit facility with interest equal to LIBOR rate plus 0.75% or U.S. prime rate loan (US\$355 million; US\$450 million at December 31, 2013), unsecured	412	412	477	477
2.3% mortgage payable (€50 million), matures June 30, 2015	70	70	75	75
Term note due October 18, 2015, bearing an interest rate of LIBOR rate plus 0.75%, (US\$304 million) – repaid in full on December 22, 2014, unsecured	–	–	322	322
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	–	–	1	1
<b>TOTAL DEBT INSTRUMENTS</b>	<b>596</b>	<b>596</b>	<b>980</b>	<b>980</b>
<b>DEBENTURES</b>				
POWER FINANCIAL CORPORATION				
6.90% debentures, due March 11, 2033, unsecured	250	335	250	304
GREAT-WEST LIFECO INC.				
5.25% subordinated debentures due February 8, 2017, including associated fixed to floating swap (€200 million), unsecured	298	313	317	321
6.14% debentures due March 21, 2018, unsecured	200	226	199	227
4.65% debentures due August 13, 2020, unsecured	498	557	498	539
2.50% debentures due April 18, 2023, (€500 million) unsecured	695	773	729	713
6.40% subordinated debentures due December 11, 2028, unsecured	100	129	100	117
6.74% debentures due November 24, 2031, unsecured	192	268	192	246
6.67% debentures due March 21, 2033, unsecured	391	536	391	493
6.625% deferrable debentures due November 15, 2034, (US\$175 million) unsecured	200	230	182	184
5.998% debentures due November 16, 2039, unsecured	342	450	342	405
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and, thereafter, a rate of 2.538% plus the 3-month LIBOR rate, (US\$300 million) unsecured	348	354	317	328
Subordinated debentures due June 21, 2067, bearing an interest rate of 5.691% until June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 1.49%, unsecured	997	1,087	996	1,097
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured	498	583	497	583
IGM FINANCIAL INC.				
6.58% debentures 2003 Series, due March 7, 2018, unsecured	150	171	150	172
7.35% debentures 2009 Series, due April 8, 2019, unsecured	375	450	375	450
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	160	125	146
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	208	150	189
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	236	175	213
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	205	150	185
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	252	200	223
Debentures held by Lifeco as investments	(43)	(54)	(40)	(49)
<b>TOTAL DEBENTURES</b>	<b>6,291</b>	<b>7,469</b>	<b>6,295</b>	<b>7,086</b>
	<b>6,887</b>	<b>8,065</b>	<b>7,275</b>	<b>8,066</b>

On April 18, 2013 Lifeco issued €500 million of 10-year, 2.50% senior euro bonds in connection with the acquisition of Irish Life.

## NOTE 14 DEBENTURES AND DEBT INSTRUMENTS (CONTINUED)

The principal payments on debentures and debt instruments in each of the next five years are as follows:

2015	596
2016	–
2017	280
2018	350
2019	375
Thereafter	5,286

## NOTE 15 OTHER LIABILITIES

DECEMBER 31	2014	2013
Bank overdraft	447	380
Accounts payable	1,828	1,935
Dividends and interest payable	401	362
Income taxes payable	768	1,014
Deferred income reserve	429	451
Capital trust debentures	162	163
Deposits and certificates	223	187
Funds held under reinsurance contracts	313	270
Pension and other post-employment benefits [Note 24]	1,661	1,194
Other	1,061	1,105
	7,293	7,061

Total other liabilities of \$4,468 million as at December 31, 2014 are expected to be settled within 12 months.

## DEFERRED INCOME RESERVE

Changes in the deferred income reserve of Lifeco are as follows:

DECEMBER 31	2014	2013
Balance, beginning of year	451	427
Additions	57	70
Amortization	(38)	(39)
Foreign exchange	10	38
Disposals	(51)	(45)
Balance, end of year	429	451

## CAPITAL TRUST DEBENTURES

DECEMBER 31	2014		2013	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Canada Life Capital Trust (CLCT)				
7.529% capital trust debentures due June 30, 2052, unsecured	150	220	150	205
Acquisition-related fair value adjustment	12	–	13	–
	162	220	163	205

CLCT, a trust established by Canada Life, had issued \$150 million 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 million.

Distributions and interest on the capital trust debentures are classified as financing charges on the statements of earnings (see Note 23). The fair value for capital trust securities is determined by the bid-ask price.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 16 INCOME TAXES

#### EFFECTIVE INCOME TAX RATE

The Corporation's effective income tax rate is derived as follows:

YEARS ENDED DECEMBER 31	2014	2013
	%	%
Combined statutory Canadian federal and provincial tax rates	26.5	26.5
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(3.4)	(4.4)
Lower effective tax rates on income not subject to tax in Canada	(4.0)	(2.0)
Earnings of investments in associates and in jointly controlled corporations	(1.3)	(1.0)
Other	1.4	(0.7)
Effective income tax rate	19.2	18.4

#### INCOME TAXES

The components of income tax expense recognized in the statements of earnings are:

YEARS ENDED DECEMBER 31	2014	2013
Current taxes		
In respect of the current year	585	775
Previously unrecognized tax loss, tax credit or temporary differences of prior period	9	–
Other	(33)	(11)
	561	764
Deferred taxes		
Origination and reversal of temporary differences	346	(18)
Effect of change in tax rates or imposition of new taxes	13	(13)
Write-down or reversal of previous write-down of deferred tax assets	(62)	–
Recognition of previously unrecognized tax losses and deductible temporary differences	(29)	(6)
Other	5	(49)
	273	(86)
	834	678

The following table shows aggregate current and deferred taxes relating to items not recognized in the statements of earnings:

DECEMBER 31	2014		2013	
	OTHER COMPREHENSIVE INCOME	EQUITY	OTHER COMPREHENSIVE INCOME	EQUITY
Current taxes	29	–	(14)	–
Deferred taxes	(168)	(1)	106	2
	(139)	(1)	92	2

## NOTE 16 INCOME TAXES (CONTINUED)

### DEFERRED TAXES

Deferred taxes are attributable to the following items:

DECEMBER 31	2014	2013 [NOTE 33]
Loss carry forwards	1,507	1,335
Investments	(796)	(541)
Insurance and investment contract liabilities	(594)	(518)
Deferred selling commissions	(190)	(184)
Intangible assets	(294)	(221)
Other	313	121
	(54)	(8)
Presented on the balance sheets as follows:		
Deferred tax assets	1,707	1,211
Deferred tax liabilities	(1,761)	(1,219)
	(54)	(8)

A deferred tax asset is recognized for deductible temporary differences and unused tax attributes 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 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 tax assets. The annual financial planning process provides a significant basis for the measurement of deferred tax assets.

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2014 are recoverable.

At December 31, 2014, Lifeco had tax loss carry forwards totalling \$4,200 million (\$4,110 million in 2013). Of this amount, \$3,954 million expires between 2015 and 2034, while \$246 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

One of Lifeco's subsidiaries has had a history of recent losses. The subsidiary has a net deferred tax asset balance of \$1,100 million (US\$949 million) as at December 31, 2014 composed principally of net operating losses and future deductions related to goodwill which has been previously impaired for accounting purposes. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income against which the unused United States losses and deductions will be utilized. The future taxable income is derived principally from tax planning strategies, some of which have already been executed.

As at December 31, 2014, the Corporation and its subsidiaries have non-capital losses of \$201 million (\$213 million in 2013) available to reduce future taxable income for which the benefits have not been recognized. These losses expire from 2026 to 2034. In addition, the Corporation and its subsidiaries have capital loss carry forwards of \$133 million (\$133 million in 2013) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

A deferred tax liability has not been recognized in respect of the temporary differences associated with investments in subsidiaries, branches, associates, and jointly controlled corporations as the Corporation and its subsidiaries are 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17 STATED CAPITAL

#### AUTHORIZED

The authorized capital of Power Financial consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Second Preferred Shares, issuable in series; and an unlimited number of common shares.

#### ISSUED AND OUTSTANDING

DECEMBER 31	2014		2013	
	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
<b>FIRST PREFERRED SHARES (perpetual)</b>				
Series A <sup>[i]</sup>	4,000,000	100	4,000,000	100
Series D <sup>[ii]</sup>	6,000,000	150	6,000,000	150
Series E <sup>[ii]</sup>	8,000,000	200	8,000,000	200
Series F <sup>[ii]</sup>	6,000,000	150	6,000,000	150
Series H <sup>[ii]</sup>	6,000,000	150	6,000,000	150
Series I <sup>[ii]</sup>	8,000,000	200	8,000,000	200
Series K <sup>[ii]</sup>	10,000,000	250	10,000,000	250
Series L <sup>[ii]</sup>	8,000,000	200	8,000,000	200
Series M <sup>[iii]</sup>	—	—	7,000,000	175
Series O <sup>[ii]</sup>	6,000,000	150	6,000,000	150
Series P <sup>[ii]</sup>	11,200,000	280	11,200,000	280
Series R <sup>[ii]</sup>	10,000,000	250	10,000,000	250
Series S <sup>[ii]</sup>	12,000,000	300	12,000,000	300
Series T <sup>[ii]</sup>	8,000,000	200	8,000,000	200
		2,580		2,755
<b>COMMON SHARES</b>				
Balance, beginning of year	711,173,680	721	709,104,080	664
Issued under Stock Option Plan	550,000	22	2,069,600	57
Balance, end of year	711,723,680	743	711,173,680	721

#### FIRST PREFERRED SHARES

[i] The Series A First Preferred Shares are entitled to an annual cumulative dividend, payable quarterly at a floating rate equal to 70% of the prime rate of two major Canadian chartered banks and are redeemable, at the Corporation's option, at \$25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[ii] The following First Preferred Shares series are entitled to fixed non-cumulative preferential cash dividends payable quarterly. The Corporation may redeem for cash the First Preferred Shares, in whole or in part, at the Corporation's option, with all declared and unpaid dividends to, but excluding, the date of redemption.

FIRST PREFERRED SHARES	CASH DIVIDENDS PAYABLE QUARTERLY (\$/SHARE)	EARLIEST ISSUER REDEMPTION DATE	REDEMPTION PRICE (\$/SHARE)
<b>Non-cumulative, fixed rate</b>			
Series D, 5.50%	0.343750	Currently redeemable	25.00
Series E, 5.25%	0.328125	Currently redeemable	25.00
Series F, 5.90%	0.368750	Currently redeemable	25.00
Series H, 5.75%	0.359375	Currently redeemable	25.00
Series I, 6.00%	0.375000	Currently redeemable	25.00
Series K, 4.95%	0.309375	Currently redeemable	25.00
Series L, 5.10%	0.318750	Currently redeemable	25.25
Series O, 5.80%	0.362500	Currently redeemable	26.00
Series R, 5.50%	0.343750	April 30, 2017	26.00
Series S, 4.80%	0.300000	April 30, 2018	26.00
<b>Non-cumulative, 5-year rate reset<sup>[1]</sup></b>			
Series P, 4.40%	0.275000	January 31, 2016	25.00
Series T, 4.20%	0.262500	January 31, 2019	25.00

[1] The dividend rate will reset on the earliest issuer redemption date and every fifth year thereafter at a rate equal to the 5-year Government of Canada bond yield plus a reset spread (1.60% for Series P and 2.37% for Series T). The holders have the option to convert their shares into non-cumulative floating rate First Preferred Shares subject to certain conditions on the earliest redemption date and every fifth year thereafter at a rate equal to the three-month Government of Canada Treasury Bill rate plus the reset spread indicated.

[iii] On January 31, 2014, the Corporation redeemed all of its 6.00% Non-Cumulative First Preferred Shares, Series M for cash consideration of \$175 million.

## NOTE 17 STATED CAPITAL (CONTINUED)

### COMMON SHARES

During the year 2014, 550,000 common shares (2,069,600 in 2013) were issued under the Corporation's Employee Stock Option Plan for a consideration of \$17 million (\$45 million in 2013).

Dividends declared on the Corporation's common shares in 2014 amounted to \$1.40 per share (\$1.40 per share in 2013).

## NOTE 18 SHARE-BASED COMPENSATION

### STOCK OPTION PLAN

Under Power Financial's Employee Stock Option Plan, 13,871,600 common shares are reserved for issuance. The plan requires that the exercise price of the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on a delayed basis over periods beginning no earlier than one year from the date of grant and no later than five years from the date of grant. Options recently granted, which are not fully vested, have the following vesting conditions:

YEAR OF GRANT	OPTIONS	VESTING CONDITIONS
2010	679,525	Vest equally over a period of five years
2011	743,080	Vest equally over a period of five years
2011	34,423	Vest 50% after three years and 50% after four years
2012	598,325	Vest equally over a period of five years
2012	70,254	Vest 50% after three years and 50% after four years
2013	702,713	Vest equally over a period of five years
2013	53,476	Vest 50% after three years and 50% after four years
2014	563,879	Vest equally over a period of five years
2014	1,094,212	Vest 50% after three years and 50% after four years

A summary of the status of Power Financial's Employee Stock Option Plan as at December 31, 2014 and 2013, and changes during the years ended on those dates is as follows:

	2014		2013	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	7,522,386	\$ 30.56	8,835,797	\$ 28.32
Granted	1,658,091	34.15	756,189	32.44
Exercised	(550,000)	31.76	(2,069,600)	21.65
Outstanding at end of year	8,630,477	31.18	7,522,386	30.56
Options exercisable at end of year	5,483,586	30.93	5,468,569	31.29

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 18 SHARE-BASED COMPENSATION (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2014:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE (YRS)	WEIGHTED-AVERAGE EXERCISE PRICE \$	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE \$
\$					
25.07 – 26.37	1,525,467	6.8	25.84	821,360	25.97
28.13 – 29.95	1,532,879	4.5	28.96	1,374,600	29.02
30.18 – 31.59	602,383	4.2	31.42	538,139	31.52
32.24	1,515,000	0.4	32.24	1,515,000	32.24
32.46 – 32.58	741,006	8.4	32.57	178,836	32.55
34.01 – 34.42	1,658,091	9.5	34.15	–	–
34.46 – 37.13	1,055,651	3.2	34.81	1,055,651	34.81
	8,630,477	5.3	31.18	5,483,586	30.93

**Compensation expense** During the year ended December 31, 2014, Power Financial granted 1,658,091 options (756,189 options in 2013) under its Employee Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2014	2013
Dividend yield	4.8%	5.0%
Expected volatility	19.8%	18.3%
Risk-free interest rate	2.1%	2.3%
Expected life (years)	9	9
Fair value per stock option (\$/option)	\$3.27	\$2.78
Weighted-average exercise price (\$/option)	\$34.15	\$32.44

Expected volatility has been estimated based on the historical volatility of the Corporation's share price over nine years, which is reflective of the expected option life.

Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity investments at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$50 million in 2014 (\$15 million in 2013).

#### PERFORMANCE SHARE UNIT PLAN

Power Financial established a Performance Share Unit (PSU) Plan for selected employees and officers (participants) to assist in retaining and further aligning the interests of participants with those of the shareholders. Under the terms of the Plan, PSUs may be awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Corporation's common shares. The PSUs are cash settled and vest over a three-year period. Participants can elect at the time of grant to receive a portion of their PSUs in the form of performance deferred share units (PDSU) which also vest over a three-year period. PDSUs are redeemable when a participant is no longer an employee of the Corporation or any of its affiliates, or in the event of the death of the participant, by a lump-sum payment based on the value of the PDSU at that time. Additional PSUs and PDSUs are issued in respect of dividends payable on common shares based on the value of the PSU or PDSU at the dividend payment date. For the year ended December 31, 2014, the Corporation recognized compensation expenses of \$2 million (\$1 million in 2013) for the PSU Plan recorded in operating and administrative expenses on the statement of earnings. The carrying value of the PSU liability is \$4 million (\$1 million in 2013) recorded within other liabilities.

#### DEFERRED SHARE UNIT PLAN

Power Financial established a Deferred Share Unit Plan for its Directors to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this Plan, each Director participating in the Plan will receive half of his annual retainer in the form of deferred share units and may elect to receive the remainder of his annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the common shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director will receive additional deferred share units in respect of dividends payable on the common shares, based on the value of a deferred share unit on the date on which the dividends were paid on the common shares. A deferred share unit is payable, at the time a Director's membership on the Board is terminated (provided the Director is not then a director, officer or employee of the Corporation or an affiliate of the Corporation), or in the event of the death of a Director, by a lump-sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2014, the value of the deferred share units outstanding was \$19 million (\$18 million in 2013). Alternatively, Directors may participate in the Share Purchase Plan for Directors.

## NOTE 18 SHARE-BASED COMPENSATION (CONTINUED)

### EMPLOYEE SHARE PURCHASE PROGRAM

Power Financial established an Employee Share Purchase Program, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have Power Financial invest, on the employee's behalf, up to an equal amount.

### OTHER SHARE-BASED AWARDS OF SUBSIDIARIES

The subsidiaries of the Corporation have also established other share-based awards for their directors, management and employees. Some of these share-based awards are cash settled and included within other liabilities on the balance sheets. The compensation expense related to these subsidiary share-based awards is recorded in operating and administrative expenses on the statements of earnings.

## NOTE 19 NON-CONTROLLING INTERESTS

The Corporation has controlling equity interests in Lifeco and IGM as at December 31, 2014 and December 31, 2013. The non-controlling interests of Lifeco and IGM and their subsidiaries reflected in the balance sheets are as follows:

DECEMBER 31	2014			2013		
	LIFECO	IGM	TOTAL	LIFECO	IGM	TOTAL
Non-controlling interests, beginning of year	9,064	1,877	10,941	8,327	1,775	10,102
Prior period adjustments [Note 33]	–	–	–	(46)	–	(46)
Restated balance, beginning of year	9,064	1,877	10,941	8,281	1,775	10,056
Earnings allocated to non-controlling interests	957	291	1,248	683	301	984
Other comprehensive income (loss) allocated to non-controlling interests	121	(22)	99	301	10	311
Dividends	(478)	(215)	(693)	(472)	(213)	(685)
Issuance of preferred shares	200	–	200	–	–	–
Repurchase of preferred shares	–	–	–	(230)	–	(230)
Change in ownership interest and other <sup>[1]</sup>	109	(21)	88	501	4	505
Non-controlling interests, end of year	9,973	1,910	11,883	9,064	1,877	10,941

[1] Change in ownership in Lifeco in 2013 is mainly attributable to the issuance of Lifeco's common shares in regards to the acquisition of Irish Life (Note 3). Other changes in ownership in 2014 and 2013 are due to the issuance of common shares under stock option plans as well as the repurchase of common shares by the Corporation and its subsidiaries.

The carrying value of non-controlling interests consists of the following:

DECEMBER 31	2014			2013		
	LIFECO	IGM	TOTAL	LIFECO	IGM	TOTAL
Common shareholders	4,979	1,760	6,739	4,396	1,727	6,123
Preferred shareholders	2,514	150	2,664	2,314	150	2,464
Participating account surplus	2,480	–	2,480	2,354	–	2,354
	9,973	1,910	11,883	9,064	1,877	10,941

As at December 31, 2014, Power Financial and IGM held 67.2% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65.0% of the voting rights attached to the outstanding Lifeco voting shares.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 19 NON-CONTROLLING INTERESTS (CONTINUED)

Lifeco and IGM's financial information as at and for the year ended December 31, 2014 can be obtained from their publicly available financial statements. Summarized financial information for Lifeco and IGM is as follows:

AS AT AND FOR THE YEARS ENDED	2014		2013	
	LIFECO	IGM	LIFECO	IGM
<b>BALANCE SHEET</b>				
Assets	356,709	14,417	325,876	12,880
Liabilities	334,812	9,576	306,046	8,172
Equity	21,897	4,841	19,830	4,708
<b>COMPREHENSIVE INCOME</b>				
Net earnings	2,761	762	2,318	771
Other comprehensive income (loss)	325	(28)	1,004	49
<b>CASH FLOWS</b>				
Operating activities	5,443	741	5,026	715
Financing activities	(1,685)	625	493	117
Investing activities	(4,129)	(1,232)	(4,813)	(808)

### NOTE 20 CAPITAL MANAGEMENT

As a holding company, Power Financial's objectives in managing its capital are to:

- > provide attractive long-term returns to shareholders of the Corporation;
- > provide sufficient financial flexibility to pursue its growth strategy and invest in its group companies as it determines to be appropriate; and
- > maintain an appropriate credit rating to ensure stable access to the capital markets.

The Corporation manages its capital taking into consideration the risk characteristics and liquidity of its holdings. In order to maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital.

The capital structure of the Corporation consists of preferred shares, debentures and equity composed of stated capital, retained earnings and non-controlling interests. The Corporation utilizes perpetual preferred shares as a permanent and cost-effective source of capital. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and short-term investments for liquidity purposes.

The Board of Directors of the Corporation and the boards of directors of its subsidiaries are responsible for their capital management. Management of the Corporation and its subsidiaries are responsible for establishing capital management procedures and for implementing and monitoring their capital plans. The Board of Directors of the Corporation and the boards of directors of its subsidiaries review and approve capital transactions such as issuance, redemption and repurchase of common shares, perpetual preferred shares and debentures.

The Corporation itself is not subject to externally imposed regulatory capital requirements. Certain of the Corporation's major operating subsidiaries (Lifeco and IGM) are subject to regulatory capital requirements and they manage their capital as described below.

#### LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco'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 Lifeco ensuring stable access to capital markets; and
- > to provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

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

Lifeco's subsidiaries Great-West Life, Great-West Life & Annuity and Canada Life UK are subject to minimum regulatory capital requirements. Lifeco's practice is 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:

- > In Canada, the Office of the Superintendent of Financial Institutions has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). As at December 31, 2014, the MCCSR ratio for Great-West Life was 224% (223% at December 31, 2013).
- > At December 31, 2014, the Risk-Based Capital ratio (RBC) of Great-West Life & Annuity, Lifeco's regulated U.S. operating company, was estimated to be 453% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Life & Annuity reports its RBC ratio annually to U.S. insurance regulators.

## NOTE 20 CAPITAL MANAGEMENT (CONTINUED)

- > In the United Kingdom, Canada Life UK is required to satisfy the capital resources requirements set out in the Integrated Prudential Sourcebook, part of the Prudential Regulatory Authority Handbook. The capital requirements are prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2014, Canada Life UK complied with the capital resource requirements in the United Kingdom.
- > Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2014 and 2013, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

## NOTE 21 RISK MANAGEMENT

The Corporation and its subsidiaries have established policies, guidelines or procedures designed to identify, measure, monitor and mitigate risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- > Liquidity risk is the risk that the Corporation and its subsidiaries will not be able to meet all cash outflow obligations as they come due.
- > Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its obligations.
- > 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. Market factors include three types of risks: currency risk, interest rate risk and equity price risk.
  - > Currency risk relates to the Corporation, its subsidiaries and its jointly controlled corporations and associates operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
  - > Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.
  - > Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

## POWER FINANCIAL

### LIQUIDITY RISK

Power Financial is a holding company. As such, corporate cash flows from operations, before payment of dividends to its common and preferred shareholders, are principally made up of dividends received from its subsidiaries and jointly controlled corporation, and income from investments, less operating expenses, financing charges and income taxes. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their subsidiaries.

### IGM FINANCIAL

IGM's capital management objective is to maximize shareholder returns while ensuring that IGM is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. IGM's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet.

IGM's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by IGM, business expansion and other strategic objectives.

IGM subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. IGM subsidiaries have complied with all regulatory capital requirements.

This note includes 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 tax rates and other market factors;
- > interactions among these factors and assumptions when more than one changes; and
- > the general limitations of 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 Corporation cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

The Corporation regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time. If required, the ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Financial and its subsidiaries.

Principal payments on debentures (other than those of Lifeco and IGM discussed below) of \$250 million due after five years represent the only significant contractual liquidity requirement of Power Financial.

Power Financial's management of liquidity risk have not changed materially since December 31, 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 21 RISK MANAGEMENT (CONTINUED)

#### CREDIT RISK

Fixed income securities, and derivatives are subject to credit risk. The Corporation mitigates credit risk its fixed income securities by adhering to an investment policy that outlines credit risk parameters and concentration limits.

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and banks in jurisdictions where Power Financial operates as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives continue to be utilized on a basis consistent with the risk management guidelines of the Corporation and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. The Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Power Financial's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2013.

#### MARKET RISK

**Currency risk** Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities and long-term debt. In managing its own cash and cash equivalents, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2014, approximately 90% of Power Financial's cash and cash equivalents, and fixed income securities were denominated in Canadian dollars or in foreign currencies with currency hedges in place.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income.

**Interest rate risk** Power Financial's financial instruments are cash and cash equivalents, fixed income securities and long-term debt that do not have significant exposure to interest rate risk.

**Equity price risk** Power Financial's financial instruments are cash and cash equivalents, fixed income securities and long-term debt that do not have exposure to equity price risk.

Pargesa indirectly holds substantial investments classified as available for sale; unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

#### LIFECO

The risk committee of the board of directors of Lifeco is responsible for the oversight of Lifeco's key risks.

#### LIQUIDITY RISK

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

- > Lifeco 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 70% (approximately 69% in 2013) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair value adjustments.

- > Management of Lifeco monitors the use of lines of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.

- > Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. Lifeco maintains \$350 million of liquidity at the Lifeco level through committed lines of credit with Canadian chartered banks. As well, Lifeco maintains a \$150 million liquidity facility at Great-West Life, a US\$500 million revolving credit agreement with a syndicate of banks for use by Putnam, and a US\$50 million line of credit at Great-West Financial.

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

DECEMBER 31, 2014	PAYMENTS DUE BY PERIOD						TOTAL
	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	OVER 5 YEARS	
Debentures and debt instruments	596	—	280	200	—	4,295	5,371
Capital trust debentures <sup>[1]</sup>	—	—	—	—	—	150	150
Purchase obligations	71	34	26	17	16	16	180
Pension contributions	175	—	—	—	—	—	175
	842	34	306	217	16	4,461	5,876

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of \$37 million principal amount (\$51 million carrying value).

## NOTE 21 RISK MANAGEMENT (CONTINUED)

### CREDIT RISK

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

- > Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- > Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- > Investment guidelines also specify collateral requirements.
- > Portfolios are monitored continuously, and reviewed regularly with the risk committee and the investment committee of the board of directors of Lifeco.

- > 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.
- > Lifeco is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- > Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the board of directors of Lifeco. Management of Lifeco continuously monitors and performs an assessment of the creditworthiness of reinsurers.

**Maximum exposure to credit risk for Lifeco** The following table summarizes Lifeco'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.

DECEMBER 31	2014	2013
Cash and cash equivalents	2,498	2,791
Bonds		
Fair value through profit or loss	80,000	70,144
Available for sale	9,990	7,915
Loans and receivables	13,178	11,855
Mortgage loans	20,546	19,063
Loans to policyholders	7,711	7,332
Funds held by ceding insurers <sup>[1]</sup>	12,154	10,832
Reinsurance assets	5,151	5,070
Interest due and accrued	1,286	1,242
Accounts receivable	1,172	1,248
Premiums in course of collection	598	578
Trading account assets	405	376
Finance leases receivable	285	–
Other financial assets <sup>[2]</sup>	715	831
Derivative assets	652	593
Total balance sheet maximum credit exposure	156,341	139,870

[1] Includes \$10,758 million as at December 31, 2014 (\$9,848 million as at December 31, 2013) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 6).

[2] Includes items such as current income taxes receivable and miscellaneous other assets of Lifeco.

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 have been implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has \$52 million of collateral received as at December 31, 2014 (\$19 million as at December 31, 2013) relating to derivative assets.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 21 RISK MANAGEMENT (CONTINUED)

The following table provides details of the carrying value of bonds of Lifeco by issuer, industry sector and geographic distribution:

DECEMBER 31, 2014	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	5,356	3	46	5,405
Provincial, state and municipal governments	6,926	2,567	51	9,544
U.S. Treasury and other U.S. agencies	352	4,786	937	6,075
Other foreign governments	198	24	11,865	12,087
Government-related	2,895	–	2,021	4,916
Supranationals	433	8	643	1,084
Asset-backed securities	2,648	3,161	789	6,598
Residential mortgage-backed securities	52	236	206	494
Banks	2,025	346	2,747	5,118
Other financial institutions	647	1,705	2,461	4,813
Basic materials	316	1,087	349	1,752
Communications	571	265	693	1,529
Consumer products	2,030	2,558	2,305	6,893
Industrial products/services	1,078	1,292	718	3,088
Natural resources	1,250	984	710	2,944
Real estate	1,407	452	2,849	4,708
Transportation	1,967	985	898	3,850
Utilities	5,460	4,206	3,912	13,578
Miscellaneous	1,416	1,281	456	3,153
Short-term bonds	3,616	236	1,687	5,539
	40,643	26,182	36,343	103,168
DECEMBER 31, 2013	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	4,276	3	51	4,330
Provincial, state and municipal governments	5,739	2,028	52	7,819
U.S. Treasury and other U.S. agencies	297	3,827	902	5,026
Other foreign governments	130	22	11,216	11,368
Government-related	2,641	–	1,553	4,194
Supranationals	399	7	704	1,110
Asset-backed securities	2,677	3,115	860	6,652
Residential mortgage-backed securities	26	307	189	522
Banks	2,012	331	2,846	5,189
Other financial institutions	791	1,620	2,154	4,565
Basic materials	278	978	272	1,528
Communications	490	222	603	1,315
Consumer products	1,807	2,198	1,882	5,887
Industrial products/services	919	1,052	538	2,509
Natural resources	1,056	665	509	2,230
Real estate	1,021	140	2,249	3,410
Transportation	1,726	827	703	3,256
Utilities	4,715	3,703	3,433	11,851
Miscellaneous	1,314	970	389	2,673
Short-term bonds	3,321	76	1,083	4,480
	35,635	22,091	32,188	89,914

## NOTE 21 RISK MANAGEMENT (CONTINUED)

The following table provides details of the carrying value of mortgage loans of Lifeco by geographic location:

DECEMBER 31, 2014	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,916	3,660	7,017	12,593
United States	–	1,324	2,888	4,212
Europe	–	338	3,403	3,741
	1,916	5,322	13,308	20,546

DECEMBER 31, 2013	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,758	3,435	6,942	12,135
United States	–	1,052	2,504	3,556
Europe	–	325	3,047	3,372
	1,758	4,812	12,493	19,063

### Asset quality

BOND PORTFOLIO QUALITY DECEMBER 31	2014	2013
AAA	34,332	30,626
AA	18,954	15,913
A	31,133	25,348
BBB	17,370	16,809
BB and lower	1,379	1,218
Total bonds	103,168	89,914

DERIVATIVE PORTFOLIO QUALITY DECEMBER 31	2014	2013
Over-the-counter contracts (counterparty credit ratings):		
AAA	10	8
AA	66	86
A	576	499
Total	652	593

**Loans of Lifeco 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 of Lifeco has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

DECEMBER 31	2014	2013
Less than 30 days	7	6
30–90 days	5	–
Greater than 90 days	3	2
Total	15	8

**Future asset credit losses** The following outlines the future asset credit losses provided for in insurance and investment contract liabilities. These amounts are in addition to the allowance for asset losses included with assets:

DECEMBER 31	2014	2013
Participating	1,186	999
Non-participating	1,947	1,796
	3,133	2,795



**NOTE 21 RISK MANAGEMENT** (CONTINUED)

**MARKET RISK**

**Currency risk** For Lifeco, if the assets backing insurance and investment contract liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. In addition, Lifeco's debt obligations are mainly denominated in Canadian dollars. 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 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 Lifeco's total share capital and surplus. Correspondingly, Lifeco'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 Lifeco's exposure to currency risk:

- > Lifeco 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.
- > Foreign currency assets acquired to back liabilities are normally converted 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.

**Interest rate risk** The following policies and procedures are in place to mitigate Lifeco's exposure to interest rate risk:

- > Lifeco 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), Lifeco 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 risks 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 0.18% (0.19% in 2013). 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. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries-prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on Lifeco's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact Lifeco's range of scenarios covered.

The total provision for interest rates also considers the impact of the Canadian Institute of Actuaries-prescribed scenarios:

- > The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios would not change the total provision for interest rates.
- > The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would not change the total provision for interest rates.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' earnings of Lifeco of a 1% change in Lifeco's view of the range of interest rates to be covered by these provisions:

- > The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately \$75 million, causing an increase in net earnings of approximately \$41 million.
- > The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately \$564 million, causing a decrease in net earnings of approximately \$383 million.

## NOTE 21 RISK MANAGEMENT (CONTINUED)

**Equity price risk** Lifeco has investment policy guidelines in place that provide for prudent investment in equity markets with clearly defined limits to mitigate price risk.

The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity values fluctuate. A 10% increase in equity values

would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately \$42 million, causing an increase in net earnings of approximately \$34 million. A 10% decrease in equity values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately \$149 million, causing a decrease in net earnings of approximately \$113 million.

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately \$455 million, causing an increase in net earnings of approximately \$355 million. A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately \$482 million, causing a decrease in net earnings of approximately \$372 million.

## IGM FINANCIAL

### LIQUIDITY RISK

IGM's liquidity management practices include: controls over liquidity management processes; stress testing of various operating scenarios; and oversight over liquidity management by committees of the board of directors of IGM.

A key liquidity requirement for IGM is the funding of commissions paid on the sale of investment funds. Commissions on the sale of investment funds continue to be paid from operating cash flows.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are sold or securitized to:

- > Investors Mortgage and Short Term Income Fund and Investors Canadian Corporate Bond Fund;

- > third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank-sponsored securitization trusts; or
- > institutional investors through private placements.

Certain subsidiaries of IGM are approved issuers of National Housing Act Mortgage-Backed Securities (NHA MBS) and approved sellers into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides IGM with additional funding sources for residential mortgages. IGM's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change. A condition of the NHA MBS and CMB Programs is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions that are subject to change.

IGM's contractual obligations were as follows:

DECEMBER 31, 2014	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	–	9	21	–	30
Deposits and certificates	204	8	8	3	223
Obligations to securitization entities	–	1,249	5,468	37	6,754
Long-term debt	–	–	525	800	1,325
Operation leases	–	55	147	50	252
Pension contributions	–	20	20	–	40
Total contractual obligations	204	1,341	6,189	890	8,624

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's operating lines of credit. IGM's operating lines of credit with various Schedule I Canadian chartered banks totalled \$525 million as at December 31, 2014, unchanged from December 31, 2013. The lines of credit as at December 31, 2014 consisted of committed lines of \$350 million (\$350 million in 2013) and uncommitted lines of \$175 million (\$175 million in 2013). IGM has accessed its uncommitted lines of credit in the past; however, any advances made by the banks under the uncommitted lines are at the banks' sole discretion. As at December 31, 2014 and 2013, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2013.

### CREDIT RISK

IGM's cash and cash equivalents, securities holdings, mortgage and investment loan portfolios, and derivatives are subject to credit risk. IGM monitors its credit risk management practices continuously to evaluate their effectiveness.

At December 31, 2014, cash and cash equivalents of \$1,216 million (\$1,082 million in 2013) consisted of cash balances of \$107 million (\$89 million in 2013) on deposit with Canadian chartered banks and cash equivalents of \$1,109 million (\$994 million in 2013). Cash equivalents are composed of Government of Canada treasury bills totalling \$191 million (\$42 million in 2013), provincial government and government-guaranteed commercial paper of \$666 million (\$564 million in 2013) and bankers' acceptances issued by Canadian chartered

**NOTE 21 RISK MANAGEMENT** (CONTINUED)

banks of \$253 million (\$388 million in 2013). IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. IGM manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

IGM regularly reviews the credit quality of the mortgage portfolios related to IGM's mortgage banking operations and its intermediary operations, as well as the adequacy of the collective allowance. As at December 31, 2014, mortgages totalled \$7.0 billion (\$5.9 billion in 2013) and consisted of residential mortgages:

- > Sold to securitization programs which are classified as loans and receivables and totalled \$6.6 billion compared to \$5.5 billion at December 31, 2013. An offsetting liability, obligations to securitization entities, has been recorded and totalled \$6.8 billion at December 31, 2014, compared to \$5.6 billion at December 31, 2013.
- > Related to IGM's mortgage banking operations which are classified as held for trading and totalled \$366 million, compared to \$324 million at December 31, 2013. These loans are held by IGM pending sale or securitization.
- > Related to IGM's intermediary operations which are classified as loans and receivables and totalled \$30 million at December 31, 2014, compared to \$36 million at December 31, 2013.

As at December 31, 2014, the mortgage portfolios related to IGM's intermediary operations were geographically diverse, 100% residential (100% in 2013) and 92.6% insured (88.6% in 2013). As at December 31, 2014, impaired mortgages were nil, unchanged from December 31, 2013. Uninsured non-performing mortgages over 90 days were nil, unchanged from December 31, 2013. The characteristics of the mortgage portfolios have not changed significantly during 2014.

The NHA MBS and CMB Program require that all securitized mortgages be insured against default by an approved insurer. The ABCP programs do not require mortgages to be insured; however, at December 31, 2014, 51.0% of these mortgages were insured compared to 58.9% at December 31, 2013. At December 31, 2014, 83.6% of the securitized portfolio and the residential mortgages classified as held for trading were insured, compared to 86.1% at December 31, 2013. As at December 31, 2014, impaired mortgages on these portfolios were \$2 million, compared to \$2 million at December 31, 2013. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.3 million at December 31, 2014, compared to \$1 million at December 31, 2013.

IGM retains certain elements of credit risk on securitized loans. At December 31, 2014, 85.1% of securitized loans were insured against credit losses compared to 87.4% at December 31, 2013. IGM's credit risk on its securitization activities is limited to its retained interests. The fair value of IGM's retained interests in securitized mortgages was \$136 million at December 31, 2014, compared to \$113 million at December 31, 2013. Retained interests include:

- > Cash reserve accounts and rights to future net interest income, which were \$35 million (\$29 million in 2013) and \$127 million (\$100 million in 2013), respectively, at December 31, 2014. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages.

The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of \$65 million (\$59 million in 2013) is subordinated to the interests of the trust and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Credit risk on these mortgages is mitigated by any insurance on these mortgages, as previously discussed, and IGM's credit risk on insured loans is to the insurer.

Rights to future net interest income under the NHA MBS and CMB Programs totalled \$97 million (\$70 million in 2013). Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the programs. Outstanding mortgages securitized under these programs are \$4.6 billion (\$3.8 billion in 2013).

- > Fair value of principal reinvestment account swaps had a negative fair value of \$26 million at December 31, 2014 (negative \$16 million in 2013) and is reflected on the balance sheet. These swaps represent the component of a swap entered into under the CMB Program whereby IGM pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. The notional amount of these swaps was \$437 million at December 31, 2014 (\$1,023 million in 2013).

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2013.

IGM utilizes over-the-counter derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements. To the extent that the fair value of the derivatives is in a gain position, IGM is exposed to the credit risk that its counterparties fail to fulfill their obligations under these arrangements.

IGM participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by IGM are between IGM and the Canadian Housing Trust. IGM receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. IGM also enters into offsetting interest rate swaps with the same bank counterparties to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled \$9 million at December 31, 2014 (negative \$17 million in 2013) and the outstanding notional amount was \$6.7 billion (\$6.8 billion in 2013). Certain of these swaps relate to securitized mortgages that have been recorded on the balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of \$4.2 billion (\$3.6 billion in 2013) and having a negative fair value of \$18 million (negative \$28 million in 2013), are not reflected on the balance sheet. Principal reinvestment account swaps and hedges of reinvestment and interest rate risk, with an outstanding notional amount of \$2.4 billion (\$3.2 billion in 2013) and having a fair value of \$9 million (\$11 million in 2013), are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled \$41 million at December 31, 2014, compared to \$47 million at December 31, 2013.

IGM utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled \$0.3 million (negative \$1 million in 2013) on an outstanding notional amount of \$24 million at December 31, 2014 (\$66 million in 2013). The exposure to credit risk, which is limited to the fair value of swaps in a gain position, was nil at December 31, 2014, unchanged from December 31, 2013.

## NOTE 21 RISK MANAGEMENT (CONTINUED)

IGM enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by IGM as well as total return swaps and forward agreements on IGM's common shares utilized to hedge deferred compensation arrangements. The fair value of interest rate swaps, total return swaps and forward agreements was \$1 million on an outstanding notional amount of \$156 million at December 31, 2014, compared to a fair value of \$12 million on an outstanding notional amount of \$154 million at December 31, 2013. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was \$3 million at December 31, 2014, compared to \$12 million as at December 31, 2013.

The aggregate credit risk exposure related to derivatives that are in a gain position of \$43 million (\$58 million in 2013) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest, was \$3 million at December 31, 2014 (\$4 million in 2013). Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that IGM's overall credit risk related to derivatives was not significant at December 31, 2014. Management of credit risk has not changed materially since December 31, 2013.

### MARKET RISK

**Currency risk** IGM's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

**Interest rate risk** IGM is exposed to interest rate risk on its loan portfolio, fixed income securities, Canada Mortgage Bonds and on certain of the derivative financial instruments used in IGM's mortgage banking and intermediary operations.

The objective of IGM's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at December 31, 2014, the total gap between deposit assets and liabilities was within IGM's trust subsidiaries' stated guidelines.

IGM utilizes interest rate swaps with Canadian Schedule I chartered bank counterparties in order to reduce the impact of fluctuating interest rates on its mortgage banking operations, as follows:

- > IGM has funded fixed rate mortgages with ABCP as part of the securitization transactions with bank-sponsored securitization trusts. IGM enters into interest rate swaps with Canadian Schedule I chartered

banks to hedge the risk that ABCP rates rise. However, IGM remains exposed to the basis risk that ABCP rates are greater than the bankers' acceptance rates that it receives on its hedges.

- > IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages decline. As previously discussed, as part of the CMB Program, IGM also is entitled to investment returns on reinvestment of principal repayments of securitized mortgages and is obligated to pay Canada Mortgage Bond coupons that are generally fixed rate. IGM hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.
- > IGM is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by IGM. IGM may enter into interest rate swaps to hedge this risk.

As at December 31, 2014, the impact to annual net earnings of a 100-basis-point change in interest rates would have been a decrease of approximately \$2 million. IGM's exposure to and management of interest rate risk has not changed materially since December 31, 2013.

**Equity price risk** IGM is exposed to equity price risk on its proprietary investment funds which are classified as available-for-sale securities and its equity securities and proprietary investment funds which are classified as fair value through profit or loss. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income until they are realized or until management of IGM determines there is objective evidence of impairment in value, at which time they are recorded in the statements of earnings.

IGM sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. IGM hedges this risk through the use of forward agreements and total return swaps.

### RISKS RELATED TO ASSETS UNDER MANAGEMENT — MARKET RISK

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings of IGM.

## NOTE 22 OPERATING AND ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31	2014	2013
Salaries and other employee benefits	2,934	2,511
General and administrative expenses	1,525	1,344
Amortization, depreciation and impairment	233	199
Premium taxes	339	313
Restructuring and acquisition expenses	50	107
Client distributions and other costs <sup>[1]</sup>	81	—
	5,162	4,474

[1] In the third quarter of 2012, IGM introduced investment solutions for clients with household investments in IGM's funds in excess of \$0.5 million. At December 31, 2014, an accrual of \$81 million was recorded related to these lower fee investment solutions. This amount primarily reflects distributions to clients who did not transfer to these lower-priced solutions when eligible.

**NOTE 23 FINANCING CHARGES**

YEARS ENDED DECEMBER 31	2014	2013
Interest on debentures and debt instruments	374	364
Interest on capital trust debentures	11	11
Other	28	25
	413	400

**NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS**

**CHARACTERISTICS, FUNDING AND RISK**

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for certain employees. The Corporation's 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 earnings. For most plans, 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, and assuming the plans are not terminated. The assets supporting the funded pension plans are held in separate trustee pension funds. The obligations for the wholly unfunded plans are supported by assets of the Corporation and its subsidiaries.

Effective January 1, 2013, both the Great-West Life Assurance Company Canadian Employees' Pension Plan and the London Life Staff Pension Plan added a defined contribution provision to their plans. All new hires after this date are eligible only for defined contribution benefits. This change is consistent with the benefit provisions of the majority of Lifeco's pension plans and will continue to reduce Lifeco's defined benefit plan exposure in future years.

The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. Contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Corporation and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. These post-employment benefits are not pre-funded. The obligations for these benefits are supported by assets of the Corporation and its subsidiaries.

The Corporation 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 of the Corporation and its subsidiaries. Significant changes to benefit plans require approval.

The Corporation and its subsidiaries' funding policy for the funded pension plans is to make 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 asset, the Corporation and its subsidiaries determine if an economic benefit exists in the form of potential reductions in future contributions and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Corporation and its subsidiaries 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 Corporation and its subsidiaries.

**NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS** (CONTINUED)

**PLAN ASSETS, BENEFIT OBLIGATIONS AND FUNDED STATUS**

DECEMBER 31	2014		2013	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
<b>CHANGE IN FAIR VALUE OF PLAN ASSETS</b>				
Fair value of plan assets, beginning of year	5,349	–	3,539	–
Interest income	251	–	176	–
Employee contributions	25	–	22	–
Employer contributions	164	20	164	19
Return on assets greater than interest income	438	–	310	–
Benefits paid	(238)	(20)	(210)	(19)
Administrative expenses	(6)	–	(6)	–
Business acquisitions	–	–	1,196	–
Foreign exchange and other	(23)	–	158	–
Fair value of plan assets, end of year	5,960	–	5,349	–
<b>CHANGE IN DEFINED BENEFIT OBLIGATION</b>				
Defined benefit obligation, beginning of year	5,653	438	4,389	470
Current service cost	133	3	125	4
Employee contributions	25	–	22	–
Interest cost	261	20	212	19
Actuarial (gains) losses on:				
Financial assumption changes	938	40	(332)	(29)
Demographic assumption changes	114	(14)	37	(11)
Arising from member experience	(3)	(13)	8	3
Benefits paid	(238)	(20)	(210)	(19)
Past service cost and plan amendments	21	(1)	1	–
Business acquisitions	–	3	1,202	–
Foreign exchange and other	(38)	1	199	1
Defined benefit obligation, end of year	6,866	457	5,653	438
<b>FUNDED STATUS</b>				
Fund deficit	(906)	(457)	(304)	(438)
Unrecognized amount due to asset ceiling	(23)	–	(44)	–
Accrued benefit liability	(929)	(457)	(348)	(438)

The aggregate defined benefit obligation of pension plans is as follows:

YEARS ENDED DECEMBER 31	2014	2013
Wholly or partly funded plans	6,406	5,229
Wholly unfunded plans	460	424

The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

DECEMBER 31	2014			2013		
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	TOTAL	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	TOTAL
Pension benefit assets	275	–	275	408	–	408
Pension and other post-employment benefit liabilities	(1,204)	(457)	(1,661)	(756)	(438)	(1,194)
Accrued benefit asset (liability)	(929)	(457)	(1,386)	(348)	(438)	(786)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Corporation and its subsidiaries must assess whether the pension asset has economic benefit to the Corporation and its subsidiaries

through future contribution reductions or refunds. In the event the Corporation and its subsidiaries are 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.

DECEMBER 31	2014	2013
Asset ceiling, beginning of year	44	41
Interest on beginning of period asset ceiling	2	2
Change in asset ceiling	(23)	1
Asset ceiling, end of year	23	44

### PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

DECEMBER 31	2014		2013	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Defined benefit current service cost	133	3	125	4
Net interest cost	12	20	38	19
Past service cost and plan amendments	3	–	1	–
Administration fees	6	–	6	–
Defined contribution current service cost	42	–	31	–
Expense recognized in net earnings	196	23	201	23
Actuarial (gain) loss recognized	1,049	13	(287)	(37)
Return on assets greater than interest income	(438)	–	(310)	–
Change in asset ceiling	(23)	–	1	–
Expense (income) recognized in other comprehensive income	588	13	(596)	(37)
Total expense (income)	784	36	(395)	(14)

During 2014, the Corporation and its subsidiaries incurred \$31 million of actuarial losses (\$23 million of actuarial gains in 2013) for pension plan remeasurements not included in the table shown above. This relates to the share of actuarial gains (losses) for investments in jointly controlled corporations and associates.

### ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

DECEMBER 31 %	DEFINED BENEFIT PENSION PLANS	
	2014	2013
Equity securities	52	54
Debt securities	38	37
All other assets	10	9
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated and other funds managed by subsidiaries of Lifeco in the balance sheet of \$4,478 million at December 31, 2014 (\$3,012 million at December 31, 2013). During 2014, Lifeco's pension plans reallocated certain investments which resulted in an additional

\$1,066 million (nil in 2013) of plan assets invested in segregated funds of Lifeco. Plan assets do not include any property occupied or other assets used by Lifeco. IGM's plan assets are invested in IGM's mutual funds. Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

## NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

### DETAILS OF DEFINED BENEFIT OBLIGATION

#### PORTION OF DEFINED BENEFIT OBLIGATION SUBJECT TO FUTURE SALARY INCREASES

DECEMBER 31	2014		2013	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Benefit obligation without future salary increases	6,121	457	5,036	438
Effect of assumed future salary increases	745	–	617	–
Defined benefit obligation	6,866	457	5,653	438

#### ALLOCATION OF DEFINED BENEFIT OBLIGATION BY MEMBERSHIP

DECEMBER 31 %	2014		2013	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Actives	47	28	46	25
Deferred vesteds	16	–	15	–
Retirees	37	72	39	75
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	19.1	13.0	18.2	11.9

#### CASH FLOW INFORMATION

The expected employer contributions for the year 2015 are as follows:

	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Funded (wholly or partly) defined benefit plans	107	–
Unfunded defined benefit plans	22	21
Defined contribution plans	54	–
Total	183	21

#### ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

##### ACTUARIAL ASSUMPTIONS

%	DEFINED BENEFIT PENSION PLANS		OTHER POST-EMPLOYMENT BENEFITS	
	2014	2013	2014	2013
<b>RANGE OF DISCOUNT RATES</b>				
To determine benefit cost	4.7–5.1	4.1–4.6	4.7–5.0	4.1–4.5
To determine accrued benefit obligation at year-end	3.1–4.1	4.7–5.1	3.9–4.1	4.7–5.0
<b>WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT COST<sup>[1]</sup></b>				
Discount rate	4.7	4.4	4.8	4.2
Rate of compensation increase	3.3	3.2	–	–
<b>WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE ACCRUED BENEFIT OBLIGATION AT YEAR-END<sup>[1]</sup></b>				
Discount rate	3.5	4.7	3.9	4.8
Rate of compensation increase	3.3	3.3	–	–
<b>WEIGHTED AVERAGE HEALTHCARE TREND RATES<sup>[1]</sup></b>				
Initial healthcare trend rate			5.3	6.4
Ultimate healthcare trend rate			4.5	4.5
Year ultimate trend rate is reached			2029	2024

[1] Based on the obligations of each plan.

**NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS** (CONTINUED)

**SAMPLE LIFE EXPECTANCIES BASED ON MORTALITY ASSUMPTIONS**

DECEMBER 31	2014		2013	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Weighted average life expectancies based on mortality assumptions <sup>[1]</sup> :				
Male				
Age 65 in fiscal year	22.7	22.1	22.0	21.4
Age 65 in fiscal year + 30 years	25.1	23.8	24.3	23.0
Female				
Age 65 in fiscal year	24.7	24.6	23.9	23.7
Age 65 in fiscal year + 30 years	26.8	26.0	25.8	25.0

[1] Based on the obligations of each plan.

Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. 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. The mortality assumptions applied by the Corporation and

its subsidiaries take into consideration average life expectancy, including allowances for future mortality improvement as appropriate, and reflect variations in such factors as age, gender and geographic location.

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.

**IMPACT OF CHANGES TO ASSUMPTIONS**

DECEMBER 31, 2014	1% INCREASE	1% DECREASE
DEFINED BENEFIT PENSION PLANS:		
Impact of a change to the discount rate	(1,088)	1,414
Impact of a change to the rate of compensation increase	362	(304)
Impact of a change to the rate of inflation	649	(521)
OTHER POST-EMPLOYMENT BENEFITS:		
Impact of a change to the discount rate	(53)	64
Impact of a change to assumed medical cost trend rates	40	(34)

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions and therefore the sensitivity analysis presented may not be representative of the actual change.

## NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end-users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter with counterparties that are credit-worthy financial intermediaries.

The following table summarizes the portfolio of derivative financial instruments of the Corporation and its subsidiaries at December 31:

DECEMBER 31, 2014	NOTIONAL AMOUNT				MAXIMUM CREDIT RISK	TOTAL FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
<b>DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES</b>						
Interest rate contracts						
Swaps	1,876	2,700	1,389	5,965	411	350
Options purchased	218	182	78	478	50	50
Futures – long	10	–	–	10	–	–
Futures – short	12	–	–	12	–	–
	2,116	2,882	1,467	6,465	461	400
Foreign exchange contracts						
Forward contracts	751	491	–	1,242	41	27
Cross-currency swaps	354	2,285	5,492	8,131	169	(751)
	1,105	2,776	5,492	9,373	210	(724)
Other derivative contracts						
Equity contracts	156	–	–	156	2	(3)
Futures – long	10	–	–	10	–	–
Futures – short	317	–	–	317	1	(2)
Other forward contracts	107	–	–	107	–	–
	590	–	–	590	3	(5)
	3,811	5,658	6,959	16,428	674	(329)
<b>CASH FLOW HEDGES</b>						
Interest rate contracts						
Swaps	–	–	36	36	14	14
Foreign exchange contracts						
Cross-currency swaps	–	1,500	–	1,500	–	(219)
Other derivative contracts						
Forward contracts and total return swap	11	23	1	35	3	1
	11	1,523	37	1,571	17	(204)
<b>FAIR VALUE HEDGES</b>						
Interest rate contracts						
Swaps	–	18	72	90	2	1
	3,822	7,199	7,068	18,089	693	(532)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS** (CONTINUED)

DECEMBER 31, 2013	NOTIONAL AMOUNT				MAXIMUM CREDIT RISK	TOTAL FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
<b>DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES</b>						
Interest rate contracts						
Swaps	2,455	3,191	990	6,636	269	176
Options purchased	265	327	89	681	30	30
Futures – long	4	–	–	4	–	–
Futures – short	13	–	–	13	–	–
	2,737	3,518	1,079	7,334	299	206
Foreign exchange contracts						
Forward contracts	602	476	–	1,078	11	6
Cross-currency swaps	213	2,053	4,986	7,252	313	(167)
	815	2,529	4,986	8,330	324	(161)
Other derivative contracts						
Equity contracts	10,660	102	–	10,762	11	(90)
Futures – long	15	–	–	15	–	–
Futures – short	301	–	–	301	–	(6)
Other forward contracts	157	–	–	157	–	–
	11,133	102	–	11,235	11	(96)
	14,685	6,149	6,065	26,899	634	(51)
<b>CASH FLOW HEDGES</b>						
Interest rate contracts						
Swaps	–	–	33	33	7	7
Foreign exchange contracts						
Cross-currency swaps	–	1,500	12	1,512	–	(94)
Other derivative contracts						
Forward contracts and total return swap	15	17	–	32	8	8
	15	1,517	45	1,577	15	(79)
<b>FAIR VALUE HEDGES</b>						
Interest rate contracts						
Swaps	–	17	66	83	5	5
	14,700	7,683	6,176	28,559	654	(125)

The amount subject to maximum credit risk is limited to the current fair value of the instruments which are in a gain position. The maximum credit risk is presented without giving effect to any netting agreements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

**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 and to reduce the impact of fluctuating interest rates on the mortgage banking operations and intermediary operations. 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 Corporation and its subsidiaries 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 manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also 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 Corporation and its subsidiaries may also enter into certain foreign exchange forward contracts to hedge certain product liabilities, cash and cash equivalents and cash flows.

## NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### 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 the potential credit risk impact of significant declines in certain equity markets.

Forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges. Changes in fair value are recorded in operating and administrative expenses in the statements of earnings for those instruments not designated as hedges.

### ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

The Corporation and its subsidiaries enter into the International Swaps and Derivative Association's master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related International Swaps and Derivative Association's Credit Support Annexes. The International Swaps and Derivative Association's master agreements do not meet the criteria for offsetting on the 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 exchanges and clearing houses, there is no provision for set-off at default. Initial margin is excluded from the table below as it would become part of a pooled settlement process.

Lifeco's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between Lifeco and its counterparties in the event of default.

The following disclosure shows the potential effect on the Corporation's 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 balance sheets.

DECEMBER 31, 2014	RELATED AMOUNTS NOT SET OFF IN THE BALANCE SHEETS			
	GROSS AMOUNT OF FINANCIAL INSTRUMENTS PRESENTED IN THE BALANCE SHEET	OFFSETTING COUNTERPARTY POSITION <sup>[1]</sup>	FINANCIAL COLLATERAL RECEIVED/ PLEDGED <sup>[2]</sup>	NET EXPOSURE
<b>FINANCIAL INSTRUMENTS (ASSETS)</b>				
Derivative financial instruments	693	(331)	(51)	311
Reverse repurchase agreements <sup>[3]</sup>	44	–	(44)	–
<b>Total financial instruments (assets)</b>	<b>737</b>	<b>(331)</b>	<b>(95)</b>	<b>311</b>
<b>FINANCIAL INSTRUMENTS (LIABILITIES)</b>				
Derivative instruments	1,225	(331)	(260)	634
<b>Total financial instruments (liabilities)</b>	<b>1,225</b>	<b>(331)</b>	<b>(260)</b>	<b>634</b>

DECEMBER 31, 2013	RELATED AMOUNTS NOT SET OFF IN THE BALANCE SHEETS			
	GROSS AMOUNT OF FINANCIAL INSTRUMENTS PRESENTED IN THE BALANCE SHEET	OFFSETTING COUNTERPARTY POSITION <sup>[1]</sup>	FINANCIAL COLLATERAL RECEIVED/ PLEDGED <sup>[2]</sup>	NET EXPOSURE
<b>FINANCIAL INSTRUMENTS (ASSETS)</b>				
Derivative financial instruments	654	(271)	(22)	361
Reverse repurchase agreements <sup>[3]</sup>	87	–	(87)	–
<b>Total financial instruments (assets)</b>	<b>741</b>	<b>(271)</b>	<b>(109)</b>	<b>361</b>
<b>FINANCIAL INSTRUMENTS (LIABILITIES)</b>				
Derivative instruments	779	(271)	(199)	309
<b>Total financial instruments (liabilities)</b>	<b>779</b>	<b>(271)</b>	<b>(199)</b>	<b>309</b>

[1] Includes counterparty amounts recognized on the balance sheets where the Corporation and its subsidiaries have a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheets, excluding collateral.

[2] Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$52 million (\$22 million at December 31, 2013), received on reverse repurchase agreements was \$45 million (\$89 million at December 31, 2013), and pledged on derivative liabilities was \$299 million (\$222 million at December 31, 2013).

[3] Assets related to reverse repurchase agreements are included in bonds in the balance sheets.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair value of the Corporation's financial assets and financial liabilities, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies and below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost.

The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. The excluded items are cash and cash equivalents, dividends, interest and accounts receivable, income tax receivable, loans to policyholders, certain other financial assets, accounts payable, repurchase agreements, dividends payable, interest payable, income tax payable and certain other financial liabilities.

DECEMBER 31, 2014	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL FAIR VALUE
<b>FINANCIAL ASSETS</b>					
Financial assets recorded at fair value					
Bonds					
Fair value through profit or loss	79,957	–	79,871	86	79,957
Available for sale	10,501	–	10,500	1	10,501
Mortgage loans					
Fair value through profit or loss	366	–	366	–	366
Shares					
Fair value through profit or loss	6,697	6,671	7	19	6,697
Available for sale	60	59	–	1	60
Investment properties	4,613	–	–	4,613	4,613
Derivative instruments	693	1	692	–	693
Other assets	421	278	143	–	421
	103,308	7,009	91,579	4,720	103,308
Financial assets recorded at amortized cost					
Bonds					
Loans and receivables	13,178	–	14,533	126	14,659
Mortgage loans					
Loans and receivables	27,199	–	22,197	6,819	29,016
Shares					
Available for sale <sup>[1]</sup>	560	–	–	560	560
	40,937	–	36,730	7,505	44,235
<b>Total financial assets</b>	<b>144,245</b>	<b>7,009</b>	<b>128,309</b>	<b>12,225</b>	<b>147,543</b>
<b>FINANCIAL LIABILITIES</b>					
Financial liabilities recorded at fair value					
Investment contract liabilities	857	–	829	28	857
Derivative instruments	1,225	4	1,195	26	1,225
Other liabilities	16	16	–	–	16
	2,098	20	2,024	54	2,098
Financial liabilities recorded at amortized cost					
Obligations to securitization entities	6,754	–	–	6,859	6,859
Debentures and debt instruments	6,887	526	7,469	70	8,065
Capital trust debentures	162	–	220	–	220
Deposits and certificates	223	–	225	–	225
	14,026	526	7,914	6,929	15,369
<b>Total financial liabilities</b>	<b>16,124</b>	<b>546</b>	<b>9,938</b>	<b>6,983</b>	<b>17,467</b>

[1] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are held at cost.

## NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

DECEMBER 31, 2013	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL FAIR VALUE
<b>FINANCIAL ASSETS</b>					
Financial assets recorded at fair value					
Bonds					
Fair value through profit or loss	70,104	–	69,771	333	70,104
Available for sale	8,370	–	8,346	24	8,370
Mortgage loans					
Fair value through profit or loss	324	–	324	–	324
Shares					
Fair value through profit or loss	7,297	7,264	7	26	7,297
Available for sale	117	116	–	1	117
Investment properties	4,288	–	–	4,288	4,288
Derivative instruments	654	–	646	8	654
Other assets	396	244	131	21	396
	91,550	7,624	79,225	4,701	91,550
Financial assets recorded at amortized cost					
Bonds					
Loans and receivables	11,855	–	12,544	128	12,672
Mortgage loans					
Loans and receivables	24,591	–	19,517	5,695	25,212
Shares					
Available for sale <sup>[1]</sup>	632	–	–	632	632
	37,078	–	32,061	6,455	38,516
Total financial assets	128,628	7,624	111,286	11,156	130,066
<b>FINANCIAL LIABILITIES</b>					
Financial liabilities recorded at fair value					
Investment contract liabilities	889	–	859	30	889
Derivative instruments	779	6	749	24	779
Other liabilities	20	20	–	–	20
	1,688	26	1,608	54	1,688
Financial liabilities recorded at amortized cost					
Obligations to securitization entities	5,572	–	–	5,671	5,671
Debentures and debt instruments	7,275	582	7,409	75	8,066
Capital trust debentures	163	–	205	–	205
Deposits and certificates	187	–	188	–	188
	13,197	582	7,802	5,746	14,130
Total financial liabilities	14,885	608	9,410	5,800	15,818

[1] Fair value of certain shares available for sale cannot be reliably measured, therefore these investments are held at cost.

There were no significant transfers between Level 1 and Level 2 in 2014 and 2013.

The Corporation's financial assets and financial liabilities recorded at fair value and those for which fair value is disclosed have been categorized based upon the following fair value hierarchy:

> Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access. Financial 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 1 assets also include open-end investment fund units in instances where there are quoted prices available from active markets.

Level 2 inputs utilize 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 26 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, mortgage loans, deposits and certificates, and most debentures and debt instruments. The fair value of derivative financial instruments and deposits and certificates is determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of long-term debt is determined using indicative broker quotes. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.

> Level 3 inputs 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, external appraisers or by discounting projected cash flows. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, certain asset-backed securities, some private equities, some mortgage loans, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties, obligations to securitization entities, and certain debt instruments.

The following table presents additional information about financial assets and financial liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the year ended December 31, 2014.

DECEMBER 31, 2014	BONDS		SHARES		INVESTMENT PROPERTIES	DERIVATIVES, NET	OTHER ASSETS (LIABILITIES)	INVESTMENT CONTRACT LIABILITIES	TOTAL
	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE					
Balance, beginning of year	333	24	26	1	4,288	(16)	21	(30)	4,647
Total gains (losses)									
In net earnings	6	–	–	–	262	(25)	1	–	244
In other comprehensive income <sup>[1]</sup>	–	1	–	–	56	–	–	–	57
Purchases	33	–	8	–	127	1	–	–	169
Sales	–	–	(13)	–	(98)	–	(22)	–	(133)
Settlements	(1)	–	(1)	–	–	14	–	–	12
Transferred to owner-occupied properties	–	–	–	–	(13)	–	–	–	(13)
Other	–	–	–	–	(9)	–	–	2	(7)
Transfers out of Level 3	(285)	(24)	(1)	–	–	–	–	–	(310)
Balance, end of year	86	1	19	1	4,613	(26)	–	(28)	4,666

[1] Amount of other comprehensive income for investment properties represents the unrealized gains on foreign exchange.

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 funds and segregated funds.

The following table sets out information about significant unobservable inputs used at period end in measuring financial assets and financial liabilities 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 3.5% – 10.5%  Range of 5.3% – 8.3%  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.

## NOTE 27 OTHER COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2014	ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS			ITEMS THAT WILL NOT BE RECLASSIFIED TO NET EARNINGS		TOTAL
	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES	ACTUARIAL GAIN (LOSSES) ON DEFINED BENEFIT PENSION PLANS	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES	
Balance, beginning of year	(49)	263	327	(179)	(25)	337
Other comprehensive income (loss)	61	403	(86)	(300)	(25)	53
Balance, end of year	12	666	241	(479)	(50)	390

YEAR ENDED DECEMBER 31, 2013	ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS			ITEMS THAT WILL NOT BE RECLASSIFIED TO NET EARNINGS		TOTAL
	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES	ACTUARIAL GAIN (LOSSES) ON DEFINED BENEFIT PENSION PLANS	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES	
Balance, beginning of year	78	(302)	76	(475)	(44)	(667)
Prior period adjustment [Note 33]	–	7	–	–	–	7
Restated balance, beginning of year	78	(295)	76	(475)	(44)	(660)
Other comprehensive income (loss)	(128)	556	251	292	19	990
Other	1	2	–	4	–	7
Restated balance, end of year	(49)	263	327	(179)	(25)	337

## NOTE 28 EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

YEARS ENDED DECEMBER 31,	2014	2013
<b>EARNINGS</b>		
Net earnings attributable to shareholders	2,268	2,027
Dividends on perpetual preferred shares	(132)	(131)
Net earnings attributable to common shareholders	2,136	1,896
Dilutive effect of subsidiaries	(3)	(28)
Net earnings adjusted for dilutive effect	2,133	1,868
<b>NUMBER OF COMMON SHARES (MILLIONS)</b>		
Weighted average number of common shares outstanding – Basic	711.3	710.8
Potential exercise of outstanding stock options	0.7	0.4
Weighted average number of common shares outstanding – Diluted	712.0	711.2
<b>NET EARNINGS PER COMMON SHARE</b>		
Basic	3.00	2.67
Diluted	3.00	2.63

For 2014, 2,713,742 stock options (141,415 in 2013) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 29 RELATED PARTY TRANSACTIONS

#### PRINCIPAL SUBSIDIARIES AND JOINT VENTURE

The financial statements of Power Financial include the operations of the following subsidiaries and joint venture:

CORPORATIONS	INCORPORATED IN	PRIMARY BUSINESS OPERATION	% EQUITY INTEREST	
			2014	2013
Great-West Lifeco Inc.	Canada	Financial services holding company	67.2	67.0
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100	100
London Life Insurance Company	Canada	Insurance and wealth management	100	100
The Canada Life Assurance Company	Canada	Insurance and wealth management	100	100
Irish Life Group Limited	Ireland	Insurance and wealth management	100	100
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100	100
Putnam Investments, LLC <sup>[1]</sup>	United States	Financial services	95.2	95.6
IGM Financial Inc.	Canada	Financial services	58.8	58.6
Investors Group Inc.	Canada	Financial services	100	100
Mackenzie Financial Corporation	Canada	Financial services	100	100
Parjointco N.V. (joint venture)	Netherlands	Holding company	50	50
Pargesa Holding SA	Switzerland	Holding company	55.5	55.6

[1] Lifeco holds 100% of the voting shares and 95.2% of the total outstanding shares.

In the normal course of business, Power Financial and its subsidiaries enter into various transactions; subsidiaries provide insurance benefits, sub-advisory services, distribution of insurance products and/or other administrative services to other subsidiaries of the group and to the Corporation. In all cases, these transactions are in the normal course of operations and have been recorded at fair value. Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of other transactions between the Corporation and related parties are disclosed below.

#### TRANSACTIONS WITH RELATED PARTIES

During 2014, IGM sold residential mortgage loans to Great-West Life, London Life and segregated funds maintained by London Life for \$184 million (\$204 million in 2013).

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Financial, and Lifeco and its subsidiaries.

On January 6, 2015, the Corporation increased its tax loss consolidation transactions with IGM. The Corporation acquired \$330 million of 4.50% secured debentures of IGM. As sole consideration for the debentures a wholly owned subsidiary of Power Financial issued \$330 million of 4.51% preferred shares to IGM. The Corporation has legally enforceable rights to settle these financial instruments on a net basis and the Corporation intends to exercise these rights.

## NOTE 29 RELATED PARTY TRANSACTIONS (CONTINUED)

### KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and its subsidiaries.

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

YEARS ENDED DECEMBER 31	2014	2013
Compensation and employee benefits	17	19
Post-employment benefits	9	9
Share-based payments	11	9
	37	37

### NOTE 30 CONTINGENT LIABILITIES

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. 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 Corporation. 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 Corporation. Actual results could differ from the best estimates of the Corporation's and its subsidiaries' management.

#### LIFECO

A subsidiary of Lifeco, Canada Life, has declared four partial windups in respect of an Ontario defined benefit pension plan. The partial windups will involve the distribution of the amount of actuarial surplus attributable to the windups. A settlement of the class action proceeding commenced in Ontario relating to the partial windups received court approval in 2014. The settlement remains subject to regulatory approval. The provisions for certain Canadian retirement plans have been adjusted to \$26 million after taxes as at December 31, 2014.

In connection with the acquisition of its subsidiary Putnam, Lifeco has an indemnity from a third party against liabilities arising from certain litigation and regulatory actions involving Putnam. Putnam continues to have potential liability for these matters in the event the indemnity is not honoured. Lifeco expects the indemnity will continue to be honoured and that any liability of Putnam would not have a material adverse effect on its consolidated financial position.

On October 17, 2012, a subsidiary of Lifeco, Putnam Advisory Company, LLC, received an administrative complaint from the Massachusetts Securities Division in relation to that subsidiary's role as collateral manager of two collateralized debt obligations. On May 1, 2014 Putnam Advisory Company, LLC, reached a settlement with the Massachusetts Securities Division in relation to its administrative complaint. In addition, that same subsidiary was a defendant in two civil litigation matters brought by institutions involved in those collateralized debt obligations. In the third quarter of 2013, one of the civil litigation matters was dismissed. On April 28, 2014, the second civil litigation matter was dismissed. On July 2, 2014, the complainant in the second civil litigation matter filed an appeal of the dismissal. The resolution of these matters will not have a material adverse effect on the consolidated financial position of Lifeco.

Lifeco and its subsidiaries London Life and Great-West Life are defendants in class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating accounts in the financing of the acquisition of London Insurance Group Inc. in 1997 by Great-West Life. The Court of Appeal for Ontario released a decision on February 3, 2014 overturning the January 24, 2013 decision of the Ontario Superior Court of Justice and reducing the amount to be reallocated to the participating account surplus to \$52 million, which positively impacted Lifeco's common shareholders' net earnings for the year ended December 31, 2013 by \$226 million. On September 4, 2014, the Supreme Court of Canada dismissed, with costs, the plaintiffs' application for leave to appeal the February 3, 2014 decision of the Court of Appeal for Ontario. There will not be any impact on the capital position of Lifeco or on participating policy contract terms and conditions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 31 COMMITMENTS AND GUARANTEES

#### GUARANTEES

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No amounts have been accrued related to these agreements.

#### LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. For Lifeco, the total amount of letter of credit facilities is US\$3.0 billion, of which US\$2.6 billion were issued as of December 31, 2014.

The Reinsurance operation periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities.

#### INVESTMENT COMMITMENTS

With respect to Lifeco, commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were \$591 million as at December 31, 2014 (\$466 million as at December 31, 2013). At December 31, 2014, the full amount of \$591 million will mature within 1 year (at December 31, 2013, \$466 million was to mature within 1 year).

#### INVESTED ASSETS ON DEPOSIT FOR REINSURANCE AGREEMENTS

As at December 31, 2014, Lifeco has \$598 million (\$582 million at December 31, 2013) of invested assets maintained on deposit in respect of certain reinsurance agreements. Lifeco retains all rights to the cash flows on these assets, however, the investment policies for these assets are governed by the terms of the reinsurance agreements.

#### COMMITMENTS

The Corporation and its subsidiaries enter into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2015	2016	2017	2018	2019	2020 AND THEREAFTER	TOTAL
Future lease payments	165	146	123	98	61	120	713

### NOTE 32 SEGMENTED INFORMATION

The Corporation's reportable operating segments are Lifeco, IGM Financial and Parjointco. These reportable segments reflect Power Financial's management structure and internal financial reporting. The following provides a brief description of the three reportable operating segments:

- > Lifeco is a financial service holding company with subsidiaries offering life insurance, health insurance, retirement and investment management services and engaged in the asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- > IGM Financial is a financial services company operating in Canada primarily within the advice segment of the financial services market. IGM earns revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenues from fees charged to its mutual funds for administrative services.
- > Parjointco holds the Corporation's interest in Pargesa, a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialties for industry; cement, aggregates and concrete; oil, gas and alternative energies; testing, inspection and certification, wines and spirits; electricity, natural gas, and energy and environmental services; and water and waste management services.

The Corporate column is comprised of corporate activities of Power Financial and also includes consolidation elimination entries.

The accounting policies of the operating segments are those described in Note 2 – Basis of Presentation and Summary of Significant Accounting Policies of these financial statements.

The Corporation evaluates the performance based on the operating segment's contribution to net earnings. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets. The contribution to net earnings of each segment is calculated after taking into account the investment Lifeco and IGM have in each other.



## NOTE 32 SEGMENTED INFORMATION (CONTINUED)

### INFORMATION ON CONTRIBUTION TO NET EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2014	LIFECO	IGM	PARJOINTCO	CORPORATE	TOTAL
<b>REVENUES</b>					
Premium income, net	21,222	–	–	–	21,222
Investment income, net	13,513	165	–	(115)	13,563
Fee income	4,422	2,762	–	(194)	6,990
	39,157	2,927	–	(309)	41,775
<b>EXPENSES</b>					
Total paid or credited to policyholders	29,160	–	–	–	29,160
Commissions	2,084	993	–	(176)	2,901
Operating and administrative expenses	4,244	877	–	41	5,162
Financing charges	304	92	–	17	413
	35,792	1,962	–	(118)	37,636
	3,365	965	–	(191)	4,139
Share of earnings of investments in jointly controlled corporations and associates	24	–	187	–	211
Earnings before income taxes	3,389	965	187	(191)	4,350
Income taxes	628	203	–	3	834
Contribution to net earnings	2,761	762	187	(194)	3,516
<b>Attributable to</b>					
Non-controlling interests	1,052	317	–	(121)	1,248
Perpetual preferred shareholders	–	–	–	132	132
Common shareholders	1,709	445	187	(205)	2,136
	2,761	762	187	(194)	3,516

### INFORMATION ON ASSETS AND LIABILITIES

DECEMBER 31, 2014	LIFECO	IGM	PARJOINTCO	CORPORATE	TOTAL
Goodwill	6,315	2,834	–	–	9,149
Total assets	356,770	13,801	2,440	832	373,843
Total liabilities	334,812	9,576	–	553	344,941

### INFORMATION ON TOTAL ASSETS AND TOTAL REVENUES

DECEMBER 31, 2014	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	73,206	36,198	45,427	154,831
Investments in jointly controlled corporations and associates	–	–	2,677	2,677
Investments on account of segregated fund policyholders	68,372	31,030	75,564	174,966
Other assets	4,084	3,613	19,026	26,723
Goodwill and intangible assets	10,226	2,061	2,359	14,646
Total assets	155,888	72,902	145,053	373,843
Total revenues	20,043	7,551	14,181	41,775

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 32 SEGMENTED INFORMATION (CONTINUED)

#### INFORMATION ON CONTRIBUTION TO NET EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2013	LIFECO	IGM	PARJOINTCO	CORPORATE	TOTAL
<b>REVENUES</b>					
Premium income, net	20,236	–	–	–	20,236
Investment income, net	2,605	177	–	(121)	2,661
Fee income	3,585	2,513	–	(165)	5,933
	26,426	2,690	–	(286)	28,830
<b>EXPENSES</b>					
Total paid or credited to policyholders	17,811	–	–	–	17,811
Commissions	1,869	886	–	(165)	2,590
Operating and administrative expenses	3,693	730	–	51	4,474
Financing charges	292	92	–	16	400
	23,665	1,708	–	(98)	25,275
	2,761	982	–	(188)	3,555
Share of earnings of investments in jointly controlled corporations and associates	20	–	114	–	134
Earnings before income taxes	2,781	982	114	(188)	3,689
Income taxes	463	211	–	4	678
Contribution to net earnings	2,318	771	114	(192)	3,011
Attributable to					
Non-controlling interests	776	326	–	(118)	984
Perpetual preferred shareholders	–	–	–	131	131
Common shareholders	1,542	445	114	(205)	1,896
	2,318	771	114	(192)	3,011

#### INFORMATION ON ASSETS AND LIABILITIES

DECEMBER 31, 2013 [NOTE 33]	LIFECO	IGM	PARJOINTCO	CORPORATE	TOTAL
Goodwill	6,272	2,833	–	–	9,105
Total assets	325,946	12,340	2,437	959	341,682
Total liabilities	306,046	8,173	–	529	314,748

#### INFORMATION ON TOTAL ASSETS AND TOTAL REVENUES

DECEMBER 31, 2013	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	67,129	31,206	40,919	139,254
Investments in jointly controlled corporations and associates	–	–	2,664	2,664
Investments on account of segregated fund policyholders	62,204	28,168	70,407	160,779
Other assets [Note 33]	3,650	3,327	17,622	24,599
Goodwill and intangible assets	10,158	1,828	2,400	14,386
Total assets	143,141	64,529	134,012	341,682
Total revenues	15,211	5,231	8,388	28,830

### NOTE 33 PRIOR PERIOD ADJUSTMENT

During the year, Lifeco corrected an error that occurred in 2008 that resulted from the impairment charge recorded against the goodwill associated with the Putnam acquisition. Specifically, Lifeco's tax affected the entire goodwill impairment charge when there was a permanent difference between the tax

accounting value and the tax book value. The nature of this error is such that it was not material to the period to which it relates; however, correcting the error in the year ended December 31, 2014 would have distorted net earnings. The Corporation corrected the error by decreasing equity at January 1, 2013.

The Corporation corrected the error retrospectively which resulted in the impact to the following amounts previously reported at:

	AS AT JANUARY 1, 2013			AS AT DECEMBER 31, 2013		
	AMOUNT PREVIOUSLY REPORTED	PRIOR PERIOD ADJUSTMENT	RESTATED BALANCE	AMOUNT PREVIOUSLY REPORTED	PRIOR PERIOD ADJUSTMENT	RESTATED BALANCE
<b>ASSETS</b>						
Deferred tax assets	1,223	(158)	1,065	1,240	(29)	1,211
<b>LIABILITIES</b>						
Deferred tax liabilities	1,018	–	1,018	1,079	140	1,219
<b>EQUITY</b>						
Retained earnings	11,201	(119)	11,082	12,204	(119)	12,085
Reserves—other comprehensive income (loss) <sup>[1]</sup>	(667)	7	(660)	338	(1)	337
Non-controlling interest	10,102	(46)	10,056	10,990	(49)	10,941
<b>COMPREHENSIVE INCOME</b>						
Total comprehensive income				4,323	(11)	4,312

[1] The adjustments to other comprehensive income (loss) and to total comprehensive income arise from unrealized foreign exchange gains (losses) on translation of foreign operations.

The adjustment had no impact on net earnings or earnings per share for the periods presented within these financial statements.

# INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

We have audited the accompanying consolidated financial statements of Power Financial Corporation, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of earnings, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Power Financial Corporation as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed,  
Deloitte LLP<sup>1</sup>  
March 18, 2015  
Montréal, Québec

<sup>1</sup> CPA auditor, CA, public accountancy permit No. A104630

# POWER FINANCIAL CORPORATION

## FIVE-YEAR FINANCIAL SUMMARY

DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	2014	2013	2012	2011 <sup>[1]</sup>	2010 <sup>[1]</sup>
<b>CONSOLIDATED BALANCE SHEETS</b>					
Cash and cash equivalents	3,989	4,344	3,313	3,385	3,656
Total assets <sup>[2]</sup>	373,843	341,682	268,586	252,678	244,644
Shareholders' equity <sup>[2]</sup>	17,019	15,993	13,563	13,521	12,811
<b>CONSOLIDATED STATEMENTS OF EARNINGS</b>					
<b>REVENUES</b>					
Premium income, net	21,222	20,236	19,257	17,293	17,748
Investment income, net	13,563	2,661	8,375	9,764	9,600
Fee income	6,990	5,933	5,302	5,343	5,174
	41,775	28,830	32,934	32,400	32,522
<b>EXPENSES</b>					
Total paid or credited to policyholders	29,160	17,811	22,875	23,043	23,225
Commissions	2,901	2,590	2,487	2,312	2,216
Operating and administrative expenses	5,162	4,474	3,806	3,006	3,837
Financing charges	413	400	409	409	432
	37,636	25,275	29,577	28,770	29,710
	4,139	3,555	3,357	3,630	2,812
Share of earnings (losses) of investments in jointly controlled corporations and associates	211	134	130	(20)	121
Earnings before income taxes – continuing operations	4,350	3,689	3,487	3,610	2,933
Income taxes	834	678	559	706	523
Net earnings – continuing operations	3,516	3,011	2,928	2,904	2,410
Net earnings – discontinued operations	–	–	–	63	2
Net earnings	3,516	3,011	2,928	2,967	2,412
<b>Attributable to</b>					
Non-controlling interests	1,248	984	1,193	1,141	845
Perpetual preferred shareholders	132	131	117	104	99
Common shareholders	2,136	1,896	1,618	1,722	1,468
	3,516	3,011	2,928	2,967	2,412
<b>PER SHARE</b>					
Operating earnings attributable to common shareholders <sup>[3]</sup>	2.96	2.40	2.37	2.44	2.30
Net earnings attributable to common shareholders from discontinued operations	–	–	–	0.05	–
Net earnings attributable to common shareholders	3.00	2.67	2.29	2.43	2.08
Dividends declared on common shares	1.40	1.40	1.40	1.40	1.40
Book value at year-end <sup>[2]</sup>	20.29	18.61	15.95	16.26	15.26
<b>MARKET PRICE (COMMON SHARES)</b>					
High	36.70	36.79	30.15	31.98	34.23
Low	30.14	27.02	24.06	23.62	27.00
Year-end	36.18	36.00	27.24	25.54	30.73

[1] The 2011 and 2010 figures have not been adjusted to reflect current year reclassifications and new and revised IFRS adopted on January 1, 2013.

[2] Comparative figures have been restated as described in Note 33.

[3] Operating earnings per share is a non-IFRS financial measure. Please refer to the reconciliation of non-IFRS financial measures to financial measures in accordance with IFRS in the Review of Financial Performance.

## QUARTERLY FINANCIAL INFORMATION

[IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	TOTAL REVENUES	NET EARNINGS	NET EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS	EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS – BASIC	EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS – DILUTED
<b>2014</b>					
First quarter	10,584	799	467	0.66	0.66
Second quarter	10,716	911	568	0.80	0.80
Third quarter	9,134	965	595	0.83	0.83
Fourth quarter	11,341	841	506	0.71	0.71
<b>2013</b>					
First quarter	8,150	692	394	0.55	0.55
Second quarter	4,236	780	475	0.67	0.67
Third quarter	7,803	744	434	0.61	0.61
Fourth quarter	8,641	795	593	0.84	0.84

## BOARD OF DIRECTORS

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**MARC A. BIBEAU**<sup>[1]</sup>

President and Chief Executive Officer,  
Beauward Shopping Centres Ltd.

**ANDRÉ DESMARAIS**, O.C., O.Q.<sup>[4]</sup>

Executive Co-Chairman of the Corporation  
and Deputy Chairman, President and  
Co-Chief Executive Officer,  
Power Corporation of Canada

**PAUL DESMARAIS, JR.**, O.C., O.Q.<sup>[4]</sup>

Executive Co-Chairman of the Corporation  
and Chairman and Co-Chief Executive Officer,  
Power Corporation of Canada

**GÉRALD FRÈRE**<sup>[2, 3]</sup>

Managing Director,  
Frère-Bourgeois S.A.

**ANTHONY R. GRAHAM**, LL.D.<sup>[4]</sup>

Vice-Chairman, Wittington Investments, Limited

**V. PETER HARDER**, LL.D.<sup>[2, 3]</sup>

Senior Policy Adviser,  
Dentons Canada LLP

**J. DAVID A. JACKSON**, LL.B.

Senior Counsel,  
Blake, Cassels & Graydon LLP

**R. JEFFREY ORR**

President and Chief Executive Officer of the Corporation

**LOUISE ROY**, O.C., O.Q.

Invited Fellow and Chair of the Board,  
Centre interuniversitaire de recherche en analyse  
des organisations

**RAYMOND ROYER**, O.C., O.Q., FCPA, FCA<sup>[1, 2, 3, 4]</sup>

Company Director

**T. TIMOTHY RYAN, JR.**

Company Director

**EMŐKE J.E. SZATHMÁRY**, C.M., O.M., PH.D., FRSC<sup>[1]</sup>

President Emeritus,  
University of Manitoba

## DIRECTORS EMERITUS

**JAMES W. BURNS**, O.C., O.M.

**THE HONOURABLE P. MICHAEL PITFIELD**, P.C., Q.C.

- [1] MEMBER OF THE AUDIT COMMITTEE
- [2] MEMBER OF THE COMPENSATION COMMITTEE
- [3] MEMBER OF THE RELATED PARTY AND CONDUCT REVIEW COMMITTEE
- [4] MEMBER OF THE GOVERNANCE AND NOMINATING COMMITTEE

## OFFICERS

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**PAUL DESMARAIS, JR., O.C., O.Q.**  
Executive Co-Chairman

**ANDRÉ DESMARAIS, O.C., O.Q.**  
Executive Co-Chairman

**R. JEFFREY ORR**  
President and Chief Executive Officer

**MICHEL PLESSIS-BÉLAIR, FCPA, FCA**  
Vice-Chairman

**HENRI-PAUL ROUSSEAU, PH.D.**  
Vice-Chairman

**AMAURY DE SEZE**  
Vice-Chairman

**GREGORY D. TRETIAK, FCA**  
Executive Vice-President  
and Chief Financial Officer

**CLAUDE GÉNÉREUX**  
Executive Vice-President

**ARNAUD VIAL**  
Senior Vice-President

**OLIVIER DESMARAIS**  
Vice-President

**PAUL DESMARAIS III**  
Vice-President

**JOCELYN LEFEBVRE, CPA, C.A.**  
Managing Director,  
Power Financial Europe B.V.

**DENIS LE VASSEUR, CPA, C.A.**  
Vice-President and Controller

**STÉPHANE LEMAY**  
Vice-President,  
General Counsel and Secretary

**RICHARD PAN**  
Vice-President

**LUC RENY, CFA**  
Vice-President

**PHILIPPE MARTIN**  
Treasurer



# CORPORATE INFORMATION

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## POWER FINANCIAL CORPORATION

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514-286-7430

161 Bay Street, Suite 5000  
Toronto, Ontario, Canada M5J 2S1

[www.powerfinancial.com](http://www.powerfinancial.com)

This document is also available on the Corporation's website and on SEDAR at [www.sedar.com](http://www.sedar.com).

### STOCK LISTINGS

Shares of Power Financial Corporation are listed on the Toronto Stock Exchange:

COMMON SHARES: PWF

FIRST PREFERRED SHARES:

Series A: PWF.PR.A	Series L: PWF.PR.L
Series D: PWF.PR.E	Series O: PWF.PR.O
Series E: PWF.PR.F	Series P: PWF.PR.P
Series F: PWF.PR.G	Series R: PWF.PR.R
Series H: PWF.PR.H	Series S: PWF.PR.S
Series I: PWF.PR.I	Series T: PWF.PR.T
Series K: PWF.PR.K	

### TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

Offices in:

Montréal, Québec; Toronto, Ontario  
[www.computershare.com](http://www.computershare.com)

### SHAREHOLDER SERVICES

Shareholders with questions relating to the payment of dividends, change of address and share certificates should contact the Transfer Agent:

Computershare Investor Services Inc.  
Shareholder Services  
100 University Avenue, 8th Floor  
Toronto, Ontario, Canada M5J 2Y1  
Telephone: 1-800-564-6253 (toll-free in Canada and the U.S.)  
or 514-982-7555  
[www.computershare.com](http://www.computershare.com)



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