



POWER FINANCIAL  
CORPORATION

2017  
Annual Report

This Annual Report is intended to provide shareholders and other interested persons with 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 most recent Annual Information Form and Management's Discussion and Analysis. Copies of the Corporation's continuous disclosure documents can be obtained from its 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 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. 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 in Canadian dollars and as of December 31, 2017, unless otherwise noted.

## NON-IFRS FINANCIAL MEASURES AND PRESENTATION

Net earnings attributable to common shareholders are comprised of:

- adjusted net earnings attributable to common shareholders; and
- other items, 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 include the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation.

Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial and its holdings, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation and its holdings. Adjusted net 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 considered to be part of ongoing activities are excluded from this non-IFRS financial measure.

Adjusted net earnings attributable to common shareholders and adjusted net 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 financial measures to results reported in accordance with IFRS, see the Reconciliation of IFRS and non-IFRS financial measures section further in this report.

## ABBREVIATIONS

The following abbreviations are used throughout this report:

<b>Power Financial or the Corporation</b> (Power Financial Corporation)	<b>Lifeco or Great-West Lifeco</b> (Great-West Lifeco Inc.)
<b>adidas</b> (adidas AG)	<b>LON</b> (London Stock Exchange)
<b>BME</b> (Madrid Stock Exchange)	<b>London Life</b> (London Life Insurance Company)
<b>Burberry</b> (Burberry Group plc)	<b>Mackenzie or Mackenzie Investments</b> (Mackenzie Financial Corporation)
<b>Canada Life</b> (The Canada Life Assurance Company)	<b>Ontex</b> (Ontex N.V.)
<b>China AMC</b> (China Asset Management Co., Ltd.)	<b>PanAgora or PanAgora Asset Management</b> (PanAgora Asset Management, Inc.)
<b>EBR</b> (Euronext Brussels)	<b>Pargesa</b> (Pargesa Holding SA)
<b>EPA</b> (Euronext Paris)	<b>Parjointco</b> (Parjointco N.V.)
<b>GBL</b> (Groupe Bruxelles Lambert)	<b>Parques</b> (Parques Reunidos Servicios Centrales, S.A.)
<b>GEA</b> (GEA Group)	<b>Portag3 or Portag3 Ventures</b> (Portag3 Ventures Limited Partnership)
<b>Great-West Financial or Great-West Life &amp; Annuity</b> (Great-West Life & Annuity Insurance Company)	<b>Power Corporation</b> (Power Corporation of Canada)
<b>Great-West Life</b> (The Great-West Life Assurance Company)	<b>Putnam or Putnam Investments</b> (Putnam Investments, LLC)
<b>IFRS</b> (International Financial Reporting Standards)	<b>SGS</b> (SGS SA)
<b>IGM or IGM Financial</b> (IGM Financial Inc.)	<b>SIX</b> (Swiss Stock Exchange)
<b>Investment Planning Counsel</b> (Investment Planning Counsel Inc.)	<b>Total</b> (Total SA)
<b>Investors Group</b> (Investors Group Inc.)	<b>Umicore</b> (Umicore, NV/SA)
<b>Irish Life</b> (Irish Life Group Limited)	<b>Wealthsimple</b> (Wealthsimple Financial Corp.)
<b>LafargeHolcim</b> (LafargeHolcim Ltd)	<b>XETR</b> (XETRA Stock Exchange)

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# This is Power Financial

## QUICK FACTS <sup>[1]</sup>

**\$1.7B**

Net earnings attributable to common shareholders

**\$2.1B**

Adjusted net earnings attributable to common shareholders

**\$24.7B**

Market capitalization

**12.3%**

Return on equity<sup>[2]</sup>

## KEY PRINCIPLES

Long-term perspective

Leading franchises with attractive growth profiles

Strong governance oversight

Prudent, risk-aware approach to risk management

**GREAT-WEST LIFE CO AND IGM FINANCIAL, OUR OPERATING COMPANIES, HAVE**

**\$843B**

Assets under management

**\$1.5T**

Assets under administration

**30 MILLION+**

Customer relationships

**26,800**

Employees

**12,200**

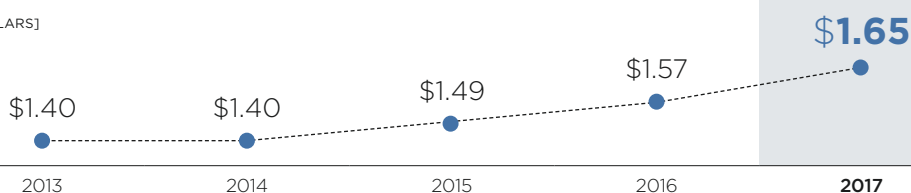
Financial advisors

THE **PARGESA GROUP**

Significant shareholdings in global industrial and services companies based in Europe

## DIVIDENDS DECLARED PER COMMON SHARE

[IN DOLLARS]



**4.8%**

Dividend yield

## FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31  
[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]

	2017	2016
Net earnings – attributable to common shareholders	1,717	1,919
Net earnings – per common share	2.41	2.69
Adjusted net earnings <sup>[3]</sup> – attributable to common shareholders	2,135	2,136
Adjusted net earnings <sup>[3]</sup> – per common share	2.99	2.99
Consolidated assets <sup>[4]</sup>	440,224	418,407
Consolidated assets and assets under management <sup>[4]</sup>	847,820	793,033
Shareholders' equity <sup>[5]</sup>	20,513	19,481
Book value per common share	24.77	23.69
Common shares outstanding [in millions]	713.9	713.3

[1] As of December 31, 2017.

[2] Return on equity is calculated using adjusted net earnings.

[3] Adjusted net earnings is a non-IFRS financial measure. Please refer to the reconciliation of IFRS and non-IFRS financial measures in the Review of Financial Performance.

[4] Comparative figures have been retrospectively adjusted. Refer to Note 16 of the 2017 Consolidated Financial Statements.

[5] Represents preferred and common shareholders' equity.

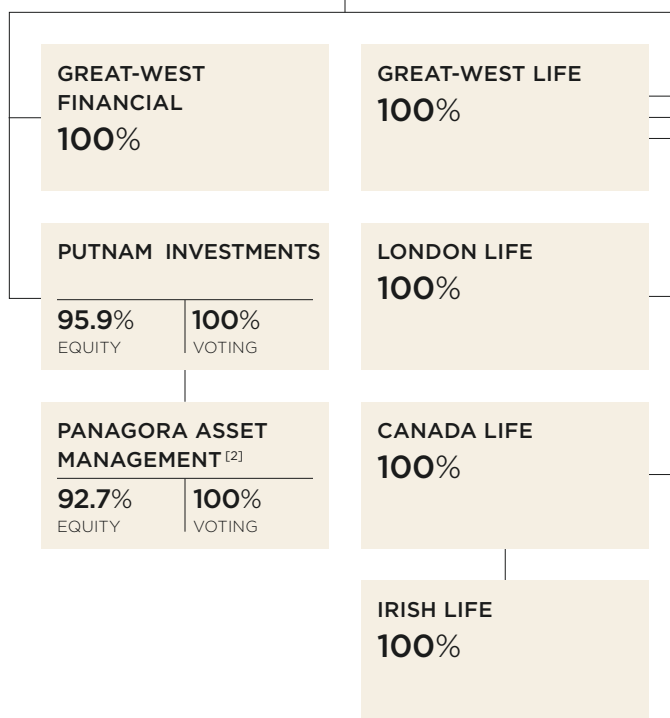


# POWER FINANCIAL CORPORATION

Power Financial is a diversified international management and holding company that holds interests substantially in the financial services sector in Canada, the United States and Europe. It also has substantial holdings in global industrial and services companies based in Europe. The Corporation is listed on the Toronto Stock Exchange (TSX: PWF).

## GREAT-WEST LIFECO INC.

<b>67.7%</b> EQUITY		<b>65%</b> VOTING	< 4.0%
<b>\$2,149M</b> 2017 net earnings attributable to common shareholders		<b>\$2,647M</b> 2017 adjusted net earnings attributable to common shareholders	
<b>\$34.7B</b> Market capitalization	<b>13.4%</b> 2017 return on shareholders' equity <sup>[1]</sup>	<b>\$1.35T</b> Total assets under administration	



[1] Return on shareholders' equity is calculated using adjusted net earnings.  
 [2] As of February 9, 2018.  
 [3] Power Corporation, Power Financial's parent company, also holds a 13.9% interest in China AMC. Power Corporation and Mackenzie hold a combined 27.8% interest in China AMC.  
 [4] As of January 19, 2018.  
 [5] Power Financial directly holds 63% of Portag3, and both Great-West Lifeco and IGM Financial hold equal interests of 18.5%.  
 [6] Power Financial directly holds 10.8% of Wealthsimple, and Portag3 and IGM Financial also hold 29.4% and 37.1%, respectively.  
 [7] Through its wholly owned subsidiary, Power Financial Europe B.V., Power Financial holds a 50% interest in Parjointco. Parjointco holds an equity interest of 55.5% and a voting interest of 75.4% in Pargesa.  
 [8] Described as Economic operating income by Pargesa.

Percentages represent participating equity interest and voting interest (unless otherwise indicated) at December 31, 2017.  
 Adjusted net earnings is a non-IFRS financial measure.



3.8% >

<b>61.5%</b>		
<b>\$602M</b> 2017 net earnings available to common shareholders	<b>\$728M</b> 2017 adjusted net earnings available to common shareholders	
<b>\$10.6B</b> Market capitalization	<b>15.6%</b> 2017 return on shareholders' equity <sup>[1]</sup>	<b>\$157B</b> Total assets under management

<b>MACKENZIE INVESTMENTS</b> <b>100%</b>	<b>INVESTORS GROUP</b> <b>100%</b>	<b>INVESTMENT PLANNING COUNSEL</b> <sup>[4]</sup> <b>100%</b>
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13.9% >

<b>CHINA AMC</b> <sup>[3]</sup>
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<b>PORTAG3 VENTURES</b> <sup>[5]</sup>
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<b>WEALTHSIMPLE</b> <sup>[6]</sup>
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<b>27.8%</b> <sup>[7]</sup>	
<b>SF382M</b> 2017 net earnings	<b>SF384M</b> 2017 adjusted net earnings <sup>[8]</sup>
<b>SF7.2B</b> Market capitalization	<b>SF10.85B</b> Net asset value

<b>GRUPE BRUXELLES LAMBERT</b>	
<b>50%</b> EQUITY	<b>51.8%</b> VOTING



# Directors' Report to Shareholders

The year 2017 was significant for Power Financial, providing a number of tangible proof points validating the strategies our group companies have been pursuing for the past several years.

## Financial Services

### THE PATH WE ARE ON

It became evident a number of years ago that changes in technology, consumer expectations and regulatory focus would change business models in financial services. Success would be reserved to those organizations that could provide clients with best-of-breed products, services and advice, delivered by the means and at the times that best suited them, with full transparency regarding price and risk.

The different businesses that make up Great-West Lifeco and IGM Financial embarked upon transformation strategies which involved augmenting their talent pools, their technology platforms and their product and service offerings, while also reducing their prices in many instances.

One of the consequences of such strategies was an increase in the rate of growth of expenses to levels well above the historic levels achieved by our companies. Our group made difficult choices in the face of significant external headwinds, including the negative impact of record low interest rates on the profitability of our insurance products, declining fee levels on mutual funds and other investment products, a shift of investment monies towards lower-cost passive products versus the actively managed products managed by our companies, and higher required capital levels and oversight costs resulting from regulatory requirements.

The resulting impact has been a reduction in the rate of growth in profitability of our companies over the past several years.

We are as convinced today as we were a few years back as to the wisdom of such choices. They are consistent with our historic and ongoing objective of creating superior shareholder value over the long term.

The opportunities to help meet the financial, physical and mental well-being needs of large populations will remain attractive for many decades to come, both from a business perspective and as a vital role to be played in society. Our companies are well placed to serve the needs of such populations in the future, occupying leading positions in almost all of the markets in which we operate. But we can only seize such opportunities if we transform our business models.

While the transformation journeys are by no means complete, a number of our businesses reached inflection points in 2017 following several years of investment and change. They enjoyed marked improvements in client experience, gained market share and achieved improving financial metrics.

Within IGM, both Investors Group and Mackenzie are cases in point.

In 2017, Investors Group experienced its best fund sales in over a decade and gained market share. This followed several years of material price reductions, transparent fee disclosure, enhanced product offerings, heavy investments in technology infrastructure and a change in advisor recruiting strategy. The story at Mackenzie is very similar. After several years of investing in people, products, sales and service, technology and branding, in 2017 Mackenzie experienced its best investment product flows in over 10 years, gained share and increased profitability.

Great-West Lifeco's Empower Retirement is another example. Empower is the second-largest provider of defined contribution plans (such as 401(k) plans) in the United States, managing the retirement accounts of over 8.3 million Americans and with US\$530 billion on its platform. Empower was created from the combination of the defined contribution businesses of Great-West Financial, Putnam and J.P. Morgan. For the past few years, earnings at Empower were reduced materially as the company spent heavily on the integration of the three businesses, migrating all clients on to one system and automating processes to improve the client experience and productivity. Empower has been winning new business in the market for the past few years at a rate which is far greater than its current market share, and in 2017 profitability grew strongly through revenue growth and productivity gains. It is now poised to grow organically and through potential consolidation of a fragmented industry.

Power Financial, Great-West Lifeco and IGM Financial are also actively supporting the group's Fintech strategy, which has the dual objective of providing an attractive return on the capital invested and of helping our existing financial services businesses transform their models and enrich their clients' experiences. We anticipate continuing to support this strategy, and are very encouraged by the progress of companies such as Wealthsimple, Personal Capital, Portag3, and the many investee companies associated with our group.

From a value creation perspective, our Fintech investments are unlikely to produce operating income from their activities for several years, and are in fact more likely to create operating losses. Value creation in such early stage ventures is usually measured using other metrics than bottom line profit. We will continue to provide meaningful information and metrics and look to incorporate other measures to reflect progress on these activities.

#### THE PATH FORWARD

Power Financial's value creation agenda within financial services is entering a new phase and will be focused on three priorities:

- Continue the internal transformations with the goal of having additional businesses break out and translate their past investments into market gains and profit growth;
- Reduce the rate of expense growth across the group; and
- Place a greater emphasis on capital deployment and re-deployment to shift our overall portfolio of businesses to provide higher growth potential and greater potential return on capital.

On the latter point, our group has a long and successful history of using M&A to create shareholder value, and has remained active during the past five years. We believe that adding complementary businesses or shedding business activities will be an important tool in realizing our profit potential and value creation objectives.

## China AMC

The Power group has had a long history of participating in the Chinese market and, in August, it entered a new phase with the support of its long-term partner CITIC Securities. IGM Financial acquired a 13.9 per cent interest in China AMC and Power Corporation added 3.9 per cent to its existing 10 per cent interest. We believe experience and long-term relationships with strong local partners will serve us best in pursuing opportunities in this large and dynamic market. Mackenzie and PanAgora (a very successful quantitative investment management company which is part of our group) have seized on the opportunity early, each working with China AMC to launch products: Mackenzie offering a China AMC sub-advised fund to the Canadian market and PanAgora advising a China AMC product for the Chinese market.

## Pargesa/GBL

GBL initiated a rebalancing of its portfolio in 2012 with a view to strengthen the portfolio's growth profile and consequently optimize its potential for long-term value creation. This transformation has been pursued through a significant portfolio rotation, with disposals and acquisitions totalling €14 billion. It has led to a substantial shift from high-yielding assets in the energy and utilities sectors into growth assets in the industrial, business services and consumer goods sectors having greater exposure to long-term growth trends.

GBL has consistently invested behind megatrends that should support growing revenues of its portfolio companies and thus contribute to further value creation. Most recent investments are reflective of its strategy and include: sustainability and resource scarcity – Umicore; health and lifestyle – GEA, Parques and Burberry; and the shift in demographics and economic power towards emerging markets – Ontex.

## Financial Results

Power Financial's net earnings<sup>[1]</sup> were \$1,717 million or \$2.41 per share for the year ended December 31, 2017, compared with \$1,919 million or \$2.69 per share in 2016.

Adjusted net earnings<sup>[1, 2]</sup> were \$2,135 million or \$2.99 per share, matching the \$2.99 per share in 2016.

Contributions to Power Financial's adjusted net earnings were:

In millions	2017	2016
Great-West Lifeco	\$1,791	\$1,821
IGM Financial	\$428	\$452
Pargesa	\$131	\$119

Net earnings and adjusted net earnings in 2017 reflect a \$175 million loss at Lifeco on estimated hurricane claims, the Corporation's share being \$123 million.

Dividends declared by Power Financial were \$1.65 per common share, an increase of 5.1 per cent, compared with \$1.57 per share in 2016. On March 23, 2018, the Board of Directors announced a 5 per cent increase in the quarterly dividend on the Corporation's common shares, from \$0.4125 to \$0.4330 per share.

Power Financial ended the year with a strong capital base, enhanced by a \$250 million preferred share issue in May 2017, and a healthy liquidity position with cash and short-term investments of \$1.05 billion. Power Financial's strong capital base and liquidity will ensure we will be in a position to support our companies as they navigate the path forward.

[1] Attributable to common shareholders.

[2] Please refer to the reconciliation of IFRS and non-IFRS financial measures in the Review of Financial Performance.



## Shareholder Engagement

Our companies continued to enhance their efforts in 2017 to communicate with their shareholders. In November, each of Great-West Lifeco, IGM Financial and Pargesa held investor days for analysts and shareholders. Power Financial continued to meet with shareholders during the year, both one-on-one and in group presentations. Our group companies did likewise.

We have an objective of taking our shareholder engagement to the next level to assist shareholders in their understanding of our strategies, our opportunities, our challenges and our progress.

## Board of Directors

At the May 2018 Annual Meeting of the Corporation, shareholders will be asked to elect Ms. Susan J. McArthur and Mr. Siim A. Vanaselja to the Board.

Ms. McArthur is Managing Partner at GreenSoil Investments, a private equity firm, a position she has held since 2013. She has 25 years of experience in international and domestic investment banking. Ms. McArthur is also a director of Great-West Lifeco and IGM Financial and of a number of their operating companies.

Mr. Vanaselja served as Executive Vice-President and Chief Financial Officer of BCE Inc. and Bell Canada, from 2001 to 2015. Prior to that, he was a Partner with KPMG Canada in Toronto. Mr. Vanaselja has also been a member of the Board of Directors of Great-West Lifeco and a number of its operating companies since 2014.

Mrs. Louise Roy and Mr. Raymond Royer will not stand for re-election to the Corporation's Board of Directors. Mrs. Roy has been a member of the Board since 2010. Mr. Royer has been a member of the Board since the Corporation's inception in 1984; he is currently Chairman of the Audit Committee and the Compensation Committee, and serves on the Governance and Nominating Committee and the Related Party and Conduct Review Committee. The Directors wish to thank Mrs. Roy and Mr. Royer, on behalf of the shareholders, for their important contributions to the Board.

On behalf of the Board of Directors,

Signed,

R. Jeffrey Orr  
President and  
Chief Executive Officer

March 23, 2018

Signed,

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

Signed,

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

## The Power Financial Group

Since Power Financial's inception, it has created value through a focus on managing to some basic principles:

- take a long-term perspective and investment horizon
- build industry leaders
- focus on high-growth, high-ROE (return on equity) products and market segments
- employ a disciplined, fact-based approach to decision making
- use prudence, be risk aware and maintain strong balance sheets

We invest in high-quality, socially responsible companies with sustainable franchises. Our companies have a long and proud history of contributing to the well-being of the communities in which they operate. The principles underlying our approach to responsible management are outlined later in this report and on [www.PowerFinancialCSR.com](http://www.PowerFinancialCSR.com).

As we look forward, we do so with a conviction that the need for the financial services offered by Power Financial's group of companies will continue to grow and evolve. Power Financial is well positioned to respond to opportunities ahead.

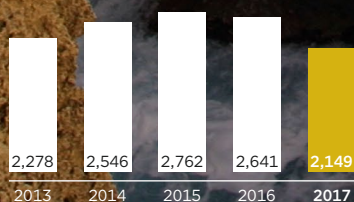
Your Directors and management seek to deliver attractive long-term shareholder returns. In most any environment, companies with strong balance sheets, sound financial management and prudent liquidity will be best positioned to seize upon the most attractive opportunities. At the Power Financial group of companies, we seek opportunities to grow our business organically and capitalize on acquisitions that are strategic as well as accretive.

Your Directors wish to express gratitude, on behalf of the shareholders, for the important contribution made by the management and the employees of our Corporation and our group companies to the strong results achieved in 2017, and we look forward to 2018.

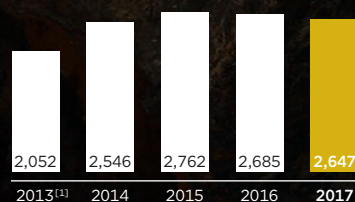
# Great-West Lifeco

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 and Europe through Great-West Life, London Life, Canada Life, Irish Life, Great-West Financial, Putnam Investments and PanAgora. Great-West Lifeco and its companies have \$1.35 trillion in total assets under administration.

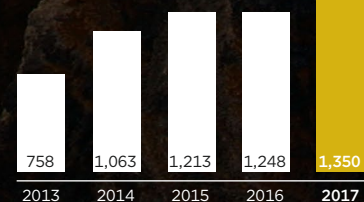
Net earnings  
attributable to common shareholders  
[in millions of dollars]



Adjusted net earnings  
attributable to common shareholders  
[in millions of dollars]



Total assets  
under administration  
[in billions of dollars]



[1] Described as operating earnings (a non-IFRS financial measure) by Lifeco.

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 13 million people.

**\$180 billion**  
Total assets under administration

**\$13.6 billion**  
Sales

**\$1,074 million**  
Net earnings

**13 million**  
Customer relationships

**\$13.5 million** contributed to communities in Canada

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.

**\$255 billion**  
Total assets under administration

**\$21.9 billion**  
Insurance and annuities sales

**\$1,152 million**  
Net earnings

**Top 4** provider of payout annuities in the U.K.

**No. 1** pension, investment and life insurance provider in Ireland

United States



Great-West Financial provides life insurance, annuities and executive benefits products. Its Great-West Investments unit offers fund management, investment and advisory services. Its Empower Retirement arm 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. Empower also offers individual retirement accounts.

**US\$557 billion**  
Total assets under administration

**8.8 million** retirement, insurance and annuity customers

**No. 1** in government deferred-compensation market by assets and participants

**No. 2** defined contribution record keeper in the U.S. by participants

United States • Europe • Asia



Putnam 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's investment performance was ranked in the "top ten" among investment firms in all time periods (one, five, ten years) in *Barron's* Best Fund Families of 2017.

The firm's affiliate PanAgora is a premier provider of institutional investment solutions, including alternatives, risk premia – including risk parity – and active strategies, spanning all major asset classes and risk ranges.

**US\$171 billion**  
Total assets under management

**180+** investment professionals

**100+** mutual funds available

**80** years of investment experience

**150+** institutional mandates

**168,000** advisors distribute Putnam products

Total assets under administration

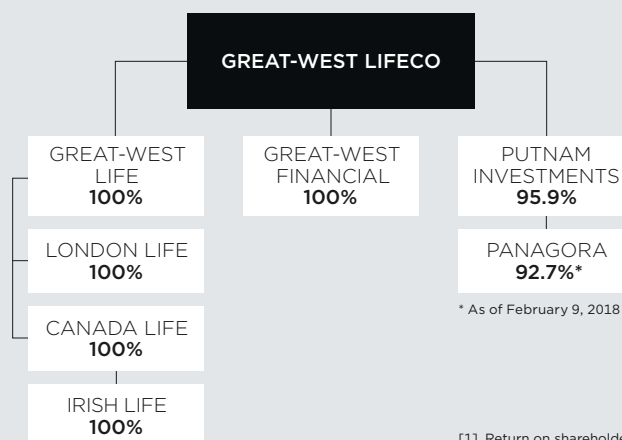
**\$1.35 TRILLION**

2017 adjusted net earnings attributable to common shareholders

**\$2,647 MILLION**

2017 return on shareholders' equity<sup>[1]</sup>

**13.4%**

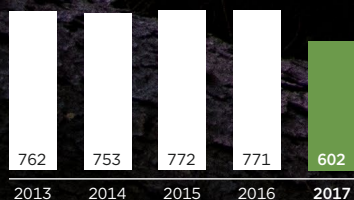


[1] Return on shareholders' equity is calculated using adjusted net earnings.

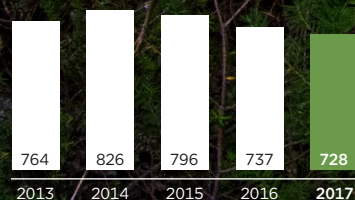
# IGM Financial

IGM Financial Inc. is one of Canada's premier personal financial services companies with \$157 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.

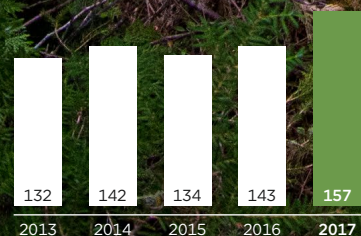
Net earnings  
available to common shareholders  
[in millions of dollars]



Adjusted net earnings  
available to common shareholders  
[in millions of dollars]



Total assets under management  
[in billions of dollars]





Investors Group is committed to comprehensive planning delivered through long-term client and consultant relationships. The company provides advice and services to approximately one million Canadians through a network of consultants located across Canada.

**\$88.0 billion**  
Total assets under management

**\$9.7 billion**  
Mutual fund gross sales

**2,124** Consultant practices\* advise on 95% of assets under management

**98%** of Consultant practices hold the Certified Financial Planner (CFP) or Financial Planner (F.PI.) designation or are enrolled in the programs

\* Consultant practices are teams led by consultants with greater than four years' experience.



Mackenzie Investments provides investment management and related services through diversified investment solutions, using proprietary investment research and experienced investment professionals to deliver its various product offerings. The company distributes its investment services through multiple distribution channels to both retail and institutional investors.

**\$64.6 billion**  
Total assets under management

**\$9.2 billion**  
Mutual fund gross sales

Investment products offered through **30,000+** third-party advisors and institutional clients

**70%** of Mackenzie mutual fund assets 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 advisors with the tools, products and support they need to build a successful business and serve a wide range of clients.

**\$5.4 billion**  
Assets under management

**\$889 million**  
Mutual fund gross sales

**\$27.6 billion**  
Assets under administration

Partners with approximately **800** advisors across the country

Total assets under management

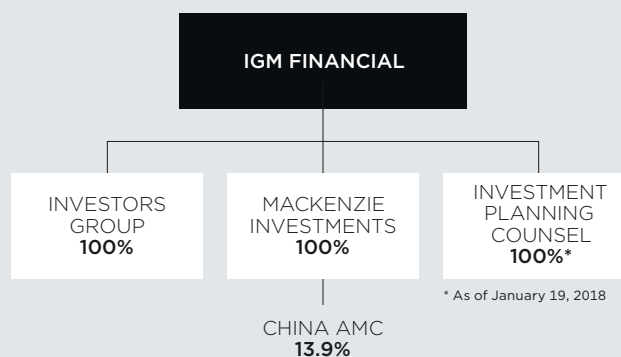
**\$157** BILLION

2017 adjusted net earnings available to common shareholders

**\$728** MILLION

2017 return on shareholders' equity<sup>[1]</sup>

**15.6%**



\* As of January 19, 2018

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

# 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 sole 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 subsidiary, Groupe Bruxelles Lambert, has holdings in global industrial and services companies based in Europe.

2017 adjusted net earnings<sup>[1]</sup>

SF384 MILLION

Net asset value

SF10.85 BILLION

PARGESA

50.0%<sup>[2]</sup>  
GROUPE  
BRUXELLES LAMBERT

IMERYS 53.8%	SGS 16.6%	LAFARGE HOLCIM 9.4%	PERNOD RICARD 7.5%	ADIDAS 7.5%	UMICORE 17.0%	TOTAL 0.6%	BURBERRY 6.5%	ONTEX 19.9%	GEA 4.3%	PARQUES 21.2%
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[1] Described as Economic operating income by Pargesa.

[2] Representing 51.8% of the voting rights.

		GBL's Investment As of December 31, 2017	Key 2017 Financial Data [in millions of euros, unless otherwise indicated]	
	Imerys is the world leader in mineral-based specialty solutions for industry.	€3,366 million Capital/voting rights 53.8% / 67.5%	Market capitalization Revenues Current operating income	6,252 4,598 648
	SGS is the world leader in inspection, verification, testing and certification.	€2,751 million Capital and voting rights 16.6%	[SF million] Market capitalization Revenues Adjusted operating income	19,397 6,349 969
	LafargeHolcim is the leading global construction materials and solutions company.	€2,693 million Capital and voting rights 9.4%	[SF million] Market capitalization Net sales Recurring EBITDA	33,350 26,129 5,990
	Pernod Ricard is the world's number two player in wines and spirits, holding a leading position globally.	€2,625 million Capital/voting rights 7.5% / 10.9%	Market capitalization Net sales Profit from recurring operations As at June 30, 2017 company's year-end	31,121 9,010 2,394
	adidas is the European leader in sports equipment.	€2,623 million Capital and voting rights 7.5%	Market capitalization Net sales Operating profit	34,970 21,218 2,070
	Umicore is a leader in materials technology and recycling of precious metals.	€1,503 million Capital and voting rights 17.0%	Market capitalization Revenues (excluding metal) Recurring EBITDA	8,838 2,916 599
	Total is an integrated global oil and gas group with a presence in chemicals.	€746 million Capital/voting rights 0.6% / 1.2%	Market capitalization Sales [US\$ million] Adjusted net operating income from business segments [US\$ million]	116,447 171,493 11,936
	Burberry is a global luxury brand with a distinctive British heritage.	€557 million Capital and voting rights 6.5%	[£ million] Market capitalization Revenues Adjusted operating profit As at March 31, 2017 company's year-end	7,675 2,766 459
	Ontex is a leading international personal hygiene solutions provider.	€454 million Capital and voting rights 19.9%	Market capitalization Revenues Adjusted profit	2,271 2,355 131
	GEA is one of the largest suppliers of process technology to the food industry.	€328 million Capital and voting rights 4.3%	Market capitalization Revenues Operating EBITDA	7,702 4,605 564
	Parques Reunidos is a leading operator of leisure parks with a global presence.	€254 million Capital and voting rights 21.2%	Market capitalization Revenues Recurrent EBITDA As at September 30, 2017 company's year-end	1,033 579 174

EBITDA is a non-IFRS financial measure.

# Responsible Management

## Creating Value

Our success as a business is inextricably linked to our ability to manage responsibly and work together to create a more sustainable and inclusive future. By investing in high-quality and responsibly managed companies, we not only create long-term value for our shareholders but also help our customers, employees, business partners and communities to prosper and grow.



[1] Including contributions made by Power Corporation, Power Financial's parent company.



## Creating Jobs and Economic Prosperity

The Power Financial group of companies has a global and diverse employee base of 26,800 people. In 2017, our group paid out \$7.1 billion in salaries and other benefits, and commissions, and \$4.0 billion in payments to suppliers and various levels of government. Together, these funds impact hundreds of communities where we are present. Our investments in training and new technologies are also developing the local talent and intellectual capital of our people.

## Enabling Financial Security

Having the knowledge, skills and confidence to make informed financial decisions is critical to the financial well-being of Canadians. Through the innovative products and services provided by our operating subsidiaries Great-West Lifeco and IGM Financial, and by the “fintech” companies in which we invest, such as Wealthsimple, we are helping Canadians of all horizons plan for their long-term financial security.

In 2017, Great-West Life, together with London Life and Canada Life, made over \$858 million of annuity payments, helping Canadians fund their retirement with a secure income stream, and helped over 30,000 employers provide benefit plans and 9,000 employers offer retirement savings plans for their employees.

IGM Financial's subsidiary - Investors Group, has more certified financial planners working with clients than any other Canadian financial services firm, touching the lives of nearly one million people. Furthermore, Investors Group continues to make a significant contribution to improving financial literacy of youth and their parents, having contributed \$3.9 million since 1995 to support and promote financial literacy programs for Canadian children and teens.

To learn more about our Corporate Social Responsibility programs and initiatives:

[www.PowerFinancialCSR.com](http://www.PowerFinancialCSR.com)

## Promoting Health and Wellness

Great-West Lifeco's health and life insurance business is helping thousands of Canadians manage their personal wellness. Working together with other healthcare partners, they are improving the accessibility and affordability of group benefits, providing education on physical health, and developing greater understanding of mental health through the Great-West Life Centre for Mental Health in the Workplace, which celebrated its 10th anniversary in 2017.

In 2017 in Canada, Great-West Life and its companies helped families cope with loss, paying out more than \$2.4 billion in life insurance benefits and provided income for more than 78,000 people who became disabled and could no longer work. Benefits paid to Canadian customers have totalled \$9.4 billion in 2017.

We also invest in other businesses that promote health and wellness. For instance, Dialogue, a technology start-up we invest in through Diagram, offers to its customers' employees an online access to healthcare professionals who can provide virtual consultations, diagnoses and treatment plans. Dialogue helps employees to better manage their physical and mental health, while contributing to employers' efforts to reduce their overall healthcare costs and absenteeism.

## Supporting Social Inclusion

Our group companies' community investments are breaking down barriers to social inclusion. We believe we must do our part to fight inequality and marginalization through better health and education, community development, environmental protection, and access to arts and culture.

In 2017, community investment contributions by our group companies (including our parent, Power Corporation) totalled more than \$48 million and, together, they supported 2,000 community organizations in Canada alone. Many community organizations benefit from the active involvement of our employees, who we encourage to share their experience and expertise through volunteering with non-profit organizations.

# Review of Financial Performance

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

## MARCH 23, 2018

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, fluctuations in interest, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and capital markets, management of market liquidity and funding risks, risks related to investments in private companies

and illiquid securities, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), the effect of applying future accounting changes, business competition, operational and reputational risks, technological changes, cybersecurity risks, 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 Management's Discussion and Analysis 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 Annual 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, 2017 (the 2017 Consolidated Financial Statements or the Financial Statements).

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## Overview

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### POWER FINANCIAL CORPORATION

Power Financial, a subsidiary of Power Corporation, is a diversified international management and holding company that holds interests substantially in the financial services sector in Canada, the U.S. and Europe. Founded in 1984 with the ambition of creating an integrated financial services group, Power Financial has remained committed to the growth and evolution of its primary holdings through its controlling interests in Lifeco and IGM and investment in Pargesa. As a holding company, Power Financial's objective is to create long-term shareholder value.

Since its formation, Power Financial has remained committed to driving growth and value primarily within the financial services sector. The leadership of Power Financial has prudently focused on protecting and increasing long-term shareholder value through its risk-aware strategy:

- Holding significant investments in a limited number of companies with the potential for growth;
- Supporting operating subsidiaries to develop leading positions within their industries;
- Working with strong management teams toward sustainable earnings, profitable growth, and long-term shareholder value; and
- Maintaining healthy balance sheets to protect shareholder value in slower economic periods or seize new opportunities.

### Value creation

Power Financial is committed to developing market-leading businesses that in turn create long-term shareholder value. Its investment approach is guided by three overriding principles, from identifying the right investment to the oversight and evaluation of each investee:

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#### Investment Principles

- Invest in companies that have a long-term perspective and investment horizon
- Support operating companies' management to build industry leaders
- Focus on high-growth and high return on equity products and market segments
- Perform a disciplined, fact-based analysis

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#### Operating Principles

- Majority or significant level of ownership
- Focus on strategy, people and capital allocation
- Be prudent, risk-aware and focus on creating and maintaining a strong balance sheet

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#### Governance Principles

- Active governance model through boards of subsidiaries
  - Board composition is a combination of Power Financial executives and external directors
    - Power Financial executives provide substantial industry and company knowledge
    - External directors provide expertise and diverse perspectives
- 

### Current portfolio

Lifeco and IGM have become leaders across the insurance, asset management and wealth and retirement business lines across Canada, the U.S. and Europe. Power Financial has supported them through various acquisitions and the group strategically benefits through:

- Group-wide distribution of products and services;
- Collaborative product development;
- Shared technologies and back-office capabilities;
- Scale enhancement through key relationships and aggregated purchasing power; and
- Collaborative approach to important industry developments.

Power Financial, in partnership with Lifeco and IGM Financial, continue to collaborate on the future of the financial services market, which is rapidly changing. Recently, the group has developed a "fintech" strategy to invest in companies that have the potential to produce good returns. This strategy also enables the group to learn about new technology applications, how these disruptive business models will affect the current business and how to react to changes in the environment in order to be more effective.

Power Financial also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa, a holding company which, through its subsidiary GBL, focuses on a limited number of significant holdings and financial pillar investments. The Pargesa group has positioned its portfolio of companies for long-term value creation and shares the values and prudent investing approach of Power Financial. This investment provides Power Financial with a vehicle to create value in the European market.

## LIFECO

Great-West Lifeco Inc., TSX: GWO; market capitalization of \$34.7 billion, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco has operations in Canada, the United States and Europe through Great-West Life, London Life, Canada Life, Great-West Financial, Putnam and Irish Life. For reporting purposes, Lifeco has four reportable segments, Canada, the United States, Europe and Corporate, which reflect geographic lines as well as the management and corporate structure at the companies.

In Canada, through the Individual Customer and Group Customer business units, Lifeco offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, including life, disability and critical illness insurance products as well as wealth accumulation, annuity and other speciality products.

The European segment is comprised of two distinct business units, Insurance & Annuities and Reinsurance, which offer protection and wealth management products, including payout annuity products and reinsurance products.

## IGM FINANCIAL

IGM Financial Inc., TSX: IGM; market capitalization of \$10.6 billion, is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly, primarily within the advice segment of the financial services market. Its activities are carried out principally through its subsidiaries Investors Group, Mackenzie Investments and Investment Planning Counsel.

Investors Group offers an exclusive family of mutual funds and other investment vehicles, and a wide range of insurance, securities, mortgage products and other financial services. Investors Group provides its services through its exclusive network of consultants across Canada.

Mackenzie Investments is an investment management firm providing investment advisory and related services. Mackenzie distributes its products and services primarily through a diversified distribution network of third-party financial advisors. In October 2017, IGM Financial combined the investment management functions of Investors Group and Mackenzie Investments to form a single global investment management organization to support both companies under Mackenzie Investments.

Investment Planning Counsel is an independent distributor of financial products, services and advice in Canada.

## PARGESA AND GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. At December 31, 2017, Parjointco held a 55.5% interest in Pargesa (SIX: PARG), representing 75.4% of the voting rights.

Pargesa is a holding company, which, at December 31, 2017, held a 50% interest in GBL, representing 51.8% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange (EBR: GBLB).

At December 31, 2017, GBL's portfolio was comprised of investments in the following publicly traded companies:

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>■ Imerys (EPA: NK) – mineral-based specialty solutions for industry</li> <li>■ SGS (SIX: SGSN) – testing, inspection and certification</li> <li>■ LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete</li> <li>■ Pernod Ricard (EPA: RI) – wines and spirits</li> <li>■ adidas (XETR: ADS) – design and distribution of sportswear</li> <li>■ Umicore (EBR: UMI) – materials technology and recycling of precious metals</li> </ul> | <ul style="list-style-type: none"> <li>■ Total (EPA: FP) – oil, gas and chemical industries</li> <li>■ Burberry (LON: BRBY) – a global luxury brand</li> <li>■ Ontex (EBR: ONTEX) – disposable hygiene products</li> <li>■ GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors</li> <li>■ Parques (BME: PQR) – operation of regional leisure parks</li> </ul> |
|---|---|

The United States segment operates two business units, Financial Services and Asset Management. Its Financial Services unit serves all segments of the employer-sponsored retirement plan market and offers employer-sponsored defined contribution plans, individual retirement accounts, enrolment services, communication materials, investment options and education services as well as fund management, investment and advisory services. The Asset Management unit, Putnam, provides investment management, certain administrative functions, and distribution services as well as offers a broad range of investment products, including equity, fixed income, absolute return and alternative strategies. PanAgora, a Putnam affiliate, offers a broad range of investment solutions using sophisticated quantitative techniques.

At December 31, 2017, Power Financial and IGM held interests of 67.7% and 4.0%, respectively, in Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits voting rights in life insurance companies to 65%.

On August 31, 2017, Mackenzie Investments completed its acquisition of a 13.9% interest in China AMC. Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained its position among the market leaders in China's asset management industry. Total assets under management, excluding subsidiary assets under management, were RMB¥870 billion (C\$168 billion) at December 31, 2017. The investment, including transaction costs, was \$638 million.

On August 31, 2017, Power Financial's parent company, Power Corporation, also completed the acquisition of an additional 3.9% interest in China AMC for \$178 million, including transaction costs. Together with a 10% interest purchased in 2011, Power Corporation now directly holds a 13.9% equity interest. Power Corporation and Mackenzie Investments hold a combined 27.8% interest in China AMC. Power Corporation and IGM have significant influence and account for their interests as an associate using the equity method.

At December 31, 2017, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 61.5% and 3.8%, respectively, in IGM's common shares.

GBL is one of the largest listed holding companies in Europe. As a holding company focused on long-term value creation, GBL relies on a stable, family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their market in which GBL plays its role of professional shareholder.

Previously, GBL made a distinction between “strategic shareholdings” (investments usually greater than €1 billion) and “incubator” investments (investments ranging from €250 million to €1 billion with the potential of becoming strategic shareholdings). In 2017, it was decided by GBL to remove the distinction between strategic shareholdings and incubator investments when presenting its portfolio.

### PORTAG3 AND WEALTHSIMPLE

Power Financial (along with IGM and Lifeco) controls Portag3, an investment fund dedicated to backing innovative financial services companies. Portag3 holds a 29.4% equity interest in Wealthsimple, a technology-driven investment manager with assets under administration of \$1.7 billion at December 31, 2017. In addition to the interest held indirectly through Portag3, Power Financial and IGM also held, at December 31, 2017, equity interests in Wealthsimple of 10.8% and 37.1%, respectively.

In addition, through its subsidiary Sienna Capital, GBL is developing a portfolio of private equity, debt and thematic funds.

At December 31, 2017, Pargesa's net asset value was SF10,851 million, compared with SF8,884 million at December 31, 2016. GBL's net asset value at December 31, 2017, was €18,888 million compared with €16,992 million at December 31, 2016.

In the first and second quarters of 2017, Power Financial and IGM invested a total of \$20 million and \$42.6 million, respectively, in Wealthsimple. In the first quarter of 2018, Power Financial and IGM made further investments of \$20 million and \$45 million, respectively. To date, the group has invested \$183 million in Wealthsimple.

## IFRS Basis of Presentation

The 2017 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its subsidiaries. The consolidated financial statements present the financial results of Power Financial (parent) and Lifeco, IGM, Portag3 and Wealthsimple (Power Financial's controlled operating subsidiaries) after the elimination of intercompany balances and transactions.

Power Financial's investment in Pargesa is held through Parjointco. Parjointco is a holding company jointly controlled by Power Financial and the Frère Group. Power Financial's investment in Parjointco is accounted for using the equity method, in which the investment is initially recognized at cost and adjusted thereafter for:

- Power Financial's share of:
  - Net earnings or loss in Pargesa;
  - Other comprehensive income or loss in Pargesa; and
  - Pargesa's other changes in equity.
- Dividends received from Parjointco.

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

Control	Accounting Method	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	Consolidation	Consolidated with non-controlling interests	Goodwill and indefinite life intangible assets are tested at least annually for impairment	Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	Equity method	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
Non-controlled 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 A share price decrease subsequent to an impairment charge leads to a further impairment	A subsequent recovery of value does not result in a reversal

## REVIEW OF FINANCIAL PERFORMANCE

At December 31, 2017, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Lifeco <sup>[1]</sup>	67.7	Controlling interest	Consolidation
IGM <sup>[2]</sup>	61.5	Controlling interest	Consolidation
Pargesa <sup>[3]</sup>	27.8	Joint control	Equity method
Portag3 <sup>[4]</sup>	63.0	Controlling interest	Consolidation
Wealthsimple <sup>[5]</sup>	10.8	Controlling interest	Consolidation

[1] IGM also holds a 4.0% interest in Lifeco.

[2] Great-West Life also holds a 3.8% interest in IGM.

[3] Held through Parjointco, a jointly controlled corporation (50%).

[4] Lifeco and IGM also hold equal interests of 18.5% in Portag3.

[5] Portag3 and IGM also hold interests of 29.4% and 37.1%, respectively, in Wealthsimple.

At December 31, 2017, Pargesa's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	50.0	Controlling interest	Consolidation
Imerys	53.8	Controlling interest	Consolidation
SGS	16.6	Portfolio investment	Available for sale
LafargeHolcim	9.4	Portfolio investment	Available for sale
Pernod Ricard	7.5	Portfolio investment	Available for sale
adidas	7.5	Portfolio investment	Available for sale
Umicore	17.0	Portfolio investment	Available for sale
Total	0.6	Portfolio investment	Available for sale
Burberry	6.5	Portfolio investment	Available for sale
Ontex	19.9	Portfolio investment	Available for sale
GEA	4.3	Portfolio investment	Available for sale
Parques <sup>[1]</sup>	21.2	Significant influence	Equity method

[1] On December 31, 2017, GBL acquired significant influence in Parques; prior to this GBL accounted for this portfolio investment as available for sale.

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2017 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 5);
- Investments in jointly controlled corporations and associates (Note 7);
- Goodwill and intangible assets (Note 10); and
- Non-controlling interests (Note 19).

## NON-IFRS FINANCIAL MEASURES AND PRESENTATION

This review of financial performance presents and discusses financial measures which are not in accordance with IFRS. 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. The non-IFRS financial measures used herein are defined as follows:

Non-IFRS financial measure	Definition	Purpose
Non-consolidated basis of presentation	Power Financial's interests in Lifeco, IGM, Portag3 and Wealthsimple are accounted for using the equity method.	Used by the Corporation to present and analyze its results, financial position and cash flows. Presents the holding company's (parent) results separately from the results of its consolidated operating companies. As a holding company, management reviews and assesses the performance of each operating company's contribution. This presentation is useful to the reader to assess the impact of the contribution to adjusted net earnings for each subsidiary.
Adjusted net earnings	Net earnings excluding the impact of Other items.	Assists in the comparison of the current period's results to those of previous periods as items that are not considered to be a part of ongoing operations are excluded.
Other items	After-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Includes the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation.	Identifies items that are not considered part of ongoing operations. The exclusion of these items assists management and the reader in assessing current results as these items are not reflective of ongoing operations.
Adjusted net earnings per share	Earnings per share calculated using adjusted net earnings. Adjusted net earnings per share divided by the weighted average number of common shares outstanding.	Assists reader in comparing adjusted net earnings on a per share basis.

These non-IFRS financial measures do not have a standard meaning and may not be comparable to similar measures used by other entities. Reconciliations of the non-IFRS basis of presentation with the presentation in accordance with IFRS are included throughout this review of financial performance.

### Reconciliation of IFRS and non-IFRS Financial Measures

The following tables present a reconciliation of net earnings and earnings per share reported in accordance with IFRS to non-IFRS financial measures: adjusted net earnings, other items and adjusted net earnings per share. Adjusted net earnings and adjusted net earnings per share are presented in the section "Non-Consolidated Statements of Earnings":

Twelve months ended December 31	2017	2016
Net earnings – IFRS financial measure <sup>[1]</sup>	1,717	1,919
Share of Other items, net of tax		
Lifeco	340	31
IGM	78	(21)
Pargesa	–	207
	418	217
Adjusted net earnings – Non-IFRS financial measure <sup>[1]</sup>	2,135	2,136

[1] Available to common shareholders of Power Financial.

Twelve months ended December 31	2017	2016
Net earnings per share – IFRS financial measure <sup>[1]</sup>	2.41	2.69
Share of Other items, net of tax		
Lifeco	0.47	0.04
IGM	0.11	(0.03)
Pargesa	–	0.29
	0.58	0.30
Adjusted net earnings per share – Non-IFRS financial measure <sup>[1]</sup>	2.99	2.99

[1] Available to common shareholders of Power Financial.

## Results of Power Financial

This section presents:

- The “Consolidated Statements of Earnings in Accordance with IFRS”; and
- The “Non-Consolidated Statement of Earnings”, which present the contributions of operating subsidiaries and Pargesa to the net earnings and adjusted net earnings of Power Financial.

Refer to the section “Non-IFRS Financial Measures and Presentation” for a description of the non-consolidated basis of presentation and a reconciliation of IFRS and non-IFRS Financial measures.

### CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Financial's consolidated statements of earnings for the twelve-months ended December 31, 2017 are presented below. The Corporation's operating segments are Lifeco, IGM and Pargesa. This table reflects the contributions from Lifeco, IGM and Pargesa to the net earnings attributable to Power Financial's common shareholders.

#### Consolidated net earnings – Twelve months ended

December 31	Lifeco	IGM	Pargesa	Corporate <sup>[1]</sup>	Power Financial Consolidated net earnings	
					2017	2016
<b>REVENUES</b>						
Premium income, net	33,947	-	-	(22)	33,925	31,125
Net investment income	7,582	139	-	(111)	7,610	10,203
Fee income	5,454	3,006	-	(117)	8,343	7,794
<b>Total revenues</b>	<b>46,983</b>	<b>3,145</b>	<b>-</b>	<b>(250)</b>	<b>49,878</b>	<b>49,122</b>
<b>EXPENSES</b>						
Total paid or credited to policyholders	35,643	-	-	-	35,643	34,675
Commissions	2,410	1,142	-	(77)	3,475	3,590
Operating and administrative expenses	5,925	1,113	-	92	7,130	6,380
Financing charges	300	114	-	18	432	412
<b>Total expenses</b>	<b>44,278</b>	<b>2,369</b>	<b>-</b>	<b>33</b>	<b>46,680</b>	<b>45,057</b>
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,705	776	-	(283)	3,198	4,065
Share of earnings (losses) of investments in jointly controlled corporations and associates	25	9	131	35	200	(98)
Earnings before income taxes	2,730	785	131	(248)	3,398	3,967
Income taxes	422	174	-	(12)	584	581
<b>Net earnings</b>	<b>2,308</b>	<b>611</b>	<b>131</b>	<b>(236)</b>	<b>2,814</b>	<b>3,386</b>
<b>ATTRIBUTABLE TO</b>						
Non-controlling interests	857	261	-	(154)	964	1,343
Perpetual preferred shareholders	-	-	-	133	133	124
Common shareholders of Power Financial	1,451	350	131	(215)	1,717	1,919
	<b>2,308</b>	<b>611</b>	<b>131</b>	<b>(236)</b>	<b>2,814</b>	<b>3,386</b>

[1] “Corporate” is comprised of the results of Portag3 and Wealthsimple, the Corporation's investment activities, corporate operations and consolidation entries.

The Corporation evaluates the performance of each segment based on its contribution to adjusted net earnings. A discussion of the results of Lifeco, IGM and Pargesa is provided in the “Contribution to adjusted net earnings” section below.



**NON-CONSOLIDATED STATEMENTS OF EARNINGS**

In this section, the contributions from Lifeco and IGM to the net earnings and adjusted net earnings attributable to Power Financial's common shareholders are accounted for using the equity method.

Twelve months ended December 31	2017	2016
Adjusted net earnings <sup>[1]</sup>		
Lifeco <sup>[2]</sup>	1,791	1,821
IGM <sup>[2]</sup>	428	452
Pargesa	131	119
	2,350	2,392
Corporate operations	(82)	(132)
Dividends on perpetual preferred shares	(133)	(124)
Adjusted net earnings <sup>[3]</sup>	2,135	2,136
Other items <sup>[4]</sup>		
Lifeco	(340)	(31)
IGM	(78)	21
Pargesa	-	(207)
	(418)	(217)
Net earnings <sup>[3]</sup>	1,717	1,919
Earnings per share - basic <sup>[3]</sup>		
Adjusted net earnings	2.99	2.99
Other items	(0.58)	(0.30)
Net earnings	2.41	2.69

[1] For a reconciliation of Lifeco, IGM and Pargesa's non-IFRS adjusted net earnings to their net earnings, refer to the "Contribution to adjusted net earnings" section below.

[2] The contributions from Lifeco and IGM include an allocation of the results of Wealthsimple and Portag3, based on their respective interest.

[3] Attributable to common shareholders.

[4] See "Other items" section below.

## 2017 vs. 2016

Net earnings	\$1,717 million or \$2.41 per share, compared with \$1,919 million or \$2.69 per share in 2016, a decrease of 10.4% on a per share basis.
Adjusted net earnings	\$2,135 million or \$2.99 per share, comparable with the corresponding period in 2016.
Contribution to adjusted net earnings from Lifeco, IGM and Pargesa	Contribution of \$2,350 million, compared with \$2,392 million in 2016, a decrease of 1.8%.

A discussion of the results of the Corporation is provided in the sections "Contribution to adjusted net earnings", "Corporate operations", and "Other items" below.

**CONTRIBUTION TO ADJUSTED NET EARNINGS****LIFECO****Contribution to Power Financial**

Twelve months ended December 31	2017	2016
Contribution to Power Financial's <sup>[1]</sup> :		
Adjusted net earnings	1,791	1,821
Other items	(340)	(31)
Net earnings	1,451	1,790

[1] The average direct ownership of Power Financial in Lifeco was 67.7% for the year ended December 31, 2017.

**Adjusted and net earnings by segment as reported by Lifeco**

Twelve months ended December 31	2017	2016
<b>CANADA</b>		
Individual Customer <sup>[1]</sup>	589	617
Group Customer <sup>[1]</sup>	641	564
Canada Corporate	(11)	37
	1,219	1,218
<b>UNITED STATES</b>		
Financial Services	357	333
Asset Management	(21)	(52)
U.S. Corporate	(2)	(3)
	334	278
<b>EUROPE</b>		
Insurance and Annuities	947	927
Reinsurance	190	277
Europe Corporate	(16)	11
	1,121	1,215
<b>LIFECO CORPORATE</b>	(27)	(26)
Adjusted net earnings <sup>[2]</sup>	2,647	2,685
Other items	(498)	(44)
Net earnings <sup>[2]</sup>	2,149	2,641

[1] Comparative figures have been reclassified to reflect the realignment of the Canadian operations into the individual and group business units.

[2] Attributable to Lifeco common shareholders.

**2017 vs. 2016**

Adjusted net earnings	\$2,647 million or \$2.676 per share, compared with \$2,685 million or \$2.712 per share in 2016, a decrease of 1.3% on a per share basis.  Adjusted net earnings includes an after-tax loss estimate recorded in the third quarter of 2017 of \$175 million relating to Lifeco's estimated claims resulting from the impact of recent hurricane activity which reduced Lifeco's earnings per common share by \$0.177.
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**CANADA****INDIVIDUAL CUSTOMER**

Adjusted net earnings for the twelve-month period ended December 31, 2017 decreased by \$28 million to \$589 million, compared with the same period last year. The decrease was primarily due to:

- Lower contributions from investment experience and lower contributions from insurance contract liability basis changes and less favourable morbidity experience;
- Partially offset by lower new business strain, higher net fee income and favourable mortality experience.

**GROUP CUSTOMER**

Adjusted net earnings for the twelve-month period ended December 31, 2017 increased by \$77 million to \$641 million, compared with the same period last year. The increase was primarily due to:

- Favourable morbidity experience and higher contributions from insurance contract liability basis changes;
- Partially offset by less favourable impacts of changes to certain income tax estimates and less favourable mortality experience.

**UNITED STATES****FINANCIAL SERVICES**

Adjusted net earnings for the twelve-month period ended December 31, 2017 were US\$277 million (C\$357 million), compared with US\$250 million (C\$333 million) for the corresponding period in 2016. The increase of US\$27 million in the twelve-month period was due to:

- Higher net fee income and lower expenses mostly driven by lower integration costs and an expense recovery related to a change in the future obligations for an employee pension plan;
- Partially offset by lower contributions from investment experience and insurance contract liability basis changes.

**ASSET MANAGEMENT**

Adjusted net loss for the twelve-month period ended December 31, 2017 was US\$15 million (C\$21 million), compared with US\$39 million (C\$52 million) for the corresponding period in 2016. The decrease of the adjusted net loss in the twelve-month period was due to:

- Increased fee revenue, driven by higher assets under management and higher contributions from investment experience, partially offset by less favourable impacts of changes to certain income tax estimates;
- Financing and other expenses for the twelve-month period ended December 31, 2017 increased by US\$3 million to US\$30 million, compared with the same period last year, primarily due to the positive impact of adjustments to certain income tax estimates in the prior year.

**EUROPE****INSURANCE AND ANNUITIES**

Adjusted net earnings for the twelve-month period ended December 31, 2017 increased by \$20 million to \$947 million, compared with the same period last year. The increase was primarily due to:

- The impact of higher new business volumes and contributions from investment experience;
- A gain on the sale of the company's Allianz Ireland holdings and the impact of changes to certain tax estimates;
- Partially offset by lower contributions from insurance contract liability basis changes and the impact of currency movements.

**REINSURANCE**

Adjusted net earnings for the twelve-month period ended December 31, 2017 decreased by \$87 million to \$190 million, compared with the same period last year. Included in this result is a loss of \$175 million for estimated claims resulting from the impact of in-year hurricanes. Excluding this estimated loss, adjusted net earnings increased by \$88 million over the same period last year, primarily due to:

- Favourable experience in the life and annuity business and higher impacts from new business gains;
- Favourable impact of changes to certain tax estimates;
- Partially offset by lower contributions of insurance contract liability basis changes and less favourable morbidity experience.

**OTHER ITEMS**

Adjusted net earnings in 2017 exclude a net charge of \$498 million compared with a net charge of \$44 million in the corresponding period in 2016. The other items in 2017 consist of:

- Impact of the U.S. tax reform which resulted in a charge of \$216 million:
  - On December 22, 2017, the *Tax Reconciliation Act* was substantively enacted by the U.S. and is generally effective for tax years beginning on January 1, 2018. The legislation results in significant tax reform and revises the *Internal Revenue Code* which includes the lowering of the corporate federal income tax rate from 35% to 21% and modifies how the U.S. taxes multinational entities. The charge primarily relates to the revaluation of certain deferred tax balances and the impact on insurance contract liabilities and expense provisions. Based on Lifeco's interpretation of the current legislation, adjusted net earnings in 2017 would have been approximately \$55 million to \$60 million higher under the new tax regime.
- Restructuring charges of \$160 million related to:
  - Lifeco realigned its Canadian operations into two new business units: one focused on individual customers and the other on group customers. In conjunction with this realignment, Lifeco expects to achieve \$200 million pre tax of annual expense reductions. The expense reductions address costs across the Canadian operations and corporate functions primarily through a reduction in staff, exiting certain lease agreements and information system impairments. The realignment of Canadian operations resulted in a \$126 million charge.
  - Integration activities at Empower Retirement in the U.S. segment of \$11 million.
  - Integration activities and efforts primarily related to the Irish Life Health business strategy to support growth in the retail division resulted in a charge of \$23 million.
- Net charge on sale of equity investment of \$122 million:
  - Lifeco entered into an agreement to sell an equity investment in Nissay Asset Management Corporation (Nissay). The equity investment in Nissay was reclassified to assets held for sale and the net charge on the sale of \$122 million was recognized, including the write-off of an associated indefinite life intangible asset.

In 2016, Other items of \$44 million consist of:

- Restructuring and integration activities primarily related to restructuring in the Asset Management business in the U.S. segment and integration activities in the Insurance and Annuity business in Europe.

The information above has been derived from Lifeco's public disclosures.

**IGM FINANCIAL****Contribution to Power Financial**

Twelve months ended December 31	2017	2016
Contribution to Power Financial's <sup>[1]</sup> :		
Adjusted net earnings	428	452
Other items	(78)	21
Net earnings	350	473

[1] The average direct ownership of Power Financial in IGM was 61.5% for the year ended December 31, 2017.

**Adjusted and net earnings by segment as reported by IGM**

Twelve months ended December 31	2017	2016
Investors Group	739	736
Mackenzie	180	171
Corporate and other	144	132
Adjusted net earnings (before interest, income taxes, preferred share dividends and other) <sup>[1]</sup>	1,063	1,039
Interest expense, income taxes, preferred share dividends and other	(335)	(302)
Adjusted net earnings <sup>[1,2]</sup>	728	737
Other items	(126)	34
Net earnings <sup>[2]</sup>	602	771

[1] Non-IFRS financial measures as described in IGM's public disclosures.

[2] Available to IGM common shareholders.

**2017 vs. 2016**

Adjusted net earnings	\$728 million or \$3.02 per share, compared with \$737 million or \$3.05 per share in 2016, a decrease of 1.0% on a per share basis.  Contributions from Investors Group and Mackenzie increased from the corresponding twelve-month period in 2016.  The share of earnings from Lifeco includes a charge in the third quarter of \$7 million due to estimated claims related to hurricane activity.
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**INVESTORS GROUP**

Adjusted net earnings for the twelve-month period ended December 31, 2017 were \$739 million, compared with \$736 million in the corresponding period in 2016, due to:

- An increase in fee revenue of \$95 million, primarily resulting from an increase in management fees of \$119 million due to an increase in average assets under management of 10.3%. Administration fees increased by \$12 million due to an increase in assets under management, offset in part by fee reductions. Distribution fees decreased by \$36 million due to decreases in distribution income from insurance products and a decrease in redemption fees;
- A decrease in net investment income of \$30 million due to negative fair value adjustments on loans held;
- An increase in expenses of \$62 million, due to an increase in commission-related expenses, primarily resulting from an increase in assets under management, and an increase in non-commission expenses primarily due to Consultant network support and other business development efforts.

**MACKENZIE**

Adjusted net earnings in the twelve-month period ended December 31, 2017 were \$180 million, compared with \$171 million in the corresponding period in 2016. The increase of \$9 million is due to:

- An increase of \$35 million in management fee revenue, primarily resulting from an increase in average assets under management of 8.5%, offset in part by a decline in the average management fee rate due to a change in composition of assets under management. Administration fees increased by \$6 million;
- An increase in commission-related expenses of \$9 million due to an increase in trailing commission expenses, primarily related to the increase in average mutual fund assets, offset in part by a decline in the effective trailing commission rates. Non-commission expenses increased by \$19 million, due to a higher mutual fund sales volume;
- A decrease in net investment income of \$3 million to \$1 million in 2017. Net investment income is mainly related to returns on proprietary investment funds.

**ASSETS AND INVESTMENT FUND ASSETS UNDER MANAGEMENT**

Total assets under management were as follows:

December 31 [In billions of dollars]	2017	2016
Investors Group	88.0	81.2
Mackenzie <sup>[1]</sup>	64.6	57.7
Corporate and other <sup>[2]</sup>	3.9	3.8
<b>Total</b>	<b>156.5</b>	<b>142.7</b>

[1] Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to Investors Group from assets under management; the comparatives have been restated to reflect this change.

[2] Includes Investment Planning Counsel's assets under management less an adjustment for assets sub-advised by Mackenzie on behalf of other segments.

Total average daily investment fund assets under management were as follows:

[In billions of dollars]	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investors Group	87.2	83.8	85.0	82.8	79.7	78.1	75.8	73.5
Mackenzie <sup>[1]</sup>	55.8	53.5	54.2	52.3	50.6	49.7	47.8	46.7
Corporate and other <sup>[2]</sup>	5.1	5.1	5.1	5.0	4.9	4.8	4.6	4.5
<b>Total</b>	<b>148.1</b>	<b>142.4</b>	<b>144.3</b>	<b>140.1</b>	<b>135.2</b>	<b>132.6</b>	<b>128.2</b>	<b>124.7</b>

[1] Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to Investors Group from assets under management; the comparatives have been restated to reflect this change.

[2] Includes Investment Planning Counsel's assets under management less an adjustment for assets sub-advised by Mackenzie on behalf of other segments.

**OTHER ITEMS**

Adjusted net earnings in 2017 excluded a net after-tax charge of \$126 million in 2017 compared with a contribution of \$34 million in 2016. Other items in 2017 consisted of:

- Total restructuring and other charges of \$144 million which included:
  - Severance and termination costs associated with the reduction of IGM's region office footprint which resulted in a charge of \$17 million;
  - The implementation by IGM of a number of initiatives to assist in its operational effectiveness, which resulted in the recognition of restructuring and other charges of \$127 million. The initiatives included simplifying IGM's reporting structure, expanding the IGM shared services model, including joining the Investors Group and Mackenzie investment management functions, and offering a one-time voluntary retirement program.

As well, IGM decided to discontinue development of a new investment fund accounting system. As a result of this and other associated technology decisions, restructuring and other charges included a non-cash charge of approximately \$74 million after tax reflecting capitalized system development expenditures.

- Pension plan one-time expense reduction of \$37 million:
  - A change in policy related to the granting of increases to certain pension benefits paid under IGM's registered pension plan. Although IGM implemented a new policy that limits the possibility of future benefit increases, it may from time to time, at its discretion, increase the benefits paid to retired members of the plan.
  - IGM's proportionate share of Lifeco's one-time charges of \$19 million.

The other items in 2016 consisted of a favourable change in income tax provision estimates related to certain tax filings of \$34 million.

The information above has been derived from IGM's public disclosures.

**PARGESA****Contribution to Power Financial**

Twelve months ended December 31 [In millions of Canadian dollars]	2017	2016
Contribution to Power Financial's <sup>[1]</sup> :		
Adjusted net earnings	131	119
Other items	-	(207)
Net earnings	131	(88)

[1] The average direct ownership of Power Financial in Pargesa was 27.8% for the year ended December 31, 2017.

**Adjusted and net earnings as reported by Pargesa**

Twelve months ended December 31 [In millions of Swiss francs]	2017	2016
Contribution from the portfolio to adjusted net earnings		
Share of earnings of:		
Imerys	126	112
Dividends:		
LafargeHolcim	60	44
SGS	46	41
Pernod Ricard	23	21
Total	20	28
adidas	15	11
Umicore	14	14
Engie	-	26
Other <sup>[1]</sup>	13	6
Contribution from private equity activities and other investment funds	123	38
	440	341
Net financing income (charges)	(20)	8
General expenses and taxes	(36)	(28)
Adjusted net earnings <sup>[2, 3]</sup>	384	321
Other items	(2)	(353)
Net earnings (loss) <sup>[3]</sup>	382	(32)

[1] Consists of dividends from Burberry, Ontex, GEA and Parques.

[2] Described by Pargesa as "Economic operating income".

[3] Attributable to Pargesa shareholders.

**2017 vs. 2016**

Adjusted net earnings SF384 million, compared with SF321 million in 2016, an increase of 19.6%.

Other than the share of earnings of Imerys, a significant portion of Pargesa's adjusted net earnings is composed of dividends from its non-consolidated investments, which are declared as follows:

- LafargeHolcim (second quarter)
- SGS (first quarter)
- Pernod Ricard (second and fourth quarters)
- Total (second, third and fourth quarters)
- adidas (second quarter)
- Umicore (second and third quarters)
- Burberry (second and fourth quarters)
- Ontex (second quarter)
- GEA (first quarter)

**RESULTS**

Adjusted net earnings in the twelve-month period ended December 31, 2017 were SF384 million, an increase of SF63 million, compared with the corresponding period in 2016, mainly due to:

- The contribution from Imerys increased by SF14 million in the twelve-month period from SF112 million to SF126 million at December 31, 2017;
- An increase in the contribution from private equity activities and other investment funds of SF85 million in the twelve-month period;
- Non-cash charges of SF11 million included in net financing income (charges) during the twelve-month period due to the mark to market of derivative financial instruments related to convertible and exchangeable debentures issued by GBL, compared with non-cash gains of the same nature of SF31 million in the corresponding period in 2016;
- Income of SF16 million from trading and derivative activities of GBL in managing its portfolio in the twelve-month period, compared with SF3 million in 2016; and
- Dividends from its principal holdings of SF191 million in the twelve-month period, comparable with the corresponding period in 2016.

**OTHER ITEMS**

There were no significant Other items in 2017. Other items of SF353 million in 2016 primarily consisted of:

- Pargesa's share of a gain on disposal of a 1.8% equity interest in Total in the amount of SF667 million.

- Share of impairment charges of SF960 million on its holding of LafargeHolcim due to a significant decline in LafargeHolcim's share price.
- Pargesa's share of a further impairment charge on Engie shares as well as a loss on disposal of Engie for a total amount of SF41 million.

The information above has been derived from Pargesa's public disclosures.

The average exchange rates for the twelve-month periods ended December 31, 2017 and 2016 were as follows:

	2017	2016	Change %
Euro/SF	1.1120	1.0900	2.0
SF/CAD	1.3190	1.3450	(1.9)

**CORPORATE OPERATIONS**

Corporate operations include income (loss) from investments, operating expenses, financing charges, depreciation and income taxes.

Twelve months ended December 31	2017	2016
Income (loss) from investments <sup>[1]</sup>	12	(18)
Operating and other expenses		
Operating expenses	(86)	(77)
Financing charges	(18)	(18)
Depreciation	(2)	(2)
Income taxes <sup>[2]</sup>	12	(17)
	(94)	(114)
Corporate operations	(82)	(132)

[1] In the second quarter of 2017 Power Financial attained control of Wealthsimple. A gain was recognized, reflecting the Corporation's investment in Wealthsimple at fair value.

[2] Consists mainly of a reversal of a provision for withholding taxes payable on the eventual repatriation of cash from Power Financial Europe B.V. to Power Financial. The reversal is due to substantive enactment in 2017 of a withholding tax exemption on repatriation.

**OTHER ITEMS** (not included in adjusted net earnings)

The following table presents the Corporation's share of Other items:

Twelve months ended December 31	2017	2016
Lifeco		
Impact of U.S. tax reform	(146)	-
Restructuring charges <sup>[1]</sup>	(107)	(31)
Net charge on sale of an equity investment	(83)	-
Share of IGM's other items	(4)	-
	(340)	(31)
IGM		
Restructuring and other charges	(88)	-
Pension plan	22	-
Reduction of income tax estimates	-	21
Share of Lifeco's other items	(12)	-
	(78)	21
Pargesa		
Total - Gains on partial disposal	-	175
LafargeHolcim - Impairment charges	-	(360)
Engie - Impairment charge and loss on partial disposal	-	(15)
Other (charge) income	-	(7)
	-	(207)
	(418)	(217)

[1] Amounts in comparative period have been reclassified.

For additional information, refer to the respective Lifeco, IGM or Pargesa "Other items" sections above.

## Financial Position

### CONSOLIDATED BALANCE SHEETS (condensed)

The condensed balance sheets of Lifeco and IGM, and Power Financial's non-consolidated balance sheet are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at December 31, 2017.

December 31	Power Financial	Lifeco	IGM	Consolidation adjustments and other <sup>[1]</sup>	Power Financial Consolidated balance sheets	
					2017	2016
<b>ASSETS</b>						
Cash and cash equivalents	1,054	3,551	967	(251)	5,321	4,396
Investments	142	164,020	8,230	(47)	172,345	167,744
Investment – Lifeco	13,772	–	903	(14,675)	–	–
Investment – IGM	2,865	362	–	(3,227)	–	–
Investment – Parjointco	3,354	–	–	–	3,354	2,811
Investments – other jointly controlled corporations and associates	–	2	648	12	662	292
Funds held by ceding insurers	–	9,893	–	–	9,893	10,781
Reinsurance assets	–	5,045	–	–	5,045	5,627
Other assets <sup>[2]</sup>	122	9,697	1,139	(39)	10,919	11,113
Intangible assets	–	3,732	1,952	64	5,748	5,966
Goodwill	–	6,179	2,660	741	9,580	9,274
Investments on account of segregated fund policyholders	–	217,357	–	–	217,357	200,403
<b>Total assets</b>	<b>21,309</b>	<b>419,838</b>	<b>16,499</b>	<b>(17,422)</b>	<b>440,224</b>	<b>418,407</b>
<b>LIABILITIES</b>						
Insurance and investment contract liabilities	–	161,365	–	–	161,365	157,949
Obligations to securitization entities	–	–	7,596	–	7,596	7,721
Debentures and other debt instruments	250	5,617	2,175	(74)	7,968	7,513
Other liabilities <sup>[2]</sup>	546	9,963	1,903	2	12,414	12,605
Insurance and investment contracts on account of segregated fund policyholders	–	217,357	–	–	217,357	200,403
<b>Total liabilities</b>	<b>796</b>	<b>394,302</b>	<b>11,674</b>	<b>(72)</b>	<b>406,700</b>	<b>386,191</b>
<b>EQUITY</b>						
Perpetual preferred shares	2,830	2,714	150	(2,864)	2,830	2,580
Common shareholders' equity	17,683	19,887	4,675	(24,562)	17,683	16,901
Non-controlling interests <sup>[3, 4]</sup>	–	2,935	–	10,076	13,011	12,735
<b>Total equity</b>	<b>20,513</b>	<b>25,536</b>	<b>4,825</b>	<b>(17,350)</b>	<b>33,524</b>	<b>32,216</b>
<b>Total liabilities and equity</b>	<b>21,309</b>	<b>419,838</b>	<b>16,499</b>	<b>(17,422)</b>	<b>440,224</b>	<b>418,407</b>

[1] Consolidation adjustments and other includes Portag3 and Wealthsimple, as well as consolidation entries.

[2] Comparative figures have been reclassified as described in Note 16 of the 2017 Consolidated Financial Statements.

[3] Lifeco's non-controlling interests include the Participating Account surplus in subsidiaries.

[4] Non-controlling interests in consolidation adjustments represents non-controlling interests in the equity of Lifeco and IGM.

Total assets of the Corporation increased to \$440.2 billion at December 31, 2017, compared with \$418.4 billion at December 31, 2016, mainly due to the impact of positive market movement and new business growth, partially offset by the negative impact of currency movements.

Liabilities increased to \$406.7 billion at December 31, 2017, compared with \$386.2 billion at December 31, 2016, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contract liabilities increased by \$3.4 billion, primarily due to the impact of new business, partially offset by the net impact of currency movements primarily driven by the strengthening of the Canadian dollar against the U.S. dollar, and changes in assumptions.
- Insurance and investment contract liabilities on account of segregated fund policyholders increased by \$17.0 billion, primarily due to the combined impact of market value gains and investment income of \$13.4 billion, the impact of currency movement of \$2.5 billion and net deposits of \$1.1 billion.



**NON-CONSOLIDATED BALANCE SHEETS**

In the non-consolidated basis of presentation shown below, 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 information provided in this review of financial performance and assist the reader by identifying changes in Power Financial's non-consolidated balance sheets.

December 31	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents <sup>[1]</sup>	1,054	842
Investment – Lifeco	13,772	13,536
Investment – IGM	2,865	2,866
Investment – Parjointco	3,354	2,811
Investments <sup>[2]</sup>	142	76
Other assets	122	122
<b>Total assets</b>	<b>21,309</b>	<b>20,253</b>
<b>LIABILITIES</b>		
Debentures	250	250
Other liabilities	546	522
<b>Total liabilities</b>	<b>796</b>	<b>772</b>
<b>EQUITY</b>		
Perpetual preferred shares	2,830	2,580
Common shareholders' equity	17,683	16,901
<b>Total equity</b>	<b>20,513</b>	<b>19,481</b>
<b>Total liabilities and equity</b>	<b>21,309</b>	<b>20,253</b>

[1] Cash equivalents include \$281 million (\$341 million at December 31, 2016) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified in investments in the Consolidated Financial Statements.

[2] Includes investments in Portag3 and Wealthsimple.

**Cash and cash equivalents**

Cash and cash equivalents held by Power Financial amounted to \$1,054 million at December 31, 2017, compared with \$842 million at the end of December 2016. Dividends declared on November 10, 2017 and paid on February 1, 2018 of \$329 million are included in other liabilities. Dividends of \$83 million declared on November 2, 2017 by IGM and received by the Corporation on January 31, 2018 are included in other assets (see "Non-consolidated Statements of Cash Flows" below for details).

**Investments in Lifeco, IGM and Parjointco**

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, accounted for using the equity method, increased to \$19,991 million at December 31, 2017, compared with \$19,213 million at December 31, 2016:

	Lifeco	IGM	Parjointco	Total
Carrying value, at the beginning of the year	13,536	2,866	2,811	19,213
Share of adjusted net earnings	1,791	428	131	2,350
Share of other items	(340)	(78)	–	(418)
Share of other comprehensive income (loss)	(245)	(12)	491	234
Dividends	(983)	(333)	(78)	(1,394)
Other, mainly related to effects of changes in ownership	13	(6)	(1)	6
<b>Carrying value, at December 31, 2017</b>	<b>13,772</b>	<b>2,865</b>	<b>3,354</b>	<b>19,991</b>

**EQUITY****Preferred shares**

Preferred shares of the Corporation consist of 11 series of Non-Cumulative Fixed Rate First Preferred Shares, two series of Non-Cumulative 5-Year Rate Reset First Preferred Shares, and two series of Non-Cumulative Floating Rate First Preferred Shares, with an aggregate stated capital of \$2,830 million at December 31, 2017 (compared with \$2,580 million at December 31, 2016). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

On May 26, 2017, the Corporation issued 10,000,000 5.15% Non-Cumulative First Preferred Shares Series V for gross proceeds of \$250 million.

The terms and conditions of the outstanding First Preferred Shares are described in Note 17 to the Corporation's 2017 Consolidated Financial Statements.

**Common shareholders' equity**

Common shareholders' equity was \$17,683 million at December 31, 2017, compared with \$16,901 million at December 31, 2016:

Twelve months ended December 31	2017	2016
Common shareholders' equity, at the beginning of the year	16,901	16,893
Changes in retained earnings		
Net earnings before dividends on perpetual preferred shares	1,850	2,043
Dividends declared	(1,310)	(1,244)
Effects of changes in capital and ownership of subsidiaries, and other	(8)	(156)
	532	643
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	(387)	(988)
Investment revaluation and cash flow hedges	177	93
Actuarial losses on defined benefit plans	(56)	(127)
Share of Pargesa and other associates	493	371
Share-based compensation	2	15
	229	(636)
Issuance of common shares (601,819 shares in 2017 and 30,980 in 2016) under the Corporation's Employee Stock Option Plan	21	1
Common shareholders' equity at December 31	17,683	16,901

The book value per common share of the Corporation was \$24.77 at December 31, 2017, compared with \$23.69 at the end of 2016.

**Outstanding number of common shares**

As of the date hereof, there were 713,871,479 common shares of the Corporation outstanding, compared with 713,269,660 at December 31, 2016. At the date hereof, options were outstanding to purchase up to an aggregate of 11,147,365 common shares of the Corporation under the Corporation's Employee Stock Option Plan.

**Cash Flows****CONSOLIDATED STATEMENTS OF CASH FLOWS** (condensed)

The condensed cash flows of Lifeco and IGM, and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the twelve-month period ended December 31, 2017.

Twelve months ended December 31	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Power Financial Consolidated cash flows	
					2017	2016
Cash flows from:						
Operating activities	1,307	6,757	658	(1,467)	7,255	6,900
Financing activities	(1,031)	(1,659)	170	1,364	(1,156)	(1,015)
Investing activities	(64)	(4,778)	(472)	168	(5,146)	(5,479)
Effect of changes in exchange rates on cash and cash equivalents	-	(28)	-	-	(28)	(198)
Increase (decrease) in cash and cash equivalents	212	292	356	65	925	208
Cash and cash equivalents, at the beginning of the year	842	3,259	611	(316)	4,396	4,188
Cash and cash equivalents, at December 31	1,054	3,551	967	(251)	5,321	4,396

Consolidated cash and cash equivalents increased by \$925 million in the twelve-month period ended December 31, 2017, compared with an increase of \$208 million in the corresponding period in 2016.

Operating activities produced a net inflow of \$7,255 million in the twelve-month period ended December 31, 2017, compared with a net inflow of \$6,900 million in the corresponding period in 2016.

Cash flows from financing activities, which include dividends paid on the common and preferred shares of the Corporation and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of \$1,156 million in the twelve-month period ended December 31, 2017, compared with a net outflow of \$1,015 million in the corresponding period in 2016.

Cash flows from investing activities resulted in a net outflow of \$5,146 million in the twelve-month period ended December 31, 2017, compared with a net outflow of \$5,479 million in the corresponding period in 2016.

The Corporation decreased its level of fixed income securities with maturities of more than three months, resulting in a net inflow of \$60 million in the twelve-month period ended December 31, 2017, compared with a net inflow of \$137 million in the corresponding period in 2016.

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

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

The following non-consolidated statements of cash flows of the Corporation, which are not presented in accordance with IFRS, have been prepared to assist the reader as they isolate the cash flows of Power Financial, the parent company.

Twelve months ended December 31	2017	2016
<b>OPERATING ACTIVITIES</b>		
Dividends		
Lifeco	983	926
IGM	333	333
Pargesa	78	75
	1,394	1,334
Corporate operations, net of non-cash items	(87)	(89)
	1,307	1,245
<b>FINANCING ACTIVITIES</b>		
Dividends paid on perpetual preferred shares	(130)	(125)
Dividends paid on common shares	(1,163)	(1,106)
Issuance of perpetual preferred shares	250	-
Issuance of common shares	18	1
Other (including share issue costs)	(6)	-
	(1,031)	(1,230)
<b>INVESTING ACTIVITIES</b>		
Investments in Portag3 and Wealthsimple	(25)	(21)
Purchase of other investments and other	(39)	(22)
	(64)	(43)
Increase (decrease) in cash and cash equivalents	212	(28)
Cash and cash equivalents, at the beginning of the year	842	870
Cash and cash equivalents, at December 31	1,054	842

On a non-consolidated basis, cash and cash equivalents increased by \$212 million in the twelve-month period ended December 31, 2017, compared with a decrease of \$28 million in the corresponding period in 2016.

Operating activities resulted in a net inflow of \$1,307 million in the twelve-month period ended December 31, 2017, compared with a net inflow of \$1,245 million in the corresponding period in 2016.

- Dividends paid by Lifeco on its common shares during the twelve-month period ended December 31, 2017 were \$1.4680 per share, compared with \$1.3840 in the corresponding period in 2016. In the twelve-month period ended December 31, 2017, the Corporation received dividends from Lifeco of \$983 million, compared with \$926 million in the corresponding period in 2016. On February 8, 2018, Lifeco announced a 6% increase in the quarterly dividend on its common shares, from \$0.3670 to \$0.3890 per share, payable on March 29, 2018.

- Dividends paid by IGM on its common shares during the twelve-month period ended December 31, 2017 were \$2.25 per share, the same as in the corresponding period in 2016. In the twelve-month period ended December 31, 2017, the Corporation received dividends from IGM of \$333 million, the same as in the corresponding period in 2016.

- Pargesa declares and pays an annual dividend in the second quarter ending June 30. The dividend paid by Pargesa to Parjointco in 2017 amounted to SF2.44 per bearer share, compared with SF2.38 in 2016. The Corporation received dividends of \$78 million (SF57 million) from Parjointco in 2017, compared with \$75 million (SF56 million) in the corresponding period in 2016.

The Corporation's financing activities during the twelve-month period ended December 31, 2017 were a net outflow of \$1,031 million, compared with a net outflow of \$1,230 million in the corresponding period in 2016, and included:

- Dividends paid on preferred and common shares by the Corporation were \$1,293 million, compared with \$1,231 million in the corresponding period in 2016. In the twelve-month period ended December 31, 2017, dividends paid on the Corporation's common shares were \$1.63 per share, compared with \$1.55 per share in the corresponding period in 2016.

- Perpetual preferred share issue of the Corporation of \$250 million.
- Common shares issued for employee stock options exercised in the period of \$18 million, compared with \$1 million in the corresponding period in 2016.

The Corporation's investing activities during the twelve-month period ended December 31, 2017 represented a net outflow of \$64 million, compared with a net outflow of \$43 million in the corresponding period in 2016.

## 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 to invest on a timely basis in its operating companies and other investments as opportunities present;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to 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 the Corporation's subsidiaries, as well as those of Pargesa and GBL, govern and have responsibility for their respective company's capital management.

With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of: debentures, perpetual preferred shares, common shareholders' equity, and non-controlling interests. The Corporation views perpetual preferred shares as a cost-effective source of permanent capital.

The Corporation's consolidated capitalization includes the debentures, preferred shares and other debt instruments issued by its consolidated subsidiaries. Debentures and other debt instruments issued by Lifeco and IGM are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Perpetual preferred shares and total equity accounted for 81% of consolidated capitalization at December 31, 2017.

December 31	2017	2016
<b>DEBENTURES AND OTHER DEBT INSTRUMENTS</b>		
Power Financial	250	250
Lifeco	5,617	5,980
IGM	2,175	1,325
Consolidation adjustments	(74)	(42)
	7,718	7,263
	7,968	7,513
<b>PREFERRED SHARES</b>		
Power Financial	2,830	2,580
Lifeco	2,714	2,514
IGM	150	150
	2,864	2,664
	5,694	5,244
<b>EQUITY</b>		
Common shareholders' equity	17,683	16,901
Non-controlling interests <sup>[1]</sup>	10,147	10,071
	27,830	26,972
	41,492	39,729

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

### Power Financial

- The Corporation filed a short-form base shelf prospectus dated December 7, 2016, 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.
- On May 26, 2017, the Corporation issued 10,000,000 5.15% Non-Cumulative First Preferred Shares Series V for gross proceeds of \$250 million.

### Lifeco

- On February 8, 2017, Irish Life Assurance, a subsidiary of Lifeco, redeemed its 5.25% €200 million subordinated debentures at their principal amount together with accrued interest.
- On May 18, 2017, Lifeco issued 8,000,000 5.15% Non-Cumulative First Preferred Shares Series T for gross proceeds of \$200 million.
- On May 26, 2017, Great-West Lifeco Finance (Delaware) LP issued US\$700 million principal amount of 4.15% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, maturing in 2047.

### RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debentures is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debentures is "A (High)" 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 a 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.

- On June 21, 2017, Great-West Lifeco Finance (Delaware) LP redeemed all of the \$1 billion principal amount of its 5.691% subordinated debentures due June 21, 2067, at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

### SUBSEQUENT EVENT

- On February 28, 2018, Lifeco issued \$500 million of 10-year 3.337% debentures. The net proceeds were used by Lifeco to repay debenture maturities and for general corporate purposes.

### IGM Financial

- On January 26, 2017, IGM issued \$400 million of 10-year 3.44% debentures and \$200 million of 30-year 4.56% debentures. The net proceeds were used by IGM to assist its subsidiary, Mackenzie Investments, in financing a substantial portion of the acquisitions of a 13.9% interest in China AMC and for general corporate purposes.
- On December 7, 2017, IGM issued \$250 million of 30-year 4.115% debentures. The net proceeds were used by IGM to repay debenture maturities and for general corporate purposes.

The Corporation is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries and IGM's subsidiaries are subject to regulatory capital requirements.

The "A+" rating assigned to the Corporation's debentures 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 "A (High)" rating assigned to the Corporation's debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A (High)" implies that the capacity for repayment is substantial, but of lesser credit quality than AA, and may be vulnerable to future events, although qualifying negative factors are considered manageable.

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## Risk Management

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Power Financial is a diversified international management and holding company with interests in the financial services, asset management and other business sectors. Its principal holdings are a controlling interest in each of Lifeco and IGM and a joint controlling interest in Parjointco, which itself holds a controlling interest in GBL through Pargesa. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. A complete description of these risks is presented in their public disclosures. The respective boards of directors of Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain 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.

### RISK OVERSIGHT APPROACH

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 and executive officers of the Corporation have overall responsibility for risk management associated with the investment activities and operations of the holding company and maintain a comprehensive and appropriate set of policies and controls.

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 and cybersecurity.
- The Compensation Committee considers risks 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 considers for approval transactions with related parties of the Corporation.

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. The following is a review of certain risks that could impact the financial condition and financial performance, and the value of the equity 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.

## STRATEGIC RISK

Strategic risk arises as a result of ineffective strategic decision making, inadequate strategies or a lack of responsiveness to important changes to the business environment, including macroeconomic or country risk events, or changes to the regulatory environment. In addition, strategic risk includes risks associated with the Corporation's holding company structure and potential future acquisitions.

The successful execution of the Corporation's investment strategy is uncertain as it requires suitable opportunities, careful timing and business judgment. The Corporation's approach consists in overseeing, through the Board of Directors, its operating businesses and investments which should generate long-term, sustainable growth in earnings and dividends. The Corporation aims to act like an owner with a long-term perspective and a strategic vision anchored in strong core values.

The Chief Executive Officer is responsible for developing the Corporation's proposed strategic plans, in light of emerging opportunities and risks and with a view to the Corporation's sustained profitable growth and long-term value creation, and for implementing the approved strategic plans. The Board of Directors is responsible for approving the long-term goals and objectives for the Corporation; and, after considering alternatives, approving the strategic plans developed by the Chief Executive Officer. The Board of Directors also monitors senior management's implementation of the approved plans; assesses the achievement of the Corporation's goals and objectives; reviews and approves on at least an annual basis management's financial plan; and reviews and approves any significant transactions and strategic capital management decisions regarding the Corporation.

## LIQUIDITY RISK

Liquidity risk is the risk that the Corporation would not be able to meet all cash outflow obligations as they come due and also the inability to, in a timely manner, raise capital or monetize assets at normal market conditions.

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 and other investments, and its ability to raise additional capital. Dividends to shareholders of Power Financial are dependent on the operating performance, profitability, financial position and creditworthiness of its subsidiaries, jointly controlled corporation and associates, as well as on their ability to pay dividends. The payment of interest and dividends by Power Financial'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 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, as defined in its policies. 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. Although the Corporation has been able to access capital on financial markets in the past, there can be no assurance this will be possible in the future. The inability of Power Financial to access sufficient capital on acceptable terms could have a material adverse effect on the Corporation's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

Power Financial's management of liquidity risk has not changed materially since December 31, 2016.

## CREDIT RISK AND MARKET RISK

In order to maintain an appropriate level of available liquidity, the Corporation maintains a portfolio of financial instruments which can be a combination of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, investment funds and hedge funds) and derivatives which bear credit and market risks as described in the following sections.

## Credit risk

Credit risk is the potential for financial loss to the Corporation if a counterparty in a transaction fails to meet its payment obligations. Credit risk can be related to the default of a single debt issuer, variation of credit spreads on tradable fixed income securities and also to counterparty risk which relates to derivatives products.

Power Financial manages credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum ratings 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 the Corporation 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 can be also used mainly to mitigate foreign exchange exposures. 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.

The Corporation'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, 2016.

## Market risk

Market risk is the risk that the market value or future cash flows of an investment will fluctuate as a result of changes in market factors. Market factors include foreign exchange risk, interest rate risk and equity risk.

### Foreign Exchange Risk

Foreign exchange risk relates to the Corporation operating in different currencies and converting non-Canadian investments and earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

In its ongoing operations, the Corporation may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, the Corporation may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2017, approximately 3% of the \$1,054 million of Power Financial's cash and cash equivalents and fixed income securities were denominated in U.S. dollars.

Power Financial's debentures do not have exposure to currency risk.

### Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate following changes in the interest rates.

At December 31, 2017, the sensitivity of the financial instruments portfolio to a change of 1% in interest rate was \$3 million over a portfolio of \$254 million. The majority of the portfolio matures in the next two years.

Power Financial's financial instruments do not have significant exposure to interest rate risk.

### Equity Risk

Equity risk is the potential loss associated with the sensitivity of the market price of a financial instrument arising from volatility in equity markets.

Most of Power Financial's other investments are classified as available for sale. Unrealized gains and losses on these investments are recorded in other comprehensive income until realized. Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value. At December 31, 2017, the impact of a 5% decrease in the value of other investments would have been a \$4 million unrealized loss recorded in other comprehensive income.

Power Financial's management of financial instruments risk has not changed materially since December 31, 2016. For a further discussion of the Corporation's risk management, please refer to Note 21 to the Corporation's 2017 Consolidated Financial Statements.

### OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and technologies, or external events. It includes the following type of risks: internal and external frauds, inadequate human resources practices, execution and processing errors, model risk, suppliers and third-party risk, business disruptions, cybersecurity, legal risk and regulatory compliance risk. Although operational risk cannot be eliminated entirely, the Corporation's risk management processes are designed to manage these risks in a thorough and diligent manner.

The Corporation manages operational risk by adopting and applying a series of corporate governance policies, procedures and practices such as human resource and compensation practice policies, a clawback policy for all officers, a code of business conduct and ethics for employees and third parties, business continuity procedures, related party transactions review and other corporate governance guidelines. The Corporation also has established a series of controls for financial reporting and disclosure purposes, and such controls, which are tested on a regular basis, can contribute to identifying and mitigating operational risks.

### Cybersecurity risk

The Corporation is exposed to risks relating to cybersecurity, in particular cyber threats, which include cyber-attacks such as, but not limited to, hacking, computer viruses, unauthorized access to confidential, proprietary or sensitive information or other breaches of network or Information Technology (IT) security. The Corporation continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage cybersecurity threats, which are constantly evolving. Consequently, the Corporation's IT defences are continuously monitored and adapted to both prevent and detect cyber-attacks, and then recover and remediate. Disruption to information systems or breaches of security could result in a negative impact on the Corporation's financial results or result in reputational damage.

### Regulatory compliance risk

Regulatory compliance risk is the risk of the Corporation or its employees failing to comply with the regulatory requirements in effect where the Corporation does business, both in Canada and internationally. There are many laws, governmental rules and regulations, including financial reporting and disclosure rules that apply to the Corporation. Interpretation of these laws, rules and regulations by the Corporation, governmental agencies or the courts could result in situations of regulatory non-compliance and could adversely

affect the Corporation's reputation and result in penalties, fines and sanctions or increased oversight by regulators. The Corporation, in addition to complying with these laws, rules and regulations, must also monitor them closely so that changes therein are taken into account in the management of its activities.

The Corporation ensures that the tax implications of all of its strategic decisions comply with its legal and tax reporting obligations as well as anticipating potential changes in the current legal framework to avoid any risk of non-compliance that could have adverse impacts.

### REPUTATION RISK

Reputation risk is the risk that an activity undertaken by the Corporation would be judged negatively by its stakeholders or the public, whether that judgment is with or without basis, thereby impairing its image and resulting potentially in the loss of business, limited financing capacity, legal action or increased regulatory oversight. Reputation risk can arise from a number of events and is generally related to a deficiency in managing another risk. For example, non-compliance with laws and regulations as well as deficiencies in financial reporting and disclosures can have a significant reputational impact on the organization.

The Board of Directors of the Corporation has adopted a Code of Business Conduct and Ethics (the Code of Conduct, which includes the Corporation's guidelines on Conflicts of Interest) as well as a Third Party Code of Conduct that govern the conduct of the Corporation's directors, officers, employees, advisors, consultants and suppliers. The Board of Directors of the Corporation oversees compliance with the Code of Conduct through the Corporation's General Counsel and Secretary who monitors compliance with the Code of Conduct. Directors and employees of the Corporation are required to confirm annually, and officers of the Corporation are required to confirm quarterly, their understanding of, and agreement to comply with, the Code of Conduct.

### EMERGING RISKS

An emerging risk is a risk not well understood at the current time and for which the impacts on strategy and financial results are difficult to assess or are in the process of being assessed.

Monitoring emerging risks is an important component of risk management. Power Financial is actively monitoring emerging risks through:

- Review and analysis at the boards and committees of its operating companies around the world where local executives describe the emerging risks in their respective environment.
- The Corporation's executive officers act as the Corporation's risk management committee. They meet regularly to identify, analyse and review the Corporation's risks and to implement strategies to mitigate these risks.

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## Financial Instruments and Other Instruments

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### FAIR VALUE MEASUREMENT

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.

The Corporation's assets and 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, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

- 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 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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement. The Corporation and its subsidiaries' assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability.

## REVIEW OF FINANCIAL PERFORMANCE

The following table presents the carrying amounts and fair value of the Corporation and its subsidiaries' assets and liabilities recorded or disclosed at fair value. The table distinguishes between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed. 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. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

At December 31	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>ASSETS</b>				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	89,824	89,824	88,283	88,283
Available for sale	12,628	12,628	11,819	11,819
Mortgage loans				
Fair value through profit or loss	287	287	339	339
Shares				
Fair value through profit or loss	8,194	8,194	7,673	7,673
Available for sale	243	243	182	182
Investment properties	4,851	4,851	4,340	4,340
Funds held by ceding insurers	7,938	7,938	8,605	8,605
Derivative instruments	422	422	572	572
Other assets	892	892	516	516
	125,279	125,279	122,329	122,329
Assets disclosed at fair value				
Bonds				
Loans and receivables	17,959	19,470	16,970	18,484
Mortgage loans				
Loans and receivables	29,748	30,680	29,295	30,418
Shares				
Available for sale <sup>[1]</sup>	331	331	376	376
Funds held by ceding insurers	106	106	118	118
	48,144	50,587	46,759	49,396
<b>Total</b>	<b>173,423</b>	<b>175,866</b>	<b>169,088</b>	<b>171,725</b>
<b>LIABILITIES</b>				
Liabilities recorded at fair value				
Investment contract liabilities	1,841	1,841	2,009	2,009
Derivative instruments	1,364	1,364	2,050	2,050
Other liabilities	71	71	10	10
	3,276	3,276	4,069	4,069
Liabilities disclosed at fair value				
Obligations to securitization entities	7,596	7,658	7,721	7,873
Debentures and other debt instruments	7,968	8,770	7,513	8,313
Capital trust debentures	160	221	161	212
Deposits and certificates	555	555	471	472
	16,279	17,204	15,866	16,870
<b>Total</b>	<b>19,555</b>	<b>20,480</b>	<b>19,935</b>	<b>20,939</b>

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

See Note 26 to the Corporation's 2017 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2017.



**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 and procedures relating to the use of derivative financial instruments, which in particular focus on:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationships.

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, 2017. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

December 31	2017			2016		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Financial	17	2	2	14	1	1
Lifeco	16,589	384	(952)	17,229	528	(1,484)
IGM	3,269	36	8	4,094	43	5
	19,858	420	(944)	21,323	571	(1,479)
	19,875	422	(942)	21,337	572	(1,478)

In 2017, there was a decrease of \$1.5 billion in the notional amount of derivatives outstanding, primarily due to the expiration and settlement of foreign exchange contracts held by Lifeco that were cash flow hedges for \$1.0 billion of Lifeco's subordinated debentures, redeemed on June 21, 2017, as well as the maturity of the hedge related to IGM's acquisition of China AMC, partially offset by regular hedging activities. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) decreased to \$422 million at

December 31, 2017 from \$572 million at December 31, 2016. The decrease is primarily due to the strengthening of the British pound against the U.S. dollar on cross-currency swaps that pay British pounds and receive U.S. dollars and to the expiration and settlement of foreign exchange contracts that paid euros and received British pounds.

See Note 25 to the Corporation's 2017 Consolidated Financial Statements for additional information.

## 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 its 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 on maturity. See Note 31 to the Corporation's 2017 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	Less than 1 year	1-5 years	More than 5 years	Total
Power Financial <sup>[1]</sup>	8	5	251	264
Lifeco <sup>[2]</sup>	2,094	939	5,043	8,076
IGM	1,924	6,810	1,659	10,393
Other	50	1	-	51
<b>Total</b>	<b>4,076</b>	<b>7,755</b>	<b>6,953</b>	<b>18,784</b>
Debentures and other debt instruments <sup>[3]</sup>	778	875	6,361	8,014
Obligations to securitization entities	1,193	6,357	46	7,596
Capital trust debentures	-	-	150	150
Deposits and certificates	546	7	2	555
Operating leases <sup>[4]</sup>	149	371	394	914
Purchase obligations <sup>[5]</sup>	109	144	-	253
Pension contributions <sup>[6]</sup>	363	-	-	363
Contractual commitments <sup>[7]</sup>	938	1	-	939
<b>Total</b>	<b>4,076</b>	<b>7,755</b>	<b>6,953</b>	<b>18,784</b>

[1] Includes debentures of the Corporation of \$250 million.

[2] Subsequent to year-end, Lifeco issued \$500 million of 10-year 3.337% debentures.

[3] Please refer to Note 14 to the Corporation's 2017 Consolidated Financial Statements for further information.

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

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

[6] Pension contributions include expected contributions to defined benefit and defined contribution pension plans as well as post-employment 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.

[7] 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 fulfillment of certain contract conditions.

## Income Taxes (non-consolidated basis)

The Corporation had, at December 31, 2017, non-capital losses of \$151 million available to reduce future taxable income (including capital gains). These losses expire from 2028 to 2037. In addition, the Corporation has capital losses of \$85 million that can be used indefinitely to reduce future capital gains. See also "Transactions with Related Parties" below.

## Transactions with Related Parties

Power Financial has a Related Party and Conduct Review Committee composed entirely of Directors who are independent of management and independent of the Corporation's controlling shareholder. The mandate of this Committee is to review proposed transactions with related parties of the Corporation, including its controlling shareholder, and to approve only those transactions that it deems appropriate and that are done at market terms and conditions.

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies which include providing group insurance benefits and sub-advisory services to other companies within the Power Financial group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

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. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

IGM 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 and are reviewed by the appropriate related party and conduct review committee.

In 2013, the Board of Directors of the Corporation approved a tax loss consolidation program with IGM. This program allowed Power Financial to generate sufficient taxable income to use its non-capital losses which would otherwise have expired, while IGM received tax deductions which are used to reduce its taxable income. Under this program, the Corporation owned \$2 billion of 4.50% secured debentures of IGM. These debentures represented the consideration obtained from the sale to IGM of \$2 billion of 4.51% preferred shares issued to Power Financial from a wholly owned subsidiary. The Corporation had legally enforceable rights to settle these financial instruments on a net basis, these rights were exercised during the second quarter of 2017.

During October 2017, IGM obtained advanced tax rulings which permitted tax loss consolidation transactions with a subsidiary of Power Corporation, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM. The acquisitions are expected to close in the fourth quarter of each year. IGM will recognize the benefit of the tax losses realized throughout the year. On December 29, 2017, IGM acquired shares of the subsidiary and recorded the benefit of the tax losses acquired.

See Note 29 to the Corporation's 2017 Consolidated Financial Statements for more information.

## Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries – Lifeco and IGM – are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the notes to the Corporation's 2017 Consolidated Financial Statements.

### CONSOLIDATION

Management of the Corporation consolidates all subsidiaries and entities in which it has determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Management of the Corporation and of each of its subsidiaries exercise judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Corporation or its subsidiaries have the ability to exercise their power to affect variable returns.

### INSURANCE AND INVESTMENT CONTRACT LIABILITIES

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 subsidiaries are responsible for determining the amount of the liabilities in order 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 (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 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 determined using discounted cash flows utilizing the yield curves of financial instruments with similar cash flow characteristics.

Additional details regarding these estimates can be found in Note 12 to the Corporation's 2017 Consolidated Financial Statements.

## FAIR VALUE MEASUREMENT

The carrying values of financial assets necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods that the Corporation and its subsidiaries rely upon.

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

The following is a description of the methodologies used to determine fair value.

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

Fair values for bonds recorded 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 dates 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 factors such 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 typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movement relative to the market and utilization of information provided by the underlying investment manager. The 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 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

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

## 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 properties 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 OF INVESTMENTS

Investments are reviewed regularly on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. 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. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed to net investment income.

Impairment losses on available-for-sale shares are recorded to net investment income if the loss is significant or prolonged. Subsequent losses are also recorded directly in net investment income.

## GOODWILL AND INDEFINITE LIFE 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. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

Goodwill and indefinite life intangible assets have been allocated to cash generating units or 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 CGU to the recoverable amount of the CGU to which the goodwill and indefinite life intangible assets have been allocated.

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.

## 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 (SERP) 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. Expenses for defined benefit plans are actuarially determined using the projected unit credit method prorated on service based upon management of the Corporation and of 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 by reference to market yields on high-quality corporate bonds.
- 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 subsequently reclassified to net earnings.
- The accrued benefit asset (liability) represents the plan surplus (deficit).
- Payments to the defined contribution plans are expensed as incurred.

## INCOME TAXES

### 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.

### 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.

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

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 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.

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## Changes in Accounting Policies

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There were no changes to the Corporation's accounting policies for the year ended December 31, 2017.

## 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.

New standard	Summary of future changes
<b>IFRS 15 – Revenue from Contracts with Customers (IFRS 15)</b>	<p>In May 2014, the IASB issued IFRS 15, <i>Revenue from Contracts with Customers</i>, 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.</p> <p>This standard is effective for annual reporting periods beginning on or after January 1, 2018. The Corporation and its subsidiaries have concluded that there will not be a material change in the timing of revenue recognition. The presentation of certain revenues and expenses in the financial statements will change between being reported on a gross versus net basis and others from net to gross basis. There is no significant net earnings impact, however, there is an approximate \$100 million increase in Lifeco's fee income and a corresponding increase in operating and administrative expenses.</p> <p>IFRS 15 also outlines various criteria for the eligibility of capitalizing contract costs. For the Corporation's subsidiaries in the asset management industry, determining whether the customer is the fund or the end investor can impact whether costs should be capitalized as a cost of obtaining a contract with a customer or whether they should be assessed as a cost of fulfilling a contract with a customer. Significant judgment is required in determining whether fulfillment costs should be expensed or capitalized. IFRS 15 could therefore result in changes to the timing of recognition of certain commission-related expenses. Due to recent developments in the interpretation of the guidance on fulfillment costs, the Corporation and its subsidiaries continue to assess the impact to certain commission payments and related expenses.</p>
<b>IFRS 16 – Leases (IFRS 16)</b>	<p>The IASB issued IFRS 16, <i>Leases</i>, which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements.</p> <p>The standard will be effective January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.</p>
<b>IFRS 17 – Insurance Contracts (IFRS 17)</b>	<p>In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i>, which will replace IFRS 4, <i>Insurance Contracts</i>. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces new measurement models depending on the nature of the insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of:</p> <ul style="list-style-type: none"> <li>(a) the fulfillment cash flows: the current estimates of amounts that Lifeco expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and</li> <li>(b) the contractual service margin: the future profit for providing insurance coverage.</li> </ul> <p>The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfillment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates.</p> <p>Lifeco is currently in the planning phase of its project, which includes assessing the financial statement impacts of adopting IFRS 17, identifying potential business impacts, developing a detailed project plan, assessing resource requirements, and providing training to staff. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework, for which substantial resources are being dedicated to ensure proper implementation.</p> <p>The new standard is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how it reports financial performance in the statements of earnings. Lifeco is currently assessing the impact that IFRS 17 will have on the financial statements. Lifeco expects this standard to have a significant impact on the timing of earnings recognition for the insurance contracts and a significant impact on how insurance contract results are presented and disclosed in the financial statements.</p>

New standard	Summary of future changes
<p><b>IFRS 9 – Financial Instruments (IFRS 9)</b></p>	<p>In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i>, which replaces IAS 39, <i>Financial Instruments: Recognition and Measurement</i>, the current standard for accounting for financial instruments. The standard was completed in three separate phases:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.</li> <li>▪ 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.</li> </ul> <p>In September 2016, the IASB issued an amendment to IFRS 4, <i>Insurance Contracts</i> (IFRS 4). The amendment “Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>” provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows:</p> <ul style="list-style-type: none"> <li>▪ <i>Deferral Approach</i>: provides the option to defer implementation of IFRS 9 until the year 2021 or the effective date of the new insurance contract standard, whichever is earlier; or</li> <li>▪ <i>Overlay Approach</i>: provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss.</li> </ul> <p>The Corporation qualifies for the deferral approach and will be applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously on January 1, 2021.</p> <p>In October 2017, the IASB issued an amendment to IFRS 9 that certain prepayable financial assets with negative compensation can be measured at amortized cost or fair value through other comprehensive income instead of fair value through profit or loss under a certain condition.</p> <p>The Corporation and its subsidiaries continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17.</p> <p>Parjointco, a jointly controlled corporation which does not qualify for the exemption, will adopt IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method.</p> <p>Pargesa currently classifies the majority of its portfolio investments as available for sale. In accordance with IFRS 9, Pargesa has the choice to classify the majority of its portfolio investments as either fair value through profit or loss or elect the fair value through other comprehensive income option (FVTOCI). Under the FVTOCI option, unrealized gains and losses from fair value changes (including impairments) are recorded in other comprehensive income and not subsequently reclassified to net earnings. Pargesa has elected to classify the majority of its portfolio investments using the FVTOCI option. On January 1, 2018, these investments will continue to be recorded at fair value, however the accumulated unrealized gains in other comprehensive income will be permanently retained in equity.</p> <p>The Corporation is finalizing its assessment as to whether it will retain Pargesa’s (through Parjointco) accounting policy in accordance with IFRS 9.</p>
<p><b>IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)</b></p>	<p>In June 2017, the IASB issued IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12, <i>Income Taxes</i>, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries do not anticipate a significant impact from the adoption of this interpretation.</p>

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## Disclosure Controls and Procedures

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Based on their evaluations as at December 31, 2017, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as at December 31, 2017.

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## Internal Control Over Financial Reporting

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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, 2017, based on the Internal Control - Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. 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, 2017.

There have been no changes in the Corporation's internal control over financial reporting during the year ended December 31, 2017 which 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	2017	2016	2015
Total revenues	49,878	49,122	36,512
Assets under administration [in billions]	1,521	1,404	1,361
Net earnings (attributable to common shareholders)	1,717	1,919	2,319
per share – basic	2.41	2.69	3.25
per share – diluted	2.40	2.68	3.24
Adjusted net earnings (attributable to common shareholders) <sup>[1]</sup>	2,135	2,136	2,241
per share – basic	2.99	2.99	3.14
Consolidated assets <sup>[2]</sup>	440,224	418,407	417,630
Total financial liabilities <sup>[2]</sup>	23,522	23,229	22,400
Debt and other debt instruments	7,968	7,513	6,927
Shareholders' equity	20,513	19,481	19,473
Book value per common share	24.77	23.69	23.69
Number of common shares outstanding [millions]	713.9	713.3	713.2
Dividends per share [declared]			
Common shares	1.6500	1.5700	1.4900
First preferred shares			
Series A <sup>[3]</sup>	0.5067	0.4725	0.4887
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 <sup>[4]</sup>	0.5765	0.5765	1.1000
Series Q <sup>[4]</sup>	0.5673	0.5252	–
Series R	1.3750	1.3750	1.3750
Series S	1.2000	1.2000	1.2000
Series T	1.0500	1.0500	1.0500
Series V <sup>[5]</sup>	0.8792	–	–

[1] Adjusted net earnings and adjusted net earnings per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Non-IFRS Financial Measures and Presentation" section in this review of financial performance.

[2] 2016 figures have been retrospectively adjusted as described in Note 16 to the Corporation's 2017 Consolidated Financial Statements.

[3] The Series A First Preferred Shares are entitled to a quarterly cumulative dividend at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks.

[4] On February 1, 2016, 2,234,515 of its outstanding 11,200,000 Non-Cumulative 5-Year Rate Reset First Preferred Shares, Series P were converted, on a one-for-one basis, into Non-Cumulative Floating Rate First Preferred Shares, Series Q. The Series Q First Preferred shares are entitled to an annual non-cumulative dividend, payable quarterly at a floating rate equal to the 3-month Government of Canada Treasury Bill rate plus 1.60%. The dividend rate for the remaining 8,965,485 Series P shares was reset to an annual fixed rate of 2.31% or \$0.144125 per share in cash dividends payable quarterly.

[5] Issued in May 2017. The first dividend payment was made on October 31, 2017 in the amount of \$0.55733 per share.

# Consolidated Financial Statements

## Consolidated Balance Sheets

December 31 [in millions of Canadian dollars]	2017	2016 [Note 16]
<b>ASSETS</b>		
Cash and cash equivalents [Note 4]	5,321	4,396
Investments [Note 5]		
Bonds	120,411	117,072
Mortgage loans	30,035	29,634
Shares	8,768	8,231
Investment properties	4,851	4,340
Loans to policyholders	8,280	8,467
	172,345	167,744
Funds held by ceding insurers [Note 6]	9,893	10,781
Reinsurance assets [Note 12]	5,045	5,627
Investments in jointly controlled corporations and associates [Note 7]	4,016	3,103
Owner-occupied properties and capital assets [Note 8]	1,174	1,128
Derivative financial instruments [Note 25]	422	572
Other assets [Note 9]	8,332	7,758
Deferred tax assets [Note 16]	991	1,655
Intangible assets [Note 10]	5,748	5,966
Goodwill [Note 10]	9,580	9,274
Investments on account of segregated fund policyholders [Note 11]	217,357	200,403
<b>Total assets</b>	<b>440,224</b>	<b>418,407</b>
<b>LIABILITIES</b>		
Insurance contract liabilities [Note 12]	159,524	155,940
Investment contract liabilities [Note 12]	1,841	2,009
Obligations to securitization entities [Note 13]	7,596	7,721
Debentures and other debt instruments [Note 14]	7,968	7,513
Derivative financial instruments [Note 25]	1,364	2,050
Other liabilities [Note 15]	9,380	8,581
Deferred tax liabilities [Note 16]	1,670	1,974
Insurance and investment contracts on account of segregated fund policyholders [Note 11]	217,357	200,403
<b>Total liabilities</b>	<b>406,700</b>	<b>386,191</b>
<b>EQUITY</b>		
Stated capital [Note 17]		
Perpetual preferred shares	2,830	2,580
Common shares	826	805
Retained earnings	15,381	14,849
Reserves	1,476	1,247
<b>Total shareholders' equity</b>	<b>20,513</b>	<b>19,481</b>
Non-controlling interests [Note 19]	13,011	12,735
<b>Total equity</b>	<b>33,524</b>	<b>32,216</b>
<b>Total liabilities and equity</b>	<b>440,224</b>	<b>418,407</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]	2017	2016
<b>REVENUES</b>		
Premium income		
Gross premiums written [Note 12]	38,284	35,050
Ceded premiums	(4,359)	(3,925)
Premium income, net	33,925	31,125
Net investment income [Note 5]		
Regular net investment income	6,172	6,297
Change in fair value through profit or loss	1,438	3,906
Net investment income	7,610	10,203
Fee income	8,343	7,794
Total revenues	49,878	49,122
<b>EXPENSES</b>		
Policyholder benefits		
Insurance and investment contracts		
Gross [Note 12]	30,801	28,315
Ceded	(2,214)	(2,103)
Total net policyholder benefits	28,587	26,212
Policyholder dividends and experience refunds	1,800	1,502
Change in insurance and investment contract liabilities	5,256	6,961
Total paid or credited to policyholders	35,643	34,675
Commissions	3,475	3,590
Operating and administrative expenses [Note 22]	7,130	6,380
Financing charges [Note 23]	432	412
Total expenses	46,680	45,057
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,198	4,065
Share of earnings (losses) of investments in jointly controlled corporations and associates [Note 7]	200	(98)
Earnings before income taxes	3,398	3,967
Income taxes [Note 16]	584	581
Net earnings	2,814	3,386
<b>ATTRIBUTABLE TO</b>		
Non-controlling interests [Note 19]	964	1,343
Perpetual preferred shareholders	133	124
Common shareholders	1,717	1,919
	2,814	3,386
<b>EARNINGS PER COMMON SHARE [Note 28]</b>		
Net earnings attributable to common shareholders		
- Basic	2.41	2.69
- Diluted	2.40	2.68

## Consolidated Statements of Comprehensive Income

For the years ended December 31 [in millions of Canadian dollars]	2017	2016
Net earnings	2,814	3,386
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)	(32)	117
Income tax (expense) benefit	10	(11)
Realized (gains) losses transferred to net earnings	(29)	(81)
Income tax expense (benefit)	5	12
	(46)	37
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	15	107
Income tax (expense) benefit	(5)	(40)
Realized (gains) losses transferred to net earnings	408	2
Income tax expense (benefit)	(160)	(1)
	258	68
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation	(499)	(1,471)
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	(90)	42
Income tax (expense) benefit	12	(6)
	(577)	(1,435)
Share of other comprehensive income of investments in jointly controlled corporations and associates	501	367
Income tax (expense) benefit	(1)	-
	500	367
Total - items that may be reclassified	135	(963)
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS		
Actuarial gains (losses) on defined benefit plans [Note 24]	(90)	(237)
Income tax (expense) benefit	-	60
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	(2)	1
Total - items that will not be reclassified	(92)	(176)
Other comprehensive income (loss)	43	(1,139)
Comprehensive income	2,857	2,247
ATTRIBUTABLE TO		
Non-controlling interests	789	855
Perpetual preferred shareholders	133	124
Common shareholders	1,935	1,268
	2,857	2,247

## Consolidated Statements of Changes in Equity

For the year ended December 31, 2017 [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	2,580	805	14,849	157	1,090	1,247	12,735	32,216
Net earnings	-	-	1,850	-	-	-	964	2,814
Other comprehensive income (loss)	-	-	-	-	218	218	(175)	43
Comprehensive income	-	-	1,850	-	218	218	789	2,857
Issue of perpetual preferred shares [Note 17]	250	-	-	-	-	-	-	250
Dividends to shareholders								
Perpetual preferred shares	-	-	(133)	-	-	-	-	(133)
Common shares	-	-	(1,177)	-	-	-	-	(1,177)
Dividends to non-controlling interests	-	-	-	-	-	-	(737)	(737)
Share-based compensation [Note 18]	-	-	-	49	-	49	18	67
Stock options exercised	-	21	-	(47)	-	(47)	44	18
Effects of changes in capital and ownership of subsidiaries, and other	-	-	(8)	-	9	9	162	163
Balance, end of year	2,830	826	15,381	159	1,317	1,476	13,011	33,524

For the year ended December 31, 2016 [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	2,580	804	14,206	142	1,741	1,883	12,807	32,280
Net earnings	-	-	2,043	-	-	-	1,343	3,386
Other comprehensive loss	-	-	-	-	(651)	(651)	(488)	(1,139)
Comprehensive income (loss)	-	-	2,043	-	(651)	(651)	855	2,247
Dividends to shareholders								
Perpetual preferred shares	-	-	(124)	-	-	-	-	(124)
Common shares	-	-	(1,120)	-	-	-	-	(1,120)
Dividends to non-controlling interests	-	-	-	-	-	-	(708)	(708)
Share-based compensation [Note 18]	-	-	-	59	-	59	22	81
Stock options exercised	-	1	-	(44)	-	(44)	44	1
Effects of changes in capital and ownership of subsidiaries, and other	-	-	(156)	-	-	-	(285)	(441)
Balance, end of year	2,580	805	14,849	157	1,090	1,247	12,735	32,216

## Consolidated Statements of Cash Flows

For the years ended December 31 [in millions of Canadian dollars]	2017	2016
<b>OPERATING ACTIVITIES</b>		
Earnings before income taxes	3,398	3,967
Income tax paid, net of refunds	(482)	(442)
Adjusting items		
Change in insurance and investment contract liabilities	4,391	7,128
Change in funds held by ceding insurers	857	505
Change in reinsurance assets	830	(567)
Change in fair value through profit or loss	(1,438)	(3,906)
Other	(301)	215
	7,255	6,900
<b>FINANCING ACTIVITIES</b>		
Dividends paid		
By subsidiaries to non-controlling interests	(737)	(710)
Perpetual preferred shares	(130)	(125)
Common shares	(1,163)	(1,106)
	(2,030)	(1,941)
Issue of common shares by the Corporation [Note 17]	18	1
Issue of common shares by subsidiaries	131	34
Repurchase of common shares by subsidiaries	(63)	(423)
Issue of perpetual preferred shares by the Corporation [Note 17]	250	-
Issue of preferred shares by subsidiaries	200	-
Issue of debentures [Note 14]	850	-
Issue of euro-denominated debt [Note 14]	-	706
Redemption of debentures [Note 14]	(1,284)	-
Issue of senior notes [Note 14]	925	-
Change in other debt instruments	22	(23)
Change in obligations to securitization entities and other	(175)	631
	(1,156)	(1,015)
<b>INVESTMENT ACTIVITIES</b>		
Bond sales and maturities	27,217	30,406
Mortgage loan repayments	2,837	2,616
Sale of shares	3,505	2,797
Sale of investment properties	72	427
Change in loans to policyholders	(165)	48
Business acquisitions, net of cash and cash equivalents acquired [Note 3]	(249)	(33)
Investment in bonds	(30,691)	(34,506)
Investment in mortgage loans	(3,506)	(3,847)
Investment in shares	(3,273)	(2,949)
Deposit for investment in China AMC	-	(193)
Investments in jointly controlled corporations and associates [Note 7]	(504)	(36)
Investment in investment properties and other	(389)	(209)
	(5,146)	(5,479)
Effect of changes in exchange rates on cash and cash equivalents	(28)	(198)
Increase in cash and cash equivalents	925	208
Cash and cash equivalents, beginning of year	4,396	4,188
Cash and cash equivalents, end of year	5,321	4,396
<b>NET CASH FROM OPERATING ACTIVITIES INCLUDES</b>		
Interest and dividends received	5,634	5,817
Interest paid	549	521

# 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 is a publicly listed company (TSX: PWF) incorporated and domiciled in Canada and located at 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 and Europe. Through its investment in Pargesa Holding SA, Power Financial also has substantial holdings based in Europe.

The Consolidated Financial Statements (financial statements) of Power Financial as at and for the year ended December 31, 2017 were approved by its Board of Directors on March 23, 2018. The Corporation is controlled by Power Corporation of Canada.

The financial statements of Power Financial as at December 31, 2017 have been prepared in accordance with International Financial Reporting Standards.

## NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies

### BASIS OF PRESENTATION

The financial statements include the accounts of Power Financial and its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Corporation controls; (i) when the Corporation has power over the entity; (ii) it is exposed or has rights to variable returns from its involvement; and (iii) 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 such control ceases. The Corporation reassesses 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 operating subsidiaries of the Corporation are:

- Lifeco, a public company in which the Corporation and IGM Financial hold 67.7% and 4.0% of the common shares, respectively (67.9% and 4.0%, respectively, at December 31, 2016). Lifeco's major operating subsidiary companies are Great-West Life, Great-West Life & Annuity, London Life, Canada Life, Irish Life and Putnam.
- IGM Financial, a public company in which the Corporation and Great-West Life hold 61.5% and 3.8% of the common shares, respectively (61.5% and 3.8%, respectively, at December 31, 2016). IGM's major operating subsidiary companies are Investors Group and Mackenzie.
- Portag3, an investment fund dedicated to backing innovative financial service companies, in which the Corporation, Lifeco and IGM hold a combined 100% equity interest. Portag3 in turn holds a 29.4% equity interest in Wealthsimple, a technology-driven investment manager. In addition, the Corporation and IGM also hold equity interests in Wealthsimple of 10.8% and 37.1%, respectively.

The financial statements of Power Financial include the results of Lifeco and IGM Financial 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 derived from the publicly disclosed consolidated financial statements of Lifeco and IGM Financial, all as at and for the year ended December 31, 2017. Certain notes to Power Financial's financial statements are derived from the notes to the financial statements of Lifeco and IGM Financial.

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 having 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 (losses), other comprehensive income (loss) and the changes in equity of the jointly controlled

corporations and associates are recognized in the consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of changes in equity, respectively.

The Corporation holds a 50% (50% at December 31, 2016) interest in Parjointco, a jointly controlled corporation that is considered to be a joint venture. Parjointco holds a 55.5% (55.5% at December 31, 2016) equity interest in Pargesa. Accordingly, the Corporation accounts for its investment in Parjointco using the equity method.

### USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

- Management consolidates all subsidiaries and entities in which it has determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Management of the Corporation and each of its subsidiaries exercise judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Corporation or its subsidiaries have the ability to exercise their power to affect variable returns.
- 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 made by management of Lifeco, such as interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders, used in the valuation of insurance and certain investment contract liabilities in accordance with the CALM, require significant judgment and estimation (Note 12).
- The provision for future credit losses within Lifeco's insurance contract liabilities is based on investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Judgment is required by Lifeco's management when setting credit ratings for instruments that do not have a third-party rating.
- In establishing the fair value of financial instruments, management of the Corporation and of its subsidiaries exercise judgment in the determination of fair value inputs, particularly those items categorized within Level 3 of the fair value hierarchy (Note 26).

**NOTE 2** Basis of Presentation and Summary of Significant Accounting Policies (continued)

- 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 recoverable amount of the cash generating units (to which goodwill and intangible assets are assigned) relies upon valuation methodologies that require the use of estimates (Note 10).
- Cash generating unit groupings for goodwill and indefinite life intangible assets have been determined by management of the Corporation and of its subsidiaries as the lowest level at which the assets are monitored for internal reporting purposes. Management of the Corporation and of its subsidiaries use judgment in determining the cash generating units (Note 10).
- The actuarial assumptions used in determining the expense and defined benefit obligation for the Corporation and its subsidiaries' pension plans and other post-employment benefits require significant judgment and estimation. Management of the Corporation and of its subsidiaries review the previous experience of its plan members and market conditions, including interest rates and inflation rates, in evaluating the assumptions used in determining the expense for the current year (Note 24).
- 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).
- 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 have assessed the carrying values of the deferred tax assets as of December 31, 2017 are recoverable (Note 16).
- Management of the Corporation and of its subsidiaries use judgment in determining the assets to be included in a disposal group. The Corporation uses estimates in the determination of the fair value for disposal groups (Note 9).
- Recognition of legal and other provisions resulting from a past event which, in the judgment of management of the Corporation and of its subsidiaries, will result in a probable outflow of economic resources to settle the obligation. Management of the Corporation and of its subsidiaries use judgment to evaluate the possible outcomes and risks to determine the best estimate of the provision at the balance sheet date (Note 30).
- Management of Lifeco uses independent qualified appraisal services to determine the fair value of investment properties, 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 (Note 5).
- The determination by IGM's management as to whether securitized mortgages are derecognized requires judgment with respect to the extent to which the risks and rewards of ownership are transferred (Note 13).
- In the consolidated statements of cash flows, purchases and sales of portfolio investments are recorded within investment activities due to Lifeco management's judgment that these investing activities are long term in nature.
- Management of Lifeco uses judgments to determine whether Lifeco retains the primary obligation with a client in sub-advisor arrangements. Where Lifeco retains the risks and benefits, revenues and expenses are recorded on a gross basis.

**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 shares 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. Investment property income is included in net investment income in the statements of earnings.

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, commissions 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 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 as 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 or where fair value can be reliably measured 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 recorded at fair value on the Consolidated Balance Sheets (balance sheets) with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recorded 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 net investment income 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 consist of real estate 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. Properties that do not meet these criteria are classified as owner-occupied properties. Investment properties are initially measured at cost and subsequently carried at fair value on the balance sheets. Change in fair value is recorded as net investment income in the statements of earnings.

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

**Fair value measurement**

The carrying values of financial assets necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon.

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

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 recorded 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 dates 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 methodologies, discounted cash flow analyses and/or internal valuation models. These methodologies consider 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 typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movements relative to the market and utilization of information provided by the underlying investment manager. 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 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**

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

**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 properties 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 at the end of each reporting period to determine whether there is any objective evidence of impairment. 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

**NOTE 2** Basis of Presentation and Summary of Significant Accounting Policies (continued)

income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed to net investment income.

Impairment losses on available-for-sale shares are recorded in net investment income if the loss is significant or prolonged. Subsequent losses are also recorded directly in net investment income.

**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 recorded in net earnings using the effective interest method. 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 recorded in net earnings using the effective interest method.

**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 CALM.

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.

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

On the asset side, funds held by ceding insurers are assets that would normally be paid to Lifeco but are retained 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 or investment 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 with the change

in fair value recorded in net investment income. 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.

**OWNER-OCCUPIED PROPERTIES  
AND CAPITAL ASSETS**

Owner-occupied properties and capital assets are carried at cost less accumulated depreciation and impairments. Capital assets include equipment, furniture and fixtures. Depreciation is charged to write off the cost of assets, using the straight-line method, over their estimated useful lives, as follows: i) owner-occupied properties (10 to 50 years); and ii) capital assets (3 to 17 years).

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary. Owner-occupied properties and 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 premiums in course of collection, accounts receivable and interest 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. Deferred acquisition costs are amortized on a straight-line basis over the term of the policy, not exceeding 20 years.

**ASSETS HELD FOR SALE**

Disposal groups of assets are classified as held for sale when the carrying amount will be recovered through a sale transaction rather than continuing use. The fair value of a disposal group is measured at the lower of its carrying amount and fair value less costs to sell. Any impairment loss for the disposal group is recognized as a reduction to the carrying amount of the disposal group. Assets held for sale are included in other assets. Losses from assets held for sale are included in operating and administrative expenses.

**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, certain customer contracts and deferred selling commissions. Finite life intangible assets are reviewed at least annually to determine if there are indicators of impairment and assessed as to whether the amortization period and method are appropriate. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows: i) technology and software (3 to 10 years); and ii) customer contract-related (9 to 30 years).

Commissions paid by IGM on the sale of certain investment funds are deferred and amortized over their estimated useful lives, not exceeding a period of 7 years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of 5 years. When a client redeems units or shares in investment 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

**NOTE 2** Basis of Presentation and Summary of Significant Accounting Policies (continued)

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.

Indefinite life intangible assets include brands, trademarks and trade names, certain customer contracts, mutual fund management contracts and the shareholders' portion of acquired future participating account profit. Amounts are classified as indefinite life intangible assets 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. Following initial recognition, indefinite life intangible assets are measured at cost less accumulated impairment losses.

**Impairment testing**

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

Goodwill and indefinite life intangible assets have been allocated to cash generating units or 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 CGU to the recoverable amount of the CGU to which the goodwill and indefinite life intangible assets have been allocated.

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 change 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 in order 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 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 misestimation and for future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

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

**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 other 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 method with amortization expense recorded in financing charges in the statements of earnings. These liabilities are derecognized when the obligation is cancelled or redeemed.

Accounts payable, dividends and interest payable, and deferred income reserves are measured at amortized cost. Deferred income reserves related to investment contracts are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not exceeding 20 years.

**NOTE 2** Basis of Presentation and Summary of Significant Accounting Policies (continued)

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

**PENSION 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 (SERP) 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. Expenses for defined benefit plans are actuarially determined using the projected unit credit method prorated on service, based upon management of the Corporation and of 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 by reference to market yields on high-quality corporate bonds.

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, 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 subsequently reclassified to net earnings.

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

**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.

Recognition of deferred tax assets 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 Corporation and its subsidiaries' financial planning process provides a significant basis for the measurement of deferred tax assets.

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 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.

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 in 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 change in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedge no longer qualifies for hedge accounting.

**Fair value hedges**

Fair value hedges are used to manage the exposure to change in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, change 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**

Cash flow hedges are used to manage the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. 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**

Net investment hedges are used to manage the exposure to changes in the reporting entity's share in the net share of a foreign operation. 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. The unrealized foreign exchange gains (losses) on the instruments are recorded within other comprehensive income and will be reclassified into net earnings when the instruments are derecognized.

**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**

Preferred shares are classified as equity if they are non-redeemable or if they are retractable only at the Corporation's option and if any dividends are discretionary. Costs that are directly attributable to the issue of share capital are recognized as a reduction from retained earnings, net of income tax.

Reserves are composed of share-based compensation and other comprehensive income. Share-based compensation reserve represents the vesting of options less options exercised. Other comprehensive income represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the actuarial gains (losses) on benefit pension plans, the unrealized gains (losses) on available-for-sale investments, 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 of subsidiaries.

**SHARE-BASED PAYMENTS**

The fair value-based method of accounting is used for the valuation of compensation expense for options granted to employees of the Corporation and its subsidiaries. Compensation expense is recognized in 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 reserve. When the stock options are exercised, the proceeds received, together with the amount recorded in share-based compensation reserve, are included in 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 Deferred Share Unit plans. Compensation expense is recognized in operating and administrative expenses in the statements of earnings, net of related hedges, and a liability is recognized on the balance sheets over the vesting period. The liability is remeasured at fair value at each reporting period with the change in the liability recorded in operating and administrative expenses.

**NOTE 2** Basis of Presentation and Summary of Significant Accounting Policies (continued)

**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.

**Translation of net investment in foreign operations**

Foreign operations are subsidiaries, jointly controlled corporations, associates and/or business units with functional currencies other than the Canadian dollar. 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 are presented as a component of other comprehensive income. Unrealized foreign currency translation gains and losses are recognized proportionately in net earnings when there has been a disposal of a foreign operation.

**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.

**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.

**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 recorded in 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.

Leases that transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Where the Corporation and its subsidiaries are the lessor under a finance lease, the investment is recognized as a receivable at an amount equal to the net investment in the lease which is the present value of the minimum lease payments due from the lessee presented within the balance sheets. Payments received from the lessee are apportioned between the recognition of finance lease income and the reduction of the finance lease receivable. Income from the finance leases is recognized in the statements of earnings at a constant periodic rate of return on net investment in the finance lease.

**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 net earnings available to common shareholders and the weighted average number of common shares outstanding are adjusted to include the potential dilutive effect of outstanding stock options granted by the Corporation and its subsidiaries, as determined by the treasury stock method.

New standard	Summary of future changes
<b>IFRS 15 – Revenue from Contracts with Customers (IFRS 15)</b>	<p>In May 2014, the IASB issued IFRS 15, <i>Revenue from Contracts with Customers</i>, 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.</p> <p>This standard is effective for annual reporting periods beginning on or after January 1, 2018. The Corporation and its subsidiaries have concluded that there will not be a material change in the timing of revenue recognition. The presentation of certain revenues and expenses in the financial statements will change between being reported on a gross versus net basis and others from net to gross basis. There is no significant net earnings impact, however, there is an approximate \$100 million increase in Lifeco's fee income and a corresponding increase in operating and administrative expenses.</p> <p>IFRS 15 also outlines various criteria for the eligibility of capitalizing contract costs. For the Corporation's subsidiaries in the asset management industry, determining whether the customer is the fund or the end investor can impact whether costs should be capitalized as a cost of obtaining a contract with a customer or whether they should be assessed as a cost of fulfilling a contract with a customer. Significant judgment is required in determining whether fulfillment costs should be expensed or capitalized. IFRS 15 could therefore result in changes to the timing of recognition of certain commission-related expenses. Due to recent developments in the interpretation of the guidance on fulfillment costs, the Corporation and its subsidiaries continue to assess the impact to certain commission payments and related expenses.</p>
<b>IFRS 16 – Leases (IFRS 16)</b>	<p>The IASB issued IFRS 16, <i>Leases</i>, which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements.</p> <p>The standard will be effective January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.</p>

**NOTE 2** Basis of Presentation and Summary of Significant Accounting Policies (continued)

New standard	Summary of future changes
<b>IFRS 17 – Insurance Contracts (IFRS 17)</b>	<p>In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i>, which will replace IFRS 4, <i>Insurance Contracts</i>. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces new measurement models depending on the nature of the insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of:</p> <ul style="list-style-type: none"> <li>(a) the fulfillment cash flows: the current estimates of amounts that Lifeco expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and</li> <li>(b) the contractual service margin: the future profit for providing insurance coverage.</li> </ul> <p>The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfillment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates.</p> <p>Lifeco is currently in the planning phase of its project, which includes assessing the financial statement impacts of adopting IFRS 17, identifying potential business impacts, developing a detailed project plan, assessing resource requirements, and providing training to staff. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework, for which substantial resources are being dedicated to ensure proper implementation.</p> <p>The new standard is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how it reports financial performance in the statements of earnings. Lifeco is currently assessing the impact that IFRS 17 will have on the financial statements. Lifeco expects this standard to have a significant impact on the timing of earnings recognition for the insurance contracts and a significant impact on how insurance contract results are presented and disclosed in the financial statements.</p>
<b>IFRS 9 – Financial Instruments (IFRS 9)</b>	<p>In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i>, which replaces IAS 39, <i>Financial Instruments: Recognition and Measurement</i>, the current standard for accounting for financial instruments. The standard was completed in three separate phases:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.</li> <li>▪ 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.</li> </ul> <p>In September 2016, the IASB issued an amendment to IFRS 4, <i>Insurance Contracts</i> (IFRS 4). The amendment "Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows:</p> <ul style="list-style-type: none"> <li>▪ <i>Deferral Approach</i>: provides the option to defer implementation of IFRS 9 until the year 2021 or the effective date of the new insurance contract standard, whichever is earlier; or</li> <li>▪ <i>Overlay Approach</i>: provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss.</li> </ul> <p>The Corporation qualifies for the deferral approach and will be applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously on January 1, 2021.</p> <p>In October 2017, the IASB issued an amendment to IFRS 9 that certain prepayable financial assets with negative compensation can be measured at amortized cost or fair value through other comprehensive income instead of fair value through profit or loss under a certain condition.</p> <p>The Corporation and its subsidiaries continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17.</p> <p>Parjointco, a jointly controlled corporation which does not qualify for the exemption, will adopt IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method.</p> <p>Pargesa currently classifies the majority of its portfolio investments as available for sale. In accordance with IFRS 9, Pargesa has the choice to classify the majority of its portfolio investments as either fair value through profit or loss or elect the fair value through other comprehensive income option (FVTOCI). Under the FVTOCI option, unrealized gains and losses from fair value changes (including impairments) are recorded in other comprehensive income and not subsequently reclassified to net earnings. Pargesa has elected to classify the majority of its portfolio investments using the FVTOCI option. On January 1, 2018, these investments will continue to be recorded at fair value, however the accumulated unrealized gains in other comprehensive income will be permanently retained in equity.</p> <p>The Corporation is currently finalizing its assessment as to whether it will retain Pargesa's (through Parjointco) accounting policy in accordance with IFRS 9.</p>
<b>IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)</b>	<p>In June 2017, the IASB issued IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12, <i>Income Taxes</i>, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries do not anticipate a significant impact from the adoption of this interpretation.</p>

## NOTE 3 Business Acquisitions

### WEALTHSIMPLE

On May 15, 2017, Power Financial satisfied conditions allowing the Corporation to appoint the majority of the board of directors of Wealthsimple and thus attained control of Wealthsimple, a technology-driven investment manager. This led to a gain being recognized in share of earnings (losses) of investments in jointly controlled corporations and associates in 2017 as a result of the investment in Wealthsimple being measured at fair value on the date control

was attained. Previously, Wealthsimple was accounted for using the equity method. At December 31, 2017, Power Financial held on a non-diluted basis a 77.3% equity interest (78.9% voting interest) in Wealthsimple.

During the fourth quarter of 2017, the Corporation completed its comprehensive evaluation of the fair value of the net assets acquired of Wealthsimple and the purchase price allocation.

The following table summarizes the aggregate amounts assigned to the assets acquired, goodwill and liabilities assumed:

Assets acquired and goodwill	
Cash and cash equivalents	41
Other assets	52
Intangible assets	65
Goodwill	98
	256
Less: liabilities assumed	
Other liabilities	53
Deferred tax liabilities	17
	70
Net assets acquired	186
Consideration	
Fair value of the investment in Wealthsimple	130
Non-controlling interests, at fair value	56
	186

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired and is attributable to the future economic benefits arising from other assets acquired that are not individually identified and separately recognized in the business combination. Goodwill is not deductible for tax purposes.

The revenues and net earnings of Wealthsimple in 2017 were not significant to these consolidated financial statements.

### LIFECO

#### Financial Horizons Group

On July 31, 2017, Lifeco, through its wholly owned subsidiary Great-West Life, completed the acquisition of all the common shares of Financial Horizons Group Inc. (FHG), a Canadian managing general agency that offers access to life and health insurance, employee benefits, pensions, investments, structured settlements and risk management products and services to advisors across Canada.

As at December 31, 2017, the comprehensive valuation of the fair value of the net assets acquired, including intangible assets and completion of the purchase price allocation, was finalized. The revenue and net earnings of FHG in 2017 were not significant to these consolidated financial statements.

#### Subsequent event – Retirement Advantage

On January 2, 2018, Lifeco, through its indirect wholly owned subsidiary The Canada Life Group (UK) Ltd., acquired Retirement Advantage, a financial services provider based in the United Kingdom that offers retirement and equity release services.

Due to the recent closing of the acquisition of Retirement Advantage, the valuation and initial purchase price allocation for the business combination are not complete as at the date of release of these financial statements. As a result, Lifeco has not provided amounts recognized as at the acquisition date for major classes of assets acquired and liabilities assumed, including goodwill.

The allocation of the purchase price will be finalized after a comprehensive evaluation of the fair value of net assets acquired has been completed.

Net earnings from Retirement Advantage will not be significant to these consolidated financial statements.

## NOTE 4 Cash and Cash Equivalents

December 31	2017	2016
Cash	2,317	1,658
Cash equivalents	3,004	2,738
Cash and cash equivalents	5,321	4,396

At December 31, 2017, cash amounting to \$246 million was restricted for use by subsidiaries (\$185 million at December 31, 2016) primarily in respect of cash held in trust for reinsurance agreements or with regulatory authorities, cash held under certain indemnity arrangements, client monies held by brokers and cash held in escrow.



## NOTE 5 Investments

### CARRYING VALUES AND FAIR VALUES

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

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
December 31				
Bonds				
Designated as fair value through profit or loss <sup>[1]</sup>	87,988	87,988	85,697	85,697
Classified as fair value through profit or loss <sup>[1]</sup>	1,836	1,836	2,586	2,586
Available for sale	12,628	12,628	11,819	11,819
Loans and receivables	17,959	19,470	16,970	18,484
	120,411	121,922	117,072	118,586
Mortgage loans				
Loans and receivables	29,748	30,680	29,295	30,418
Classified as fair value through profit or loss <sup>[1]</sup>	287	287	339	339
	30,035	30,967	29,634	30,757
Shares				
Designated as fair value through profit or loss <sup>[1]</sup>	8,194	8,194	7,673	7,673
Available for sale <sup>[2]</sup>	574	574	558	558
	8,768	8,768	8,231	8,231
Investment properties	4,851	4,851	4,340	4,340
Loans to policyholders	8,280	8,280	8,467	8,467
	172,345	174,788	167,744	170,381

[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:

	Term to maturity			Carrying value
	1 year or less	1-5 years	Over 5 years	Total
	December 31, 2017			
Bonds	10,352	27,042	82,771	120,165
Mortgage loans	2,880	13,001	14,117	29,998
	13,232	40,043	96,888	150,163

	Term to maturity			Carrying value
	1 year or less	1-5 years	Over 5 years	Total
	December 31, 2016			
Bonds	12,021	26,762	77,974	116,757
Mortgage loans	2,836	13,162	13,576	29,574
	14,857	39,924	91,550	146,331

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	2017	2016
Impaired amounts by classification		
Fair value through profit or loss	233	283
Available for sale	17	10
Loans and receivables	44	82
<b>Total</b>	<b>294</b>	<b>375</b>

The carrying amount of impaired investments includes bonds, mortgage loans and shares. The above carrying values for loans and receivables are net of allowances for credit losses of \$41 million as at December 31, 2017 (\$44 million as at December 31, 2016). 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, 2017	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,301	955	265	318	421	6,260
Net realized gains	40	81	17	-	-	138
Net allowances for credit losses on loans and receivables	2	(9)	-	-	-	(7)
Other income (expenses)	-	(9)	-	(87)	(123)	(219)
	4,343	1,018	282	231	298	6,172
Change in fair value through profit or loss	865	(25)	579	176	(157)	1,438
<b>Net investment income</b>	<b>5,208</b>	<b>993</b>	<b>861</b>	<b>407</b>	<b>141</b>	<b>7,610</b>

Year ended December 31, 2016	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,236	985	267	325	543	6,356
Net realized gains	110	67	5	-	-	182
Net allowances for credit losses on loans and receivables	(7)	(28)	-	-	-	(35)
Other income (expenses)	-	(9)	-	(84)	(113)	(206)
	4,339	1,015	272	241	430	6,297
Change in fair value through profit or loss	3,182	(2)	959	61	(294)	3,906
<b>Net investment income</b>	<b>7,521</b>	<b>1,013</b>	<b>1,231</b>	<b>302</b>	<b>136</b>	<b>10,203</b>

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 net of impairment charges. Investment income from bonds and mortgage loans includes interest income and premium and discount amortization. Income from shares includes dividends and distributions from equity investment funds. Investment

properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

**INVESTMENT PROPERTIES**

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

December 31	2017	2016
Balance, beginning of year	4,340	5,237
Additions	339	102
Change in fair value through profit or loss	176	61
Disposals	(72)	(427)
Foreign exchange rate changes and other	68	(633)
<b>Balance, end of year</b>	<b>4,851</b>	<b>4,340</b>

**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. There was no

cash collateral included in the collateral deposited with Lifeco's lending agent as at December 31, 2017 and December 31, 2016. 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, 2017, Lifeco had loaned securities (which are included in investments) with a fair value of \$7,427 million (\$7,520 million at December 31, 2016).

**NOTE 6 Funds Held by Ceding Insurers**

At December 31, 2017, Lifeco had amounts on deposit of \$9,893 million (\$10,781 million at December 31, 2016) for 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.

In 2016, Lifeco completed the transfer of approximately \$1,600 million of annuity business from The Equitable Life Assurance Company acquired during 2015.

In 2016, a subsidiary of Lifeco completed a portfolio transfer of approximately \$1,300 million whereby investment contract liabilities and supporting bonds and cash were acquired. The portfolio of investment contract liabilities had been previously reinsured by Lifeco on a funds-withheld basis.

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

**CARRYING VALUES AND ESTIMATED FAIR VALUES**

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
December 31				
Cash and cash equivalents	132	132	214	214
Bonds	7,806	7,806	8,391	8,391
Other assets	106	106	118	118
	8,044	8,044	8,723	8,723
Supporting:				
Reinsurance liabilities	7,777	7,777	8,218	8,218
Surplus	267	267	505	505
	8,044	8,044	8,723	8,723

**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	2017	2016
	AAA	714
AA	3,204	3,792
A	3,240	3,300
BBB	439	476
BB and lower	209	205
Total bonds	7,806	8,391

## NOTE 7 Investments in Jointly Controlled Corporations and Associates

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

December 31	2017				2016			
	Parjointco	China AMC	Other	Total	Parjointco	China AMC	Other	Total
Carrying value, beginning of year	2,811	-	292	3,103	2,610	-	295	2,905
Investments	-	638	65	703	-	-	36	36
Disposal	-	-	(208)	(208)	-	-	-	-
Share of earnings (losses)	131	9	60	200	(88)	-	(10)	(98)
Share of other comprehensive income (loss)	491	11	(3)	499	379	-	(11)	368
Dividends	(78)	(10)	(6)	(94)	(75)	-	(18)	(93)
Effect of change in ownership and other <sup>[1][2]</sup>	(1)	-	(186)	(187)	(15)	-	-	(15)
Carrying value, end of year	3,354	648	14	4,016	2,811	-	292	3,103

[1] On May 15, 2017, Power Financial attained control of Wealthsimple (Note 3). The investment in Wealthsimple is no longer accounted for as a jointly controlled corporation but is consolidated with the Corporation's financial statements.

[2] In 2017, Lifeco classified an investment in an associate within the disposal group of assets held for sale (Note 9).

### PARJOINTCO

The Corporation holds a 50% interest in Parjointco, a jointly controlled corporation. Parjointco holds a 55% equity interest in Pargesa (same as at December 31, 2016), representing 75.4% of the voting rights.

In 2016, due to a significant decline in the share price of LafargeHolcim Ltd, Groupe Bruxelles Lambert, a subsidiary of Pargesa, recorded impairment charges of €1,682 million on this investment. The Corporation's share of this charge was \$360 million and was included in share of earnings (losses) of investments in jointly controlled corporations and associates.

At December 31, 2017, the net asset value of the Corporation's indirect interest in Pargesa is approximately \$3,875 million. The carrying value of the investment in Pargesa is \$3,354 million. For the year ended December 31, 2017, revenue of Pargesa was SF5,547 million (C\$7,316 million) and net earnings attributable to Pargesa's common shareholders was SF382 million (C\$504 million). Other financial information for Pargesa can be obtained from its publicly available information.

### CHINA AMC

On August 31, 2017, Mackenzie Investments, a subsidiary of IGM, completed its investment in China AMC, which resulted in a 13.9% interest for a total cost of \$638 million. The \$638 million is comprised of a cash payment made in 2017, conversion of a deposit made in 2016 and transaction costs. China AMC is an asset management company established in Beijing, China. IGM has determined that it has significant influence and therefore accounts for its interest as an associate using the equity method. Significant influence arises from board representation, participating in the policy making process, shared strategic initiatives including joint product launches and collaboration between management and investment teams.

Summarized financial information for China AMC as at December 31, 2017 and for the year then ended is as follows:

[in millions]	Canadian dollars	Chinese renminbi
Balance sheet <sup>[1]</sup>		
Assets	1,827	9,464
Liabilities	405	2,097
Comprehensive income <sup>[2]</sup>		
Revenue	752	3,913
Net earnings attributable to common shareholders	263	1,367
Total comprehensive income	207	1,077

[1] Excludes preliminary fair value adjustments made at the time of acquisition of \$3,182 million (RMB¥ 16,505 million).

[2] Full-year comprehensive income is presented; however, the Corporation's proportionate share of China AMC's comprehensive income was effective August 31, 2017.

### ALLIANZ IRELAND

In 2017, the investment in Allianz Ireland, an investment previously held through Lifeco's indirect wholly owned subsidiary Irish Life with a carrying value of \$192 million, was disposed of by Lifeco resulting in a gain of \$16 million, recorded in net investment income.

## NOTE 8 Owner-Occupied Properties and Capital Assets

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

December 31	2017			2016		
	Owner-occupied properties	Capital assets	Total	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	787	1,329	2,116	776	1,240	2,016
Additions	75	113	188	26	137	163
Disposal/retirements	(2)	(54)	(56)	(2)	(49)	(51)
Changes in foreign exchange rates and other	(5)	(21)	(26)	(13)	1	(12)
Cost, end of year	855	1,367	2,222	787	1,329	2,116
Accumulated amortization, beginning of year	(84)	(904)	(988)	(72)	(838)	(910)
Amortization	(14)	(92)	(106)	(12)	(97)	(109)
Disposal/retirements	-	18	18	-	46	46
Changes in foreign exchange rates and other	1	27	28	-	(15)	(15)
Accumulated amortization, end of year	(97)	(951)	(1,048)	(84)	(904)	(988)
Carrying value, end of year	758	416	1,174	703	425	1,128

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

December 31	2017	2016
Canada	707	717
United States	265	270
Europe	202	141
	1,174	1,128

## NOTE 9 Other Assets

December 31	2017	2016 <sup>[1]</sup>
Premiums in course of collection, accounts receivable and interest receivable	5,502	5,056
Deferred acquisition costs	633	597
Pension benefits [Note 24]	193	214
Assets held for sale	169	-
Income taxes receivable	170	184
Trading account assets [Note 11]	723	516
Finance leases receivable	350	273
Prepaid expenses	155	155
Deposit for investment in China AMC [Note 7]	-	193
Other	437	570
	8,332	7,758

[1] Lifeco reclassified certain comparative figures to reflect the current presentation (Note 16).

Total other assets of \$7,131 million as at December 31, 2017 (\$6,390 million as at December 31, 2016) are to be realized within 12 months.

### ASSETS HELD FOR SALE

Lifeco has agreed in principle to dispose of an investment previously accounted for using the equity method. The fair value of the assets held for sale at December 31, 2017 of \$169 million comprise the carrying values of the investment and of a customer contract-related indefinite life intangible asset. Lifeco recognized a loss of \$122 million (\$202 million pre tax) on recognition of the assets held for sale in the statements of earnings. Subsequent to year-end, Lifeco executed the final sale agreement.

## NOTE 10 Goodwill and Intangible Assets

### GOODWILL

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

December 31	2017			2016		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Balance, beginning of year	10,479	(1,205)	9,274	10,451	(1,241)	9,210
Business acquisitions [Note 3]	286	-	286	95	-	95
Changes in foreign exchange rates	(52)	72	20	(67)	36	(31)
Balance, end of year	10,713	(1,133)	9,580	10,479	(1,205)	9,274

### INTANGIBLE ASSETS

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

#### Indefinite life intangible assets

December 31, 2017	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,264	2,938	741	354	5,297
Additions	39	-	-	-	39
Transfer to assets held for sale [Note 9]	-	(290)	-	-	(290)
Changes in foreign exchange rates	(15)	(153)	-	-	(168)
Cost, end of year	1,288	2,495	741	354	4,878
Accumulated impairment, beginning of year	(157)	(1,084)	-	-	(1,241)
Impairment reversal <sup>[1]</sup>	20	-	-	-	20
Changes in foreign exchange rates	5	65	-	-	70
Accumulated impairment, end of year	(132)	(1,019)	-	-	(1,151)
Carrying value, end of year	1,156	1,476	741	354	3,727

[1] In 2017, Lifeco reversed an impairment charge of \$20 million recorded in 2008 related to certain Putnam brands and trademarks.

December 31, 2016	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,305	3,019	741	354	5,419
Changes in foreign exchange rates	(41)	(81)	-	-	(122)
Cost, end of year	1,264	2,938	741	354	5,297
Accumulated impairment, beginning of year	(162)	(1,116)	-	-	(1,278)
Changes in foreign exchange rates	5	32	-	-	37
Accumulated impairment, end of year	(157)	(1,084)	-	-	(1,241)
Carrying value, end of year	1,107	1,854	741	354	4,056

**NOTE 10** Goodwill and Intangible Assets (continued)**Finite life intangible assets**

December 31, 2017	Technology and software	Customer contract-related	Deferred selling commissions	Other	Total
Cost, beginning of year	1,553	831	1,374	216	3,974
Additions	234	165	272	3	674
Disposal/redemption	(28)	-	(53)	-	(81)
Changes in foreign exchange rates	(36)	(10)	-	2	(44)
Other, including write-off of assets fully amortized	(111)	-	(164)	-	(275)
Cost, end of year	1,612	986	1,429	221	4,248
Accumulated amortization, beginning of year	(841)	(460)	(648)	(115)	(2,064)
Amortization	(148)	(53)	(207)	(10)	(418)
Impairment <sup>[1]</sup>	(108)	-	-	-	(108)
Disposal/redemption	24	-	29	-	53
Changes in foreign exchange rates	28	8	-	-	36
Other, including write-off of assets fully amortized	110	-	164	-	274
Accumulated amortization, end of year	(935)	(505)	(662)	(125)	(2,227)
Carrying value, end of year	677	481	767	96	2,021

[1] In 2017, IGM discontinued development of a new investment fund accounting system. As a result of this, and other associated technology decisions, IGM recorded an impairment charge of \$92 million of capitalized software development costs. In addition, Lifeco recognized an impairment loss of \$16 million on software assets. These charges were included in the restructuring and other expenses (Note 22).

December 31, 2016	Technology and software	Customer contract-related	Deferred selling commissions	Other	Total
Cost, beginning of year	1,331	810	1,356	231	3,728
Additions	247	42	235	1	525
Disposal/redemption	-	-	(68)	(4)	(72)
Changes in foreign exchange rates	(25)	(21)	-	(12)	(58)
Other, including write-off of assets fully amortized	-	-	(149)	-	(149)
Cost, end of year	1,553	831	1,374	216	3,974
Accumulated amortization, beginning of year	(727)	(418)	(629)	(112)	(1,886)
Amortization	(132)	(50)	(205)	(11)	(398)
Disposal/redemption	-	-	37	3	40
Changes in foreign exchange rates	18	8	-	5	31
Other, including write-off of assets fully amortized	-	-	149	-	149
Accumulated amortization, end of year	(841)	(460)	(648)	(115)	(2,064)
Carrying value, end of year	712	371	726	101	1,910

**NOTE 10** Goodwill and Intangible Assets (continued)**ALLOCATION TO CASH GENERATING UNITS**

Goodwill and indefinite life intangible assets have been assigned to CGUs as follows:

December 31	2017			2016		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
<b>LIFECO</b>						
Canada <sup>[1]</sup>						
Group Customer	1,594	354	1,948	1,594	354	1,948
Individual Customer	2,772	619	3,391	2,590	619	3,209
Europe						
Insurance and Annuities	2,078	227	2,305	2,047	216	2,263
Reinsurance	1	-	1	1	-	1
United States						
Financial Services	194	-	194	205	-	205
Asset Management	-	1,462	1,462	-	1,841	1,841
IGM						
Investors Group	1,443	-	1,443	1,443	-	1,443
Mackenzie	1,251	1,003	2,254	1,251	1,003	2,254
Corporate	143	23	166	143	23	166
OTHER	104	39	143	-	-	-
	9,580	3,727	13,307	9,274	4,056	13,330

[1] Effective January 2017, Lifeco realigned its Individual Insurance, Wealth Management and Group Insurance business units in the Canada segment into two business units: Group Customer and Individual Customer. The realignment resulted in a change to comparative figures within these CGUs.

**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. Recoverable amount is based on fair value less cost of disposal.

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

In the fourth quarter of 2017, Lifeco conducted its annual impairment testing of goodwill and indefinite life intangible assets based on the September 30, 2017 asset balances. It was determined that the recoverable amounts of CGUs were in excess of their carrying values and there was no evidence of impairment.

Any reasonable changes in assumptions and estimates used in determining the recoverable amounts of the CGUs are unlikely to cause the carrying values to exceed their recoverable amounts.

**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 previous 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 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. Any reasonable changes in assumptions and estimates used in determining the recoverable amounts of the CGUs are unlikely to cause the carrying values to exceed their recoverable amounts.



## 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 investments on account of segregated fund policyholders and with an equal liability titled insurance and investment contracts on account of segregated fund policyholders in the balance sheets.

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 \$1,602 million at December 31, 2017 (\$1,547 million at December 31, 2016).

Within the statements of earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the 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 fair 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. For the standalone guaranteed minimum death benefits business, most are a return of premium on death with the guarantee expiring at age 70. Great-West Financial in the U.S. also offers a guaranteed minimum death benefits feature that does not expire with age.

In Europe, Lifeco offers unitized with profits products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates.

Lifeco also offers guaranteed minimum withdrawal benefits products in Canada, the U.S. and Germany, and previously offered guaranteed minimum withdrawal benefits products in Ireland. Certain guaranteed minimum withdrawal benefits products offered by Lifeco offer levels of death and maturity guarantees. At December 31, 2017, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was \$4,225 million (\$3,917 million at December 31, 2016).

For further details on Lifeco's risk and guarantee exposure and the management of these risks, refer to "Risk Management and Control Practices" section of Lifeco's 2017 annual report.

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	2017	2016
Cash and cash equivalents	13,300	12,487
Bonds	42,270	41,619
Mortgage loans	2,610	2,622
Shares and units in unit trusts	93,465	81,033
Mutual funds	54,658	51,726
Investment properties	11,520	11,019
	217,823	200,506
Accrued income	373	359
Other liabilities	(2,441)	(2,009)
Non-controlling mutual fund interest	1,602	1,547
	217,357	200,403

**NOTE 11 Segregated Funds and Other Structured Entities** (continued)

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

Years ended December 31	2017	2016
Balance, beginning of year	200,403	198,194
Additions (deductions):		
Policyholder deposits	24,885	21,358
Net investment income	2,704	2,379
Net realized capital gains on investments	5,298	4,275
Net unrealized capital gains on investments	5,361	6,311
Unrealized gains (losses) due to changes in foreign exchange rates	2,523	(10,584)
Policyholder withdrawals	(23,834)	(21,895)
Business and other acquisition	-	193
Segregated fund investment in General Fund	(42)	8
General Fund investment in segregated fund	(17)	(13)
Net transfer from General Fund	21	20
Non-controlling mutual fund interest	55	157
	16,954	2,209
Balance, end of year	217,357	200,403

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

Years ended December 31	2017	2016
Net investment income	2,704	2,379
Net realized capital gains on investments	5,298	4,275
Net unrealized capital gains on investments	5,361	6,311
Unrealized gains (losses) due to changes in foreign exchange rates	2,523	(10,584)
Total	15,886	2,381
Change in insurance and investment contract liabilities on account of segregated fund policyholders	15,886	2,381
Net	-	-

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

December 31, 2017	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders <sup>[1]</sup>	136,469	70,034	12,572	219,075

[1] Excludes other liabilities, net of other assets, of \$1,718 million.

December 31, 2016	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders <sup>[1]</sup>	125,829	63,804	12,045	201,678

[1] Excludes other liabilities, net of other assets, of \$1,275 million.

In 2017 certain foreign equity holdings valued at \$629 million were transferred from Level 1 to Level 2 (\$18 million were transferred from Level 2 to Level 1 at December 31, 2016), primarily based on Lifeco utilizing inputs in addition to quoted prices in active markets for certain foreign share holdings at year-end. 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 the underlying assets. Inputs are utilized in addition to quoted prices in active markets.

As at December 31, 2017, \$8,521 million (\$6,726 million at December 31, 2016) of the segregated funds were invested in funds managed by Investors Group and Mackenzie Investments, subsidiaries of IGM and related parties.

**NOTE 11 Segregated Funds and Other Structured Entities** (continued)

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:

December 31	2017	2016
Balance, beginning of year	12,045	11,765
Total gains (losses) included in segregated fund investment income	422	(109)
Purchases	926	584
Sales	(943)	(370)
Transfers into Level 3	137	175
Transfers out of Level 3	(15)	-
Balance, end of year	12,572	12,045

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 \$4,557 million for the year ended December 31, 2017 (\$4,323 million in 2016).

Included within other assets (Note 9) at December 31, 2017 is \$632 million (\$435 million at December 31, 2016) of investments by Lifeco in bonds and shares of Putnam-sponsored funds and \$91 million (\$81 million at December 31, 2016) of investments in shares of sponsored unit trusts in Europe.

**NOTE 12 Insurance and Investment Contract Liabilities****INSURANCE AND INVESTMENT CONTRACT LIABILITIES**

December 31	2017			2016		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	159,524	5,045	154,479	155,940	5,627	150,313
Investment contract liabilities	1,841	-	1,841	2,009	-	2,009
	161,365	5,045	156,320	157,949	5,627	152,322

**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	2017			2016		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Participating						
Canada	36,430	(356)	36,786	34,019	(443)	34,462
United States	11,155	15	11,140	11,790	14	11,776
Europe	1,286	-	1,286	1,385	-	1,385
Non-participating						
Canada	30,031	475	29,556	29,125	923	28,202
United States	28,814	272	28,542	29,081	309	28,772
Europe	53,649	4,639	49,010	52,549	4,824	47,725
	161,365	5,045	156,320	157,949	5,627	152,322

**NOTE 12 Insurance and Investment Contract Liabilities** (continued)

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

December 31, 2017	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
<b>Participating liabilities</b>						
Canada	17,262	8,485	5,032	1,641	4,010	36,430
United States	5,220	447	-	-	5,488	11,155
Europe	928	27	110	48	173	1,286
<b>Non-participating liabilities</b>						
Canada	19,486	3,777	2,027	134	4,607	30,031
United States	23,400	4,268	-	-	1,146	28,814
Europe	33,037	3,569	262	2,810	13,971	53,649
Other, including segregated funds	15,165	943	881	72	215,876	232,937
<b>Total equity</b>	<b>5,706</b>	<b>669</b>	<b>552</b>	<b>146</b>	<b>18,463</b>	<b>25,536</b>
<b>Total carrying value</b>	<b>120,204</b>	<b>22,185</b>	<b>8,864</b>	<b>4,851</b>	<b>263,734</b>	<b>419,838</b>
<b>Fair value</b>	<b>121,715</b>	<b>23,005</b>	<b>8,906</b>	<b>4,851</b>	<b>263,734</b>	<b>422,211</b>

December 31, 2016 <sup>[1]</sup>	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
<b>Participating liabilities</b>						
Canada	16,311	8,327	4,828	1,354	3,199	34,019
United States	5,597	451	-	-	5,742	11,790
Europe	988	32	123	56	186	1,385
<b>Non-participating liabilities</b>						
Canada	18,433	3,699	1,979	13	5,001	29,125
United States	23,820	4,005	-	-	1,256	29,081
Europe	31,550	3,557	236	2,679	14,527	52,549
Other, including segregated funds	13,964	952	844	59	200,957	216,776
<b>Total equity</b>	<b>6,110</b>	<b>628</b>	<b>655</b>	<b>179</b>	<b>17,436</b>	<b>25,008</b>
<b>Total carrying value</b>	<b>116,773</b>	<b>21,651</b>	<b>8,665</b>	<b>4,340</b>	<b>248,304</b>	<b>399,733</b>
<b>Fair value</b>	<b>118,287</b>	<b>22,550</b>	<b>8,655</b>	<b>4,340</b>	<b>248,304</b>	<b>402,136</b>

[1] Lifeco reclassified certain comparative figures to reflect the current presentation [Note 16].

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.

**NOTE 12 Insurance and Investment Contract Liabilities** (continued)**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:

	Participating			Non-participating			Total net
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	
December 31, 2017							
Balance, beginning of year	47,176	(429)	47,605	108,764	6,056	102,708	150,313
Impact of new business	(15)	-	(15)	6,550	210	6,340	6,325
Normal change in in-force business	2,442	(2)	2,444	(2,737)	(162)	(2,575)	(131)
Management actions and changes in assumptions	61	92	(31)	(1,222)	(971)	(251)	(282)
With Profits Fund conversion	(74)	-	(74)	74	-	74	-
Business movement from/to external parties	-	-	-	(344)	-	(344)	(344)
Impact of foreign exchange rate changes	(734)	(2)	(732)	(417)	253	(670)	(1,402)
Balance, end of year	48,856	(341)	49,197	110,668	5,386	105,282	154,479

	Participating			Non-participating			Total net
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	
December 31, 2016							
Balance, beginning of year	45,844	(403)	46,247	112,648	5,534	107,114	153,361
Impact of new business	35	-	35	5,396	(326)	5,722	5,757
Normal change in in-force business	2,009	(26)	2,035	966	824	142	2,177
Management actions and changes in assumptions	(229)	2	(231)	(135)	335	(470)	(701)
Business movement from/to external parties	-	-	-	(113)	-	(113)	(113)
Impact of foreign exchange rate changes	(483)	(2)	(481)	(9,998)	(311)	(9,687)	(10,168)
Balance, end of year	47,176	(429)	47,605	108,764	6,056	102,708	150,313

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 the in-force business above.

**2017**

In 2017, the major contributor to the increase in net insurance contract liabilities was the impact of new business of \$6,325 million. This was partially offset by decreases due to the impact of foreign exchange rate changes of \$1,402 million, primarily due to the lower U.S. dollar, business movement from/to external parties of \$344 million and management action and changes in assumptions of \$282 million.

Net non-participating insurance contract liabilities decreased by \$251 million in 2017 due to Lifeco's management actions and assumption changes comprised of a \$61 million decrease in Canada, a \$200 million decrease in Europe and a \$10 million increase in the United States.

The decrease in Canada was primarily due to updated life mortality assumptions of \$148 million, updated morbidity assumptions of \$49 million, updated economic assumptions of \$41 million and modelling refinements of \$5 million, partially offset by increases due to updated policyholder behaviour assumptions of \$113 million, updated longevity assumptions of \$59 million, updated provision for experience-rated funds of \$8 million and updated provision for claims of \$6 million.

The decrease in Europe was primarily due to updated longevity assumptions of \$296 million and updated economic assumptions of \$180 million, partially offset by increases due to updated life mortality assumptions of \$128 million, updated expense and tax assumptions of \$41 million, updated policyholder behaviour assumptions of \$61 million, modelling refinements of \$32 million, updated provisions for claims of \$7 million and updated provisions of \$5 million.

The increase in the United States was primarily due to updated expense and tax assumptions of \$62 million, partially offset by updated life mortality assumptions of \$44 million and modeling refinements of \$5 million.

Net participating insurance contract liabilities decreased by \$31 million in 2017 due to Lifeco's management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends of \$4,409 million and expense and tax assumptions of \$500 million, partially offset by increases due to lower investment returns of \$4,257 million, updated mortality assumptions of \$289 million, modelling refinements of \$243 million and updated policyholder behaviour assumptions of \$89 million.

**2016**

In 2016, the major contributors to the decrease in net insurance contract liabilities were the impact of foreign exchange rate changes of \$10,168 million, primarily due to the lower British pound, and Lifeco's management actions and changes in assumptions of \$701 million. This was partially offset by increases due to the impact of new business of \$5,757 million and the normal changes in the in-force business of \$2,177 million, which was primarily due to the change in fair value.

Net non-participating insurance contract liabilities decreased by \$470 million in 2016 due to Lifeco's management actions and assumption changes including a \$56 million decrease in Canada, a \$348 million decrease in Europe and a \$66 million decrease in the United States.

The decrease in Canada was primarily due to updated morbidity assumptions of \$86 million, updated provision for claims of \$61 million, largely as a result of a decreased lag in reporting of Group health claims, updated longevity assumptions of \$20 million and modelling refinements of \$8 million, partially offset by increases due to updated expense and tax assumptions of \$91 million, updated economic assumptions of \$20 million and updated life mortality assumptions of \$8 million.

**NOTE 12 Insurance and Investment Contract Liabilities** (continued)

The decrease in Europe was primarily due to updated longevity assumptions of \$207 million, updated economic assumptions of \$165 million, modelling refinements of \$30 million, updated morbidity assumptions of \$17 million and updated policyholder behaviour assumptions of \$9 million, partially offset by increases due to updated life mortality assumptions of \$43 million and updated expense and tax assumptions of \$40 million.

The discount rate for valuing the reinsurance asset was updated in Ireland. This change in accounting estimate increased gross liabilities and reinsurance assets by \$360 million and had no impact on net liabilities or net earnings.

The decrease in the United States was primarily due to updated economic assumptions of \$27 million, updated longevity assumptions of \$19 million, updated life mortality assumptions of \$17 million and modelling refinements of \$3 million.

Net participating insurance contract liabilities decreased by \$231 million in 2016 due to Lifeco's management actions and assumption changes. The decrease was primarily due to updated expense and tax assumptions of \$153 million, higher investment returns of \$102 million, provisions for future policyholder dividends of \$19 million, updated mortality assumptions of \$13 million and updated morbidity assumptions of \$2 million, partially offset by increases due to updated policyholder behaviour assumptions of \$29 million and modelling refinements of \$29 million.

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

December 31	2017	2016
Balance, beginning of year	2,009	2,253
Normal change in in-force business	(171)	(220)
Investment experience	93	93
Management actions and changes in assumptions	(22)	(46)
Impact of foreign exchange rate changes	(68)	(71)
Balance, end of year	1,841	2,009

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

**GROSS PREMIUM INCOME**

December 31	2017	2016
Direct premiums	25,177	23,772
Assumed reinsurance premiums	13,107	11,278
Total	38,284	35,050

**GROSS POLICYHOLDER BENEFITS**

December 31	2017	2016
Direct	16,947	16,721
Assumed reinsurance	13,854	11,594
Total	30,801	28,315

**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. Improvement scales for life insurance and annuitant mortality are updated periodically based on population and industry studies, product specific considerations, as well as professional guidance. In addition, appropriate provisions have been made for future mortality deterioration on term insurance.

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

**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 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 net 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.

**NOTE 12 Insurance and Investment Contract Liabilities** (continued)**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 CALM 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).

**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 CALM 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.

The following table provides information about Lifeco's insurance contract liabilities' sensitivities to its 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.

	Increase (decrease) in net earnings	
	2017	2016
Mortality - 2% increase	(296)	(281)
Annuitant mortality - 2% decrease	(446)	(384)
Morbidity - 5% adverse change	(256)	(242)
Investment returns		
Parallel shift in yield curve		
1% increase	-	-
1% decrease	-	-
Change in range of interest rates		
1% increase	150	149
1% decrease	(523)	(491)
Change in equity markets		
10% increase	48	43
10% decrease	(85)	(50)
Change in best estimate returns for equities		
1% increase	439	407
1% decrease	(470)	(438)
Expenses - 5% increase	(127)	(117)
Policy termination and renewal - 10% adverse change	(672)	(608)

## 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	2017			2016		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	66,461	119	66,342	63,144	480	62,664
United States	39,969	287	39,682	40,871	323	40,548
Europe	54,935	4,639	50,296	53,934	4,824	49,110
	161,365	5,045	156,320	157,949	5,627	152,322

### 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 Obligations 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 positive fair value of \$4 million at December 31, 2017 (a negative fair value of \$23 million in 2016).

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	2017			2016		
	Securitized mortgages	Obligations to securitization entities	Net	Securitized mortgages	Obligations to securitization entities	Net
Carrying value						
NHA MBS and CMB Programs	4,462	4,471	(9)	4,942	4,987	(45)
Bank-sponsored ABCP	3,076	3,125	(49)	2,673	2,734	(61)
Total	7,538	7,596	(58)	7,615	7,721	(106)
Fair value	7,650	7,658	(8)	7,838	7,873	(35)

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 using an effective interest method.



**NOTE 14** Debentures and Other Debt Instruments

December 31	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>DEBENTURES</b>				
<b>POWER FINANCIAL</b>				
6.90% debentures, due March 11, 2033, unsecured	250	339	250	328
<b>LIFECO</b>				
6.14% debentures due March 21, 2018, unsecured	200	202	200	211
4.65% debentures due August 13, 2020, unsecured	499	529	499	549
2.50% debentures due April 18, 2023 (€500 million), unsecured	752	830	706	778
1.75% debentures due December 7, 2026 (€500 million), unsecured	749	786	704	718
6.40% subordinated debentures due December 11, 2028, unsecured	100	128	100	128
6.74% debentures due November 24, 2031, unsecured	193	270	193	261
6.67% debentures due March 21, 2033, unsecured	393	542	392	523
6.625% deferrable debentures due November 15, 2034 (US\$175 million), unsecured	218	269	231	240
5.998% debentures due November 16, 2039, unsecured	342	460	342	441
Subordinated debentures due May 16, 2046, bearing an interest rate of 2.538% plus the 3-month LIBOR rate (US\$300 million), with an interest rate swap to pay fixed interest of 4.68%, unsecured	378	376	402	345
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until first call par date of June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured	500	510	499	536
5.25% subordinated debentures callable February 8, 2017 (€200 million), including associated fixed to floating swap, unsecured (redeemed during 2017)	-	-	285	277
Subordinated debentures due June 21, 2067, bearing an interest rate of 5.691% until first call par date of June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 1.49%, unsecured (redeemed during 2017)	-	-	999	994
<b>IGM FINANCIAL</b>				
6.58% debentures 2003 Series, due March 7, 2018, unsecured	150	151	150	159
7.35% debentures 2009 Series, due April 8, 2019, unsecured	375	398	375	421
3.44% debentures 2017 Series, due January 26, 2027, unsecured	400	402	-	-
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	157	125	156
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	205	150	203
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	235	175	229
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	204	150	199
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	255	200	244
4.56% debentures 2017 Series, due January 25, 2047, unsecured	200	214	-	-
4.115% debentures 2017 Series, due December 9, 2047, unsecured	250	249	-	-
Debentures of IGM held by Lifeco as investments	(74)	(89)	(42)	(55)
<b>Total debentures</b>	<b>6,675</b>	<b>7,622</b>	<b>7,085</b>	<b>7,885</b>
<b>OTHER DEBT INSTRUMENTS</b>				
<b>LIFECO</b>				
Commercial paper and other short-term debt instruments with interest rates from 1.455% to 1.726% (0.670% to 0.792% at December 31, 2016), unsecured	126	126	133	133
Revolving credit facility with interest equal to LIBOR rate plus 0.70% (US\$240 million) (US\$220 million at December 31, 2016), unsecured	302	302	295	295
Senior notes due June 3, 2047, bearing an interest rate of 4.15% (US\$700 million), unsecured	865	720	-	-
<b>Total other debt instruments</b>	<b>1,293</b>	<b>1,148</b>	<b>428</b>	<b>428</b>
	<b>7,968</b>	<b>8,770</b>	<b>7,513</b>	<b>8,313</b>

**NOTE 14** Debentures and Other Debt Instruments (continued)**LIFECO**

On February 8, 2017, Irish Life Assurance, a subsidiary of Lifeco, redeemed its 5.25%, \$284 million (€200 million) subordinated debenture notes at their principal amount, together with accrued interest.

On May 26, 2017, Great-West Lifeco Finance (Delaware) LP issued \$925 million (US\$700 million) principal amount 4.15% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, maturing on June 3, 2047.

On June 21, 2017, Great-West Lifeco Finance (Delaware) LP redeemed all \$1 billion principal amount of its 5.691% subordinated debentures due June 21, 2067 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued interest up to but excluding the redemption date. The debentures were hedged using a cross-currency swap designated as a cash flow hedge. Upon redemption of the debentures, the realized gain on the debentures and the realized loss on the hedging instrument were recorded in

the statements of earnings with no impact on net earnings. The deferred taxes related to this cash flow hedge resulted in a reduction to other comprehensive income of \$97 million.

**Subsequent event**

On February 28, 2018, Lifeco issued \$500 million of 10-year 3.337% debentures.

**IGM FINANCIAL**

On January 26, 2017, IGM issued \$400 million of 10-year 3.44% debentures and \$200 million of 30-year 4.56% debentures. The net proceeds were used by IGM to assist its subsidiary, Mackenzie Investments, in financing a substantial portion of the acquisition of an equity interest in China AMC and for general corporate purposes.

On December 7, 2017, IGM issued \$250 million of 30-year 4.115% debentures.

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

2018	778
2019	375
2020	500
2021	-
2022	-
Thereafter	6,361

**NOTE 15** Other Liabilities

December 31	2017	2016 <sup>[1]</sup>
Accounts payable	3,064	2,412
Bank overdraft	435	447
Dividends and interest payable	468	435
Income taxes payable	472	498
Deferred income reserve	303	309
Capital trust debentures	160	161
Deposits and certificates	555	471
Funds held under reinsurance contracts	373	320
Pension and other post-employment benefits [Note 24]	1,762	1,802
Other	1,788	1,726
	9,380	8,581

[1] Lifeco reclassified certain comparative figures to reflect the current presentation (Note 16).

Total Other liabilities of \$6,701 million as at December 31, 2017 (\$6,001 million as at December 31, 2016) are expected to be settled within 12 months.

**NOTE 15 Other Liabilities** (continued)**CAPITAL TRUST DEBENTURES**

December 31	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
CANADA LIFE CAPITAL TRUST (CLCT)				
7.529% capital trust debentures due June 30, 2052, unsecured	150	221	150	212
Acquisition-related fair value adjustment	10	-	11	-
	160	221	161	212

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 in 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.

**NOTE 16 Income Taxes****EFFECTIVE INCOME TAX RATE**

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

Years ended December 31 Percentage [%]	2017	2016
Combined statutory Canadian federal and provincial tax rates	26.8	26.8
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(6.5)	(5.0)
Lower effective tax rates on income not subject to tax in Canada	(6.1)	(5.5)
Share of (earnings) losses of investments in jointly controlled corporations and associates	(1.0)	0.7
U.S. tax reform impact of rate changes on deferred taxes	4.0	-
Other	-	(2.4)
Effective income tax rate	17.2	14.6

On December 22, 2017, H. R. 1, the *Tax Reconciliation Act*, was substantively enacted in the United States. The legislation, which was generally effective for tax years beginning on January 1, 2018, results in significant U.S. tax reform and revises the *Internal Revenue Code* by, among other things, lowering the corporate federal income tax rate from 35% to 21% and modifying how the U.S. taxes multinational entities.

The net impact for Lifeco of the revaluation of deferred tax balances due to the lowering of the corporate federal income tax rate from 35% to 21% was \$135 million and the write-down of losses carried forward was \$19 million for a total income tax expense of \$154 million.

In addition, Lifeco recorded expenses of \$119 million associated with U.S. tax reform, primarily related to the impact on actuarial liabilities. The income tax recovery associated with these expenses was \$38 million. The impact of these U.S. tax reform items was a net decrease of \$235 million to net earnings.

The revaluation of deferred tax balances, which are based on the Corporation's and its subsidiaries' best estimates and are included in the U.S. tax reform impact of rate changes on deferred taxes line item, increases the 2017 effective income tax rate by 4%. These estimates may require further adjustments as additional guidance from the U.S. Department of the Treasury is provided, the Corporation's and its subsidiaries' assumptions change, and as further information and interpretations become available. Changes in these estimates may impact the 2018 financial statements.

**NOTE 16** Income Taxes (continued)**INCOME TAXES**

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

Years ended December 31	2017	2016
<b>Current taxes</b>		
In respect of the current year	412	521
Recognition of previously unrecognized tax losses, tax credits or temporary differences	-	(32)
Adjustments in respect of prior years	(4)	(37)
	408	452
<b>Deferred taxes</b>		
Origination and reversal of temporary differences	17	146
Effect of change in tax rates or imposition of new taxes	130	(16)
Other	29	(1)
	176	129
	584	581

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

December 31	2017		2016	
	Other comprehensive income	Equity	Other comprehensive income	Equity
Current taxes (recovery)	(13)	-	(9)	-
Deferred taxes (recovery)	152	(10)	(5)	(1)
	139	(10)	(14)	(1)

**DEFERRED TAXES**

Deferred taxes are attributable to the following items:

December 31	2017	2016 <sup>[1]</sup>
Loss carry forwards	1,147	1,779
Investments	(602)	(654)
Insurance and investment contract liabilities	(976)	(1,429)
Intangible assets	(682)	(722)
Other	434	707
	(679)	(319)
<b>Presented on the balance sheets as follows:</b>		
Deferred tax assets	991	1,655
Deferred tax liabilities	(1,670)	(1,974)
	(679)	(319)

[1] Effective January 1, 2017, Lifeco classified the provision for tax uncertainties as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. Previously, tax uncertainties were booked as current. In addition, for its U.S. deferred tax balances, Lifeco continues to net deferred tax balances when Lifeco has the legally enforceable right to offset current tax assets and liabilities and the deferred tax balances relate to entities within the same consolidated tax group. Lifeco no longer considers the expected order of usage. Accordingly, Lifeco reclassified certain comparative figures to reflect the current presentation. The reclassification resulted in decreases to deferred tax assets of \$252 million, deferred tax liabilities of \$124 million, current income tax liabilities of \$55 million and an increase in current income tax assets of \$73 million at December 31, 2016. These reclassifications had no impact on the total equity or net earnings.

**NOTE 16** Income Taxes (continued)

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, 2017 are recoverable.

At December 31, 2017, Lifeco has recognized a deferred tax asset of \$1,132 million (\$1,775 million at December 31, 2016) on tax loss carry forwards totalling \$7,670 million (\$7,285 million in 2016). Of this amount, \$7,572 million expires between 2018 and 2037, while \$98 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 \$691 million (US\$549 million) as at December 31, 2017 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.

As at December 31, 2017, the Corporation and its subsidiaries have non-capital losses of \$372 million (\$147 million in 2016) available to reduce future taxable income for which the benefits have not been recognized. These losses expire from 2018 to 2037. In addition, the Corporation and its subsidiaries have capital loss carry forwards of \$155 million (\$177 million in 2016) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

As at December 31, 2017, no deferred tax liability (\$12 million in 2016) is recognized in respect to temporary differences associated with investments in subsidiaries 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.

**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	2017		2016	
	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 O <sup>(ii)</sup>	6,000,000	150	6,000,000	150
Series P <sup>(ii)</sup>	8,965,485	224	8,965,485	224
Series Q <sup>(ii)</sup>	2,234,515	56	2,234,515	56
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
Series V <sup>(ii)(iii)</sup>	10,000,000	250	-	-
		2,830		2,580
<b>COMMON SHARES</b>				
Balance, beginning of year	713,269,660	805	713,238,680	804
Issued under Stock Option Plan	601,819	21	30,980	1
Balance, end of year	713,871,479	826	713,269,660	805

**NOTE 17 Stated Capital** (continued)**First Preferred Shares**

- [i] The Series A First Preferred Shares are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average prime rates quoted by 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 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. The dividends and redemption terms are as follows:

First Preferred Shares	Cash dividends payable quarterly	Earliest issuer redemption date	Redemption price
	[\$/share]		[\$/share]
Non-cumulative, fixed rate			
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	25.00
Series O, 5.80%	0.362500	Currently redeemable	25.25
Series R, 5.50%	0.343750	Currently redeemable	26.00
Series S, 4.80%	0.300000	April 30, 2018	26.00
Series V, 5.15%	0.321875	July 31, 2022	26.00
Non-cumulative, 5-year rate reset <sup>[1]</sup>			
Series P, 2.31%	0.144125	January 31, 2021	25.00
Series T, 4.20%	0.262500	January 31, 2019	25.00
Non-cumulative, variable rate			
Series Q, 3-month Government of Canada Treasury Bill + 1.60% <sup>[2]</sup>	Variable	January 31, 2021	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 3-month Government of Canada Treasury Bill rate plus the reset spread indicated.

[2] The holders have the option to convert their shares into Series P First Preferred Shares, subject to certain conditions, on January 31, 2021, and on every five years thereafter.

- [iii] On May 26, 2017, the Corporation issued 10,000,000 5.15% Non-Cumulative First Preferred Shares, Series V for proceeds of \$250 million. The Series V First Preferred Shares are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.2875 per share per annum. The Corporation may redeem for cash the Series V First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to July 31, 2023, \$25.75 per share if redeemed thereafter and prior to July 31, 2024, \$25.50 per share if redeemed thereafter and prior to July 31, 2025, \$25.25 per share if redeemed thereafter and prior to July 31, 2026 and \$25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption. Share issue costs of \$6 million in connection with the Series V First Preferred Shares were charged to retained earnings.

**Common Shares**

In 2017, 601,819 common shares (30,980 in 2016) were issued under the Corporation's Employee Stock Option Plan for a consideration of \$18 million (\$1 million in 2016).

Dividends declared on the Corporation's common shares in 2017 amounted to \$1.65 per share (\$1.57 per share in 2016).

## NOTE 18 Share-Based Compensation

### STOCK OPTION PLAN

Under Power Financial's Employee Stock Option Plan, 27,723,801 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. Outstanding options, which are not fully vested, have the following vesting conditions:

Year of grant	Options	Vesting conditions
2013	140,543	Vest equally over a period of five years
2014	225,552	Vest equally over a period of five years
2014	543,464	Vest 50% after three years and 50% after four years
2015	441,336	Vest equally over a period of five years
2015	921,267	Vest 50% after three years and 50% after four years
2016	462,019	Vest equally over a period of five years
2016	1,077,593	Vest 50% after three years and 50% after four years
2017	1,482,744	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, 2017 and 2016, and changes during the years ended on those dates is as follows:

	2017		2016	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		\$		\$
Outstanding at beginning of year	10,409,648	32.04	8,773,932	32.06
Granted	1,486,550	35.33	1,666,696	31.85
Exercised	(601,819)	29.75	(30,980)	29.05
Forfeited	(2,600)	34.38	-	-
Outstanding at end of year	11,291,779	32.59	10,409,648	32.04
Options exercisable at end of year	5,997,261	30.84	5,371,583	30.28

The following table summarizes information about stock options outstanding at December 31, 2017:

Range of exercise prices	Options outstanding			Options exercisable	
	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
\$		[yrs]	\$		\$
25.07 - 26.37	1,525,467	3.8	25.84	1,525,467	25.84
28.13 - 29.95	926,899	2.1	28.54	926,899	28.54
30.18 - 31.59	1,511,927	5.4	31.44	724,135	31.42
32.32 - 32.58	1,473,787	6.9	32.44	581,424	32.57
32.65 - 34.42	2,104,696	6.7	33.99	1,055,635	34.03
34.46	914,236	0.2	34.46	914,236	34.46
35.36	1,465,974	9.2	35.36	3,806	35.36
37.12 - 37.13	444,527	4.9	37.12	262,660	37.12
38.35	924,266	7.2	38.35	2,999	38.35
	11,291,779	5.6	32.59	5,997,261	30.84

**NOTE 18** Share-Based Compensation (continued)**Compensation expense**

During the year ended December 31, 2017, Power Financial granted 1,486,550 options (1,666,696 options in 2016) 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:

	2017	2016
Dividend yield	4.1%	4.2%
Expected volatility	19.7%	20.2%
Risk-free interest rate	1.4%	1.1%
Expected life (years)	9	9
Fair value per stock option (\$/option)	3.67	3.12
Weighted-average exercise price (\$/option)	35.33	31.85

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 \$67 million in 2017 (\$81 million in 2016) and is recorded in operating and administrative expenses in the statements of earnings.

**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 (PDSUs) 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 cash 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. The carrying value of the PSU liability of \$13 million (\$10 million in 2016) is 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, Directors participating in the Plan will receive half of their annual retainer in the form of deferred share units and may elect to receive the remainder of their 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 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, 2017, the value of the deferred share units outstanding was \$21 million (\$18 million in 2016) and is recorded within other liabilities. Alternatively, Directors may participate in a Share Purchase Plan for Directors.

**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. Power Financial invests, 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 and performance share unit plans (plans) for their directors, management and employees. Some of these plans are cash settled and included within other liabilities on the balance sheets. Total compensation expense related to these subsidiary plans amounted to \$62 million in 2017 (\$25 million in 2016) and is recorded in operating and administrative expenses on the statements of earnings.



## NOTE 19 Non-Controlling Interests

The non-controlling interests of Lifeco and IGM and their subsidiaries reflected in the balance sheets are as follows:

December 31	2017			2016		
	Lifeco	IGM	Total	Lifeco	IGM	Total
Non-controlling interests, beginning of year	10,984	1,751	12,735	11,011	1,796	12,807
Net earnings attributable to non-controlling interests	749	215	964	1,060	283	1,343
Other comprehensive loss attributable to non-controlling interests	(173)	(2)	(175)	(486)	(2)	(488)
Dividends	(541)	(196)	(737)	(510)	(198)	(708)
Change in ownership interest and other <sup>[1]</sup>	238	(14)	224	(91)	(128)	(219)
Non-controlling interests, end of year	11,257	1,754	13,011	10,984	1,751	12,735

[1] Change in ownership interest and other mainly relates to the repurchase and issuance of common and preferred shares by subsidiaries, and new non-controlling interests related to business acquisitions.

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

December 31	2017			2016		
	Lifeco	IGM	Total	Lifeco	IGM	Total
Common shareholders	5,772	1,604	7,376	5,688	1,601	7,289
Preferred shareholders	2,714	150	2,864	2,514	150	2,664
Participating account surplus	2,771	-	2,771	2,782	-	2,782
	11,257	1,754	13,011	10,984	1,751	12,735

As at December 31, 2017, Power Financial and IGM held 67.7% and 4%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to the outstanding Lifeco voting shares.

Financial information of Lifeco and IGM as at and for the year ended December 31, 2017 can be obtained from their publicly available financial statements. Summarized financial information for Lifeco and IGM is as follows:

	2017		2016	
	Lifeco	IGM	Lifeco <sup>[1]</sup>	IGM
<b>BALANCE SHEET</b>				
Assets	419,838	16,499	399,733	15,625
Liabilities	394,302	11,674	374,725	10,878
Equity	25,536	4,825	25,008	4,747
<b>COMPREHENSIVE INCOME</b>				
Net earnings	2,308	611	2,956	779
Other comprehensive income (loss)	(436)	11	(1,515)	(50)
<b>CASH FLOWS</b>				
Operating activities	6,757	658	6,254	737
Financing activities	(1,659)	170	(1,045)	(75)
Investing activities	(4,778)	(472)	(4,565)	(1,034)

[1] Lifeco reclassified certain comparative figures to reflect the current presentation (Note 16).

## 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 to invest on a timely basis in its operating companies and other investments as opportunities present; 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 debentures, perpetual preferred shares, common shareholders' equity and non-controlling interests. The Corporation views perpetual preferred shares as a cost-effective source

of permanent capital. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes.

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 the Corporation's subsidiaries, as well as those of Pargesa and Groupe Bruxelles Lambert, govern and have the responsibility for their respective company's capital management.

The Corporation itself is not subject to externally imposed regulatory capital requirements. However, Lifeco and certain of its main subsidiaries and IGM's subsidiaries 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.

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

Lifeco's subsidiaries Great-West Life, Great-West Financial and entities based in Europe are subject to minimum regulatory capital requirements.

### 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 regularly assesses its capital management practices in response to changing economic conditions.

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

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) 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, 2017, the MCCSR ratio for Great-West Life was 241% (240% at December 31, 2016). Lifeco has been preparing for the implementation of the new regulatory capital framework for the Canadian insurance industry. OSFI will replace the current MCCSR guideline with the Life Insurance Capital Adequacy Test (LICAT) guideline, effective January 1, 2018. The first reporting period will be the first quarter of 2018.
- At December 31, 2017, the Risk-Based Capital ratio (RBC) of Great-West Life & Annuity, Lifeco's regulated U.S. operating company, was estimated to be 487% 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.
- For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2017 and 2016, all Lifeco's European regulated entities met the capital and solvency requirements as prescribed under Solvency II.
- 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, 2017 and 2016, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. At December 31, 2017 and 2016, IGM subsidiaries have complied with all regulatory capital requirements.

## NOTE 21 Risk Management

The Corporation and its subsidiaries have established policies, guidelines and 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 would 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 market value or future cash flows of a financial instrument may fluctuate as a result of changes in market factors. Market factors include three types of risks: foreign exchange risk, interest rate risk and equity risk.
  - Foreign exchange 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 may fluctuate because of changes in the market interest rates.
  - Equity risk is the potential loss associated with the sensitivity of the market price of a financial instrument arising from volatility in equity markets.

This note to the financial statements 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 will be as indicated.

## POWER FINANCIAL

Liquidity risk, credit risk and market risk of Power Financial are discussed in the first section of this note. In subsequent sections, risks related to Lifeco and IGM are discussed.

### LIQUIDITY RISK

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

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. 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 repayments 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 has not changed materially since December 31, 2016.

### CREDIT RISK

Fixed income securities and derivatives are subject to credit risk. The Corporation mitigates credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating 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 can be used on a regular 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, 2016.

## NOTE 21 Risk Management (continued)

### MARKET RISK

Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities, derivatives and debentures.

#### Foreign exchange risk

In managing its own cash and cash equivalents as well as fixed income securities 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, 2017, approximately 3% of Power Financial's cash and cash equivalents and fixed income securities were denominated in U.S. dollars.

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. Pargesa itself is exposed to foreign exchange

risk through its subsidiary whose functional currency is the euro. Foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income.

#### Interest rate risk

Power Financial's financial instruments do not have significant exposure to interest rate risk.

#### Equity risk

Power Financial's financial instruments do not have significant exposure to equity 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

Lifeco has the following policies and procedures 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 67% (approximately 67% in 2016) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair value adjustments.

- 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 its 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, 2017	Payments due by period						Total
	1 year	2 years	3 years	4 years	5 years	After 5 years	
Debentures and other debt instruments	628	-	500	-	-	4,535	5,663
Capital trust debentures <sup>[1]</sup>	-	-	-	-	-	150	150
Purchase obligations	109	74	48	19	3	-	253
Pension contributions	300	-	-	-	-	-	300
	1,037	74	548	19	3	4,685	6,366

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of \$37 million principal amount (\$52 million carrying value).

### CREDIT RISK

Lifeco has the following policies and procedures in place to manage credit risk:

- Investment policies are in place that minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the risk committee and the investment committee of the board of directors 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 seeks to mitigate derivative credit risk by setting rating-based counterparty limits in investment policies and through collateral arrangements where possible.
- Counterparties providing reinsurance to Lifeco are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in Lifeco's Reinsurance Risk Management Policy. Lifeco seeks to minimize reinsurance credit risk by setting rating-based limits on net ceded exposure by counterparty as well as seeking protection in the form of collateral or funds-withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

**NOTE 21 Risk Management** (continued)**Maximum exposure to credit risk**

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	2017	2016
Cash and cash equivalents	3,551	3,259
Bonds		
Fair value through profit or loss	89,898	88,325
Available for sale	12,347	11,478
Loans and receivables	17,959	16,970
Mortgage loans	22,185	21,651
Loans to policyholders	8,280	8,467
Funds held by ceding insurers <sup>[1]</sup>	9,893	10,781
Reinsurance assets	5,045	5,627
Interest due and accrued	1,334	1,310
Accounts receivable	2,154	1,835
Premiums in course of collection	1,159	1,166
Trading account assets	723	516
Finance leases receivable	350	273
Other financial assets <sup>[2][3]</sup>	554	721
Derivative assets	384	528
<b>Total balance sheet maximum credit exposure</b>	<b>175,816</b>	<b>172,907</b>

[1] Includes \$8,044 million as at December 31, 2017 (\$8,723 million as at December 31, 2016) 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 income taxes receivable and miscellaneous other assets of Lifeco.

[3] Lifeco reclassified certain comparative figures to reflect the current presentation (Note 16).

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 \$77 million of collateral received from counterparties as at December 31, 2017 (\$149 million as at December 31, 2016) relating to derivative assets.

**Concentration of credit risk**

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. 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.

**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, 2017	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	899	263	12,452	13,614
Government-related	19,322	3,570	7,557	30,449
Agency securitized	65	1,937	21	2,023
Non-agency securitized	2,073	5,232	1,761	9,066
Financials	3,872	4,070	5,493	13,435
Communications	782	1,304	1,015	3,101
Consumer products	3,159	3,714	3,238	10,111
Energy	1,806	2,041	866	4,713
Industrials	1,544	3,727	1,748	7,019
Technology	591	1,094	485	2,170
Transportation	2,407	828	1,144	4,379
Utilities	7,310	4,332	4,277	15,919
Short-term bonds	2,474	78	1,653	4,205
	46,304	32,190	41,710	120,204

December 31, 2016	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	1,422	786	10,880	13,088
Government-related	18,379	3,903	6,765	29,047
Agency securitized	100	3,685	158	3,943
Non-agency securitized	2,392	4,293	1,875	8,560
Financials	3,167	3,268	5,245	11,680
Communications	634	1,336	970	2,940
Consumer products	2,799	3,305	3,224	9,328
Energy	1,618	2,102	986	4,706
Industrials	1,358	3,951	1,634	6,943
Technology	506	1,054	471	2,031
Transportation	2,246	826	1,095	4,167
Utilities	6,226	4,454	4,259	14,939
Short-term bonds	3,871	10	1,520	5,401
	44,718	32,973	39,082	116,773

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

December 31, 2017	Single-family residential	Multi-family residential	Commercial	Total
Canada	2,139	4,163	6,840	13,142
United States	-	2,190	3,257	5,447
Europe	-	413	3,183	3,596
	2,139	6,766	13,280	22,185

December 31, 2016	Single-family residential	Multi-family residential	Commercial	Total
Canada	2,075	3,709	7,108	12,892
United States	-	1,895	3,274	5,169
Europe	-	383	3,207	3,590
	2,075	5,987	13,589	21,651

**NOTE 21 Risk Management** (continued)**Asset quality**

Bond Portfolio Quality December 31	2017	2016
AAA	24,889	27,762
AA	32,405	29,816
A	40,328	37,787
BBB	21,449	20,116
BB and lower	1,133	1,292
Total bonds	120,204	116,773

Derivative Portfolio Quality December 31	2017	2016
Over-the-counter contracts (counterparty credit ratings):		
AA	135	221
A	235	288
BBB	13	16
Exchange-traded	1	3
Total	384	528

**Loans past due, but not impaired**

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management 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	2017	2016
Less than 30 days	1	54
30-90 days	-	-
Greater than 90 days	1	2
Total	2	56

**Future asset credit losses**

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

December 31	2017	2016
Participating	1,254	1,155
Non-participating	1,637	1,791
	2,891	2,946

**MARKET RISK****Foreign exchange risk**

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. Lifeco's debt obligations are denominated in Canadian dollars, euros and U.S. 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 equity. 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 foreign exchange 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.
- For assets backing liabilities not matched by currency, Lifeco normally converts the assets back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.
- A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change in net earnings.

**NOTE 21 Risk Management** (continued)

**Interest rate risk**

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

- Lifeco uses 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 CALM 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 0.13% (0.14% in 2016). 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:

- At December 31, 2017 and 2016, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At December 31, 2017 and 2016, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

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' net earnings of a 1% change in Lifeco's view of the range of interest rates to be covered by these provisions. The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

December 31	2017		2016	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	(215)	720	(202)	677
Increase (decrease) in net earnings	150	(523)	149	(491)



**NOTE 21 Risk Management** (continued)**Equity 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. In other words, Lifeco determines insurance contract liabilities at a level that covers the average loss in the worst 25% part of the loss distribution.

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 values. There will be additional impacts on these liabilities as equity values fluctuate. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

December 31	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	(58)	109	(51)	61
Increase (decrease) in net earnings	48	(85)	43	(50)

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. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

December 31	2017		2016	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	(542)	591	(504)	552
Increase (decrease) in net earnings	439	(470)	407	(438)

**IGM FINANCIAL**

The board of directors of IGM provides oversight and carries out its risk management mandate through various committees.

**LIQUIDITY RISK**

IGM's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near-term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and IGM's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and 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 pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements related to the mortgage banking operation. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS), including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of IGM are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in principal reinvestment accounts.

IGM maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

**NOTE 21 Risk Management** (continued)

IGM's contractual maturities of certain liabilities were as follows:

December 31, 2017	Payments due by period				Total
	Demand	Less than 1 year	1-5 years	After 5 years	
Derivative financial instruments	-	7	21	-	28
Deposits and certificates	490	6	7	2	505
Obligations to securitization entities	-	1,193	6,357	46	7,596
Debentures	-	150	375	1,650	2,175
Pension contributions	-	47	-	-	47
<b>Total contractual maturities</b>	<b>490</b>	<b>1,403</b>	<b>6,760</b>	<b>1,698</b>	<b>10,351</b>

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's lines of credit. IGM's lines of credit with various Schedule I Canadian chartered banks totalled \$825 million as at December 31, 2017, unchanged from December 31, 2016. The lines of credit as at December 31, 2017 consisted of committed lines of \$650 million (\$650 million in 2016) and uncommitted lines of \$175 million (\$175 million in 2016). 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, 2017 and 2016, 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, 2016.

**CREDIT RISK**

IGM's cash and cash equivalents, securities holdings, mortgage portfolios and derivatives are subject to credit risk. IGM monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At December 31, 2017, IGM's cash and cash equivalents of \$967 million (\$611 million in 2016) consisted of cash balances of \$88 million (\$85 million in 2016) on deposit with Canadian chartered banks and cash equivalents of \$879 million (\$526 million in 2016). Cash equivalents are composed of Government of Canada treasury bills totalling \$240 million (\$44 million in 2016), provincial government treasury bills and promissory notes of \$253 million (\$197 million in 2016), bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$351 million (\$247 million in 2016), and highly rated corporate commercial paper of \$35 million (\$38 million in 2016). 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 ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2017, residential mortgages, recorded on IGM's balance sheet, of \$7.8 billion (\$8.0 billion in 2016) consisted of \$7.5 billion sold to securitization programs (\$7.6 billion in 2016), \$287 million held pending sale or securitization (\$340 million in 2016) and \$26 million related to IGM's intermediary operations (\$29 million in 2016).

IGM manages credit risk related to residential mortgages through:

- adhering to its lending policy and underwriting standards;
- its loan servicing capabilities;
- use of client-insured mortgage default insurance and mortgage portfolio default insurance held by IGM; and
- its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling \$4.5 billion (\$4.9 billion in 2016), IGM is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$3.1 billion (\$2.7 billion in 2016) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$70 million (\$55 million in 2016) and \$42 million (\$45 million in 2016), respectively, at December 31, 2017. Cash reserve accounts are reflected on the balance sheets, whereas rights to future net interest income are not reflected on the balance sheets and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 16.4% of mortgages held in ABCP Trusts insured at December 31, 2017 (29.1% in 2016).

At December 31, 2017, residential mortgages recorded on the balance sheet were 65.5% insured (73.9% in 2016). At December 31, 2017, impaired mortgages on these portfolios were \$3 million (\$3 million in 2016). Uninsured non-performing mortgages over 90 days on these portfolios were \$1 million at December 31, 2017 (\$1 million in 2016).

IGM also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on IGM's balance sheet as IGM has transferred substantially all of the risks and rewards of ownership associated with these loans.

IGM regularly reviews the credit quality of the mortgages and the adequacy of the collective allowance for credit losses.

IGM's collective allowance for credit losses was \$1 million at December 31, 2017 (\$1 million in 2016), and is considered adequate by IGM's management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

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, 2016.

IGM is exposed to credit risk through the derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain share-based compensation arrangements. These derivatives are discussed more fully under the market risk section below.

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.

**NOTE 21 Risk Management** (continued)

IGM's derivative activities are managed in accordance with its investment policy, which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$34 million (\$41 million in 2016) 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 income, was \$1 million at December 31, 2017 (\$3 million in 2016). Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that its overall credit risk related to derivatives was not significant at December 31, 2017. Management of credit risk related to derivatives has not changed materially since December 31, 2016.

**MARKET RISK****Foreign exchange risk**

IGM is exposed to foreign exchange risk on its investments in Personal Capital Corporation and China AMC.

**Interest rate risk**

IGM is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in IGM's mortgage banking operations. IGM manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- 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. As previously discussed, as part of the CMB Program, IGM is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a positive fair value of \$4 million (negative \$23 million in 2016) and an outstanding notional value of \$1.2 billion at December 31, 2017 (\$1.0 billion in 2016). 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 and reinvestment returns decline. The negative fair value of these swaps totalled \$4 million (\$30 million in 2016), on an outstanding notional amount of \$1.9 billion at December 31, 2017 (\$2.1 billion in 2016). The net fair value of these swaps recorded on the balance sheet was nil at December 31, 2017 (\$7 million in 2016) and has an outstanding notional amount of \$3.1 billion at December 31, 2017 (\$3.1 billion in 2016).

- IGM is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. IGM enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by IGM pending sale or securitization. The fair value of these swaps was \$1 million (nil in 2016) on an outstanding notional amount of \$137 million at December 31, 2017 (\$123 million in 2016).

As at December 31, 2017, the impact to net earnings of a 100-basis-point increase in interest rates would have been an increase of approximately \$1 million (almost nil in 2016). IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2016.

**Equity risk**

IGM is exposed to equity risk on its equity securities which are classified as either available for sale or fair value through profit or loss.

IGM sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. IGM hedges its exposure to this risk through the use of forward agreements and total return swaps.

**RISKS RELATED TO ASSETS UNDER MANAGEMENT**

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	2017	2016
Salaries and other employee benefits	3,639	3,581
General and administrative expenses	2,079	2,023
Amortization, depreciation and impairment	297	302
Premium taxes	463	411
Loss on assets held for sale [Note 9]	202	-
Restructuring and other	450	63
	7,130	6,380

**RESTRUCTURING AND OTHER****LIFECO - CANADIAN BUSINESS TRANSFORMATION**

In 2017, Lifeco recorded a restructuring charge for its Canadian operations transformation plan of \$215 million pre tax within operating and administrative expenses in the statements of earnings. This restructuring is in respect of activities aimed at achieving planned expense reductions and an organizational realignment to respond to changing customer needs and expectations in Canada. The expense reductions address costs across Lifeco's Canadian operations and corporate functions, primarily through a reduction in staff, exiting of certain lease agreements and information system impairments. At December 31, 2017, the balance of the restructuring provision amounted to \$120 million and is recorded in other liabilities.

**IGM**

In 2017, IGM implemented a number of initiatives to assist in IGM's operational effectiveness resulting in restructuring and other charges of \$191 million.

**NOTE 23** Financing Charges

Years ended December 31	2017	2016
Interest on debentures and other debt instruments	385	368
Interest on capital trust debentures	11	11
Other	36	33
	432	412

**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 or its subsidiaries, as applicable.

The significant defined benefit plans of Lifeco's subsidiaries and IGM are closed to new entrants. New hires are only eligible for defined contribution benefits. As a result, defined benefit plan exposure will continue to be reduced 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 unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. The obligations for these benefits are supported by assets of the Corporation or its subsidiaries, as applicable.

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. 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, the present value of future expenses to be paid from the plan and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the 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 OBLIGATION AND FUNDED STATUS**

December 31	2017		2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
<b>CHANGE IN FAIR VALUE OF PLAN ASSETS</b>				
Fair value of plan assets, beginning of year	6,603	-	6,452	-
Interest income	221	-	237	-
Employee contributions	20	-	23	-
Employer contributions	224	22	153	21
Actual return on assets greater than interest income	311	-	248	-
Benefits paid	(344)	(22)	(258)	(21)
Settlement	-	-	(19)	-
Administrative expenses	(8)	-	(13)	-
Foreign exchange and other	87	-	(220)	-
Fair value of plan assets, end of year	7,114	-	6,603	-
<b>CHANGE IN DEFINED BENEFIT OBLIGATION</b>				
Defined benefit obligation, beginning of year	7,650	450	7,272	454
Current service cost	169	3	158	3
Employee contributions	20	-	23	-
Interest cost	255	17	267	19
Actuarial (gains) losses on:				
Financial assumption changes	382	17	520	12
Demographic assumption changes	4	(9)	(13)	(8)
Arising from member experience	9	1	(30)	(1)
Benefits paid	(344)	(22)	(258)	(21)
Past service cost and plan amendments	(53)	(1)	3	-
Settlement	-	-	(19)	-
Curtailedment <sup>[1]</sup>	(34)	1	(14)	(7)
Foreign exchange and other	78	(2)	(259)	(1)
Defined benefit obligation, end of year	8,136	455	7,650	450
<b>FUNDED STATUS</b>				
Fund deficit	(1,022)	(455)	(1,047)	(450)
Unrecognized amount due to asset ceiling (see below)	(92)	-	(91)	-
Accrued benefit liability	(1,114)	(455)	(1,138)	(450)

[1] The impact of curtailments and termination benefits resulting from the Canadian restructuring at Lifeco were recognized as part of restructuring expenses and are not included in pension and other post-employment benefits expense.

The aggregate defined benefit obligation of pension plans is as follows:

December 31	2017	2016
Wholly or partly funded plans	7,621	7,147
Wholly unfunded plans	515	503

**NOTE 24 Pension Plans and Other Post-Employment Benefits** (continued)

The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

December 31	2017			2016		
	Defined benefit pension plans	Other post-employment benefits	Total	Defined benefit pension plans	Other post-employment benefits	Total
Pension benefit assets [Note 9]	193	-	193	214	-	214
Pension and other post-employment benefit liabilities [Note 15]	(1,307)	(455)	(1,762)	(1,352)	(450)	(1,802)
Accrued benefit liability	(1,114)	(455)	(1,569)	(1,138)	(450)	(1,588)

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, the present value of future expenses

to be paid from the plan, or surplus 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 sheet. The following provides a breakdown of the changes in the asset ceiling.

December 31	2017	2016
Asset ceiling, beginning of year	91	83
Interest on beginning-of-year asset ceiling	4	3
Change in asset ceiling	(3)	5
Asset ceiling, end of year	92	91

**PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE**

December 31	2017		2016	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Defined benefit current service cost	169	3	158	3
Net interest cost	38	17	33	19
Past service cost, plan amendments and curtailments <sup>[1]</sup>	(72)	(1)	(11)	(7)
Administration fees	8	-	13	-
Defined contribution current service cost	76	-	68	-
Expense recognized in net earnings	219	19	261	15
Actuarial losses recognized	395	9	477	3
Return on assets greater than interest income	(311)	-	(248)	-
Change in asset ceiling	(3)	-	5	-
Expense recognized in other comprehensive income	81	9	234	3
Total expense	300	28	495	18

[1] IGM, at its discretion, may from time to time increase certain benefits paid to retired members of the plan. Under its previous policy, IGM had granted benefit increases in most years and its obligation included an estimate for future increases. IGM does not expect to grant benefit increases in the foreseeable future. As a result, IGM revalued its defined benefit obligation in 2017 and recognized a reduction to its obligation of \$50 million as a decrease to pension and other post-employment benefit expense.

In 2017, the Corporation and its subsidiaries incurred \$2 million of actuarial losses (\$1 million of actuarial gains in 2016) 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.

**NOTE 24 Pension Plans and Other Post-Employment Benefits** (continued)**ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS**

December 31 Percentage [%]	Defined benefit pension plans	
	2017	2016
Equity securities	45	48
Debt securities	42	41
All other assets	13	11
	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 of \$5,694 million at December 31, 2017 (\$5,241 million at December 31, 2016) of which \$5,616 million (\$5,176 million at December 31, 2016) are included in the balance sheets. 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. A portion of Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

**DETAILS OF DEFINED BENEFIT OBLIGATION****Portion of defined benefit obligation subject to future salary increases**

December 31	2017		2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Benefit obligation without future salary increases	7,351	455	6,901	450
Effect of assumed future salary increases	785	-	749	-
Defined benefit obligation	8,136	455	7,650	450

**Allocation of defined benefit obligation by membership**

December 31 Percentage [%]	2017		2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Actives	40	25	46	25
Deferred vesteds	24	-	18	-
Retirees	36	75	36	75
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	18.5	12.2	18.9	12.9

**CASH FLOW INFORMATION**

The expected employer contributions for the year 2018 are as follows:

	Pension plans	Other post-employment benefits
Funded (wholly or partly) defined benefit plans	229	-
Unfunded defined benefit plans	23	23
Defined contribution plans	88	-
Total	340	23

**NOTE 24 Pension Plans and Other Post-Employment Benefits** (continued)**ACTUARIAL ASSUMPTIONS AND SENSITIVITIES****Actuarial assumptions**

December 31 Percentage [%]	2017		2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Range of discount rates				
To determine benefit cost	3.2–4.1	3.7–4.1	3.8–4.3	3.9–4.3
To determine accrued benefit obligation at year-end	3.1–3.6	3.5–3.8	3.2–4.1	3.7–4.1
Weighted average assumptions used to determine benefit cost <sup>[1]</sup>				
Discount rate	3.4	3.9	3.8	4.1
Rate of compensation increase	3.3	–	3.3	–
Weighted average assumptions used to determine accrued benefit obligation at year-end <sup>[1]</sup>				
Discount rate	3.2	3.5	3.3	3.8
Rate of compensation increase	3.2	–	3.3	–
Weighted average healthcare trend rates <sup>[1]</sup>				
Initial healthcare trend rate		5.1		5.2
Ultimate healthcare trend rate		4.5		4.5
Year ultimate trend rate is reached		2029		2029

[1] Weighted based on the obligations of each plan.

**Sample life expectancies based on mortality assumptions**

December 31	2017		2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Weighted average life expectancies based on mortality assumptions <sup>[1]</sup> :				
Male				
Age 65 in fiscal year	22.9	22.3	22.8	22.3
Age 65 for those age 35 in the fiscal year	25.0	23.9	25.0	23.9
Female				
Age 65 in fiscal year	24.8	24.7	24.7	24.6
Age 65 for those age 35 in the fiscal year	26.8	26.2	26.7	26.1

[1] Weighted 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 longevity improvements 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.



**NOTE 24 Pension Plans and Other Post-Employment Benefits** (continued)**Impact of changes to assumptions on defined benefit obligation**

December 31, 2017	1% increase	1% decrease
Defined benefit pension plans:		
Impact of a change to the discount rate	(1,298)	1,673
Impact of a change to the rate of compensation increase	341	(298)
Impact of a change to the rate of inflation	615	(543)
Other post-employment benefits:		
Impact of a change to the discount rate	(50)	59
Impact of a change to assumed medical cost trend rates	42	(36)

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 and 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, 2017	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	1,549	2,299	1,803	5,651	144	79
Options purchased	46	202	59	307	50	50
Futures – long	17	8	-	25	-	-
Futures – short	43	9	-	52	-	-
	1,655	2,518	1,862	6,035	194	129
Foreign exchange contracts						
Forward contracts	955	-	-	955	10	7
Cross-currency swaps	338	2,004	8,286	10,628	198	(930)
	1,293	2,004	8,286	11,583	208	(923)
Other derivative contracts						
Equity contracts	95	-	-	95	-	(1)
Futures – long	13	-	-	13	-	-
Futures – short	626	-	-	626	1	(1)
Other forward contracts	93	-	-	93	-	-
	827	-	-	827	1	(2)
	3,775	4,522	10,148	18,445	403	(796)
<b>CASH FLOW HEDGES</b>						
Interest rate contracts						
Swaps	-	-	407	407	10	10
Foreign exchange contracts						
Cross-currency swaps	500	-	-	500	-	(123)
Other derivative contracts						
Forward contracts and total return swaps	16	32	-	48	9	9
	516	32	407	955	19	(104)
<b>NET INVESTMENT HEDGES</b>						
Foreign exchange contracts						
Forward contracts	-	475	-	475	-	(42)
	4,291	5,029	10,555	19,875	422	(942)

**NOTE 25** Derivative Financial Instruments (continued)

December 31, 2016	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	2,151	2,256	1,737	6,144	211	133
Options purchased	39	194	85	318	49	49
Futures – long	2	9	-	11	-	-
Futures – short	70	28	-	98	-	-
	2,262	2,487	1,822	6,571	260	182
Foreign exchange contracts						
Forward contracts	1,089	-	-	1,089	3	(7)
Cross-currency swaps	428	1,987	7,199	9,614	228	(1,265)
Options purchased	467	-	-	467	-	-
	1,984	1,987	7,199	11,170	231	(1,272)
Other derivative contracts						
Equity contracts	81	-	-	81	2	2
Futures – long	11	-	-	11	-	-
Futures – short	609	-	-	609	2	1
Other forward contracts	103	-	-	103	-	-
	804	-	-	804	4	3
	5,050	4,474	9,021	18,545	495	(1,087)
<b>CASH FLOW HEDGES</b>						
Interest rate contracts						
Swaps	-	-	432	432	42	42
Foreign exchange contracts						
Forward contracts	318	-	-	318	-	(4)
Cross-currency swaps	1,000	500	-	1,500	-	(436)
Other derivative contracts						
Forward contracts and total return swaps	13	30	-	43	3	1
	1,331	530	432	2,293	45	(397)
<b>NET INVESTMENT HEDGES</b>						
Foreign exchange contracts						
Forward contracts	450	49	-	499	32	6
	6,831	5,053	9,453	21,337	572	(1,478)

**NOTE 25** Derivative Financial Instruments (continued)

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 represents the total cost of all derivative contracts with positive values and does not reflect actual or expected losses. The total 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.

As at December 31, 2017, Lifeco received assets of \$77 million (\$159 million in 2016) as collateral for derivative contracts from counterparties.

**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. There was no ineffective portion of cash flow hedges during 2017.

**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. Change in fair value is 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 (ISDA's) master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related ISDA's Credit Support Annexes. The ISDA'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.

**NOTE 25** Derivative Financial Instruments (continued)

The following disclosure shows the potential effect on the balance sheets of 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.

	Gross amount of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet		Net exposure
		Offsetting counterparty position <sup>[1]</sup>	Financial collateral received/pledged <sup>[2]</sup>	
December 31, 2017				
Financial instruments (assets)				
Derivative financial instruments	422	(359)	(26)	37
Reverse repurchase agreements <sup>[3]</sup>	29	-	(29)	-
	451	(359)	(55)	37
Financial instruments (liabilities)				
Derivative financial instruments	1,364	(359)	(359)	646
	1,364	(359)	(359)	646

	Gross amount of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet		Net exposure
		Offsetting counterparty position <sup>[1]</sup>	Financial collateral received/pledged <sup>[2]</sup>	
December 31, 2016				
Financial instruments (assets)				
Derivative financial instruments	572	(379)	(131)	62
	572	(379)	(131)	62
Financial instruments (liabilities)				
Derivative financial instruments	2,050	(379)	(403)	1,268
	2,050	(379)	(403)	1,268

[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 \$77 million (\$159 million at December 31, 2016), received on reverse repurchase agreements was \$29 million (nil at December 31, 2016), and pledged on derivative liabilities was \$437 million (\$475 million at December 31, 2016).

[3] Assets related to reverse repurchase agreements are included in bonds on the balance sheets.

## NOTE 26 Fair Value Measurement

The following table presents the carrying amounts and fair value of the Corporation's assets and liabilities recorded or disclosed at fair value, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies (Note 2) 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 assets and liabilities recorded at fair value on a recurring basis of those for which fair value is disclosed.

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. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

December 31, 2017	Carrying value	Level 1	Level 2	Level 3	Total fair value
<b>ASSETS</b>					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	89,824	-	89,759	65	89,824
Available for sale	12,628	-	12,628	-	12,628
Mortgage loans					
Fair value through profit or loss	287	-	287	-	287
Shares					
Fair value through profit or loss	8,194	7,949	1	244	8,194
Available for sale	243	69	5	169	243
Investment properties	4,851	-	-	4,851	4,851
Funds held by ceding insurers	7,938	132	7,806	-	7,938
Derivative instruments	422	1	409	12	422
Other assets	892	503	389	-	892
	125,279	8,654	111,284	5,341	125,279
Assets disclosed at fair value					
Bonds					
Loans and receivables	17,959	-	19,365	105	19,470
Mortgage loans					
Loans and receivables	29,748	-	23,031	7,649	30,680
Shares					
Available for sale <sup>[1]</sup>	331	-	-	331	331
Funds held by ceding insurers	106	-	-	106	106
	48,144	-	42,396	8,191	50,587
<b>Total</b>	<b>173,423</b>	<b>8,654</b>	<b>153,680</b>	<b>13,532</b>	<b>175,866</b>
<b>LIABILITIES</b>					
Liabilities recorded at fair value					
Investment contract liabilities	1,841	-	1,819	22	1,841
Derivative instruments	1,364	2	1,354	8	1,364
Other liabilities	71	9	-	62	71
	3,276	11	3,173	92	3,276
Liabilities disclosed at fair value					
Obligations to securitization entities	7,596	-	-	7,658	7,658
Debentures and other debt instruments	7,968	428	8,342	-	8,770
Capital trust debentures	160	-	221	-	221
Deposits and certificates	555	-	555	-	555
	16,279	428	9,118	7,658	17,204
<b>Total</b>	<b>19,555</b>	<b>439</b>	<b>12,291</b>	<b>7,750</b>	<b>20,480</b>

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

**NOTE 26** Fair Value Measurement (continued)

December 31, 2016	Carrying value	Level 1	Level 2	Level 3	Total fair value
<b>ASSETS</b>					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	88,283	-	88,282	1	88,283
Available for sale	11,819	-	11,819	-	11,819
Mortgage loans					
Fair value through profit or loss	339	-	339	-	339
Shares					
Fair value through profit or loss	7,673	7,583	9	81	7,673
Available for sale	182	53	-	129	182
Investment properties	4,340	-	-	4,340	4,340
Funds held by ceding insurers	8,605	214	8,391	-	8,605
Derivative instruments	572	3	566	3	572
Other assets	516	302	213	1	516
	122,329	8,155	109,619	4,555	122,329
Assets disclosed at fair value					
Bonds					
Loans and receivables	16,970	-	18,355	129	18,484
Mortgage loans					
Loans and receivables	29,295	-	22,580	7,838	30,418
Shares					
Available for sale <sup>[1]</sup>	376	-	-	376	376
Funds held by ceding insurers	118	-	-	118	118
	46,759	-	40,935	8,461	49,396
<b>Total</b>	<b>169,088</b>	<b>8,155</b>	<b>150,554</b>	<b>13,016</b>	<b>171,725</b>
<b>LIABILITIES</b>					
Liabilities recorded at fair value					
Investment contract liabilities	2,009	-	1,989	20	2,009
Derivative instruments	2,050	1	2,023	26	2,050
Other liabilities	10	10	-	-	10
	4,069	11	4,012	46	4,069
Liabilities disclosed at fair value					
Obligations to securitization entities	7,721	-	-	7,873	7,873
Debentures and other debt instruments	7,513	428	7,885	-	8,313
Capital trust debentures	161	-	212	-	212
Deposits and certificates	471	-	472	-	472
	15,866	428	8,569	7,873	16,870
<b>Total</b>	<b>19,935</b>	<b>439</b>	<b>12,581</b>	<b>7,919</b>	<b>20,939</b>

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

There were no significant transfers between Level 1 and Level 2 in 2017 and 2016.

**NOTE 26** Fair Value Measurement (continued)

The Corporation's assets and 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, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions. Level 1 assets also include open-end investment fund units and other liabilities 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 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 other debt instruments. 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. 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 other debt instruments.

The following table presents additional information about assets and 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, 2017.

December 31, 2017	Bonds		Shares				Investment contract liabilities	Total
	Fair value through profit or loss	Fair value through profit or loss <sup>[2]</sup>	Available for sale	Investment properties	Derivatives, net	Other assets (liabilities)		
Balance, beginning of year	1	81	129	4,340	(23)	1	(20)	4,509
Total gains (losses)								
In net earnings	1	10	-	176	13	-	-	200
In other comprehensive income <sup>[1]</sup>	4	(3)	-	68	-	-	-	69
Purchases	-	166	48	339	(2)	(42)	-	509
Sales	-	(14)	-	(72)	-	(1)	-	(87)
Settlements	-	-	-	-	16	-	-	16
Other	-	-	-	-	-	(20)	(2)	(22)
Transfers into Level 3	60	4	-	-	-	-	-	64
Transfers out of Level 3	(1)	-	(8)	-	-	-	-	(9)
Balance, end of year	65	244	169	4,851	4	(62)	(22)	5,249

[1] Amount of other comprehensive income for investment properties represents the unrealized gains on foreign exchange.

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

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 or the lifting of redemption restrictions on investments in mutual funds and segregated funds.

**NOTE 26** Fair Value Measurement (continued)

The following table sets out information about significant unobservable inputs used at year-end in measuring assets and 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	Range of 2.6% - 10.3%	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.
		Reversionary rate	Range of 4.3% - 7.5%	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.
		Vacancy rate	Weighted average of 2.7%	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

	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 gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Year ended December 31, 2017						
Balance, beginning of year	(79)	1,048	648	(501)	(26)	1,090
Other comprehensive income (loss)	177	(387)	486	(56)	(2)	218
Other	-	-	-	-	9	9
Balance, end of year	98	661	1,134	(557)	(19)	1,317

	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 gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Year ended December 31, 2016						
Balance, beginning of year	(172)	2,036	278	(374)	(27)	1,741
Other comprehensive income (loss)	93	(988)	370	(127)	1	(651)
Balance, end of year	(79)	1,048	648	(501)	(26)	1,090



## 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	2017	2016
<b>EARNINGS</b>		
Net earnings attributable to shareholders	1,850	2,043
Dividends on perpetual preferred shares	(133)	(124)
Net earnings attributable to common shareholders	1,717	1,919
Dilutive effect of subsidiaries	(2)	(4)
Net earnings adjusted for dilutive effect	1,715	1,915
<b>NUMBER OF COMMON SHARES [millions]</b>		
Weighted average number of common shares outstanding – Basic	713.4	713.2
Potential exercise of outstanding stock options	0.7	0.4
Weighted average number of common shares outstanding – Diluted	714.1	713.6
<b>NET EARNINGS PER COMMON SHARE</b>		
Basic	2.41	2.69
Diluted	2.40	2.68

For 2017, 4.3 million stock options (7.3 million in 2016) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

## NOTE 29 Related Parties

### PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED CORPORATIONS

The financial statements of Power Financial include the operations of the following subsidiaries, indirect subsidiaries and investments in jointly controlled corporations and associates:

Corporations	Incorporated in	Primary business operation	% equity interest	
			2017	2016
Great-West Lifeco Inc. <sup>[1]</sup>	Canada	Financial services holding company	71.7	71.9
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>[2]</sup>	United States	Financial services	95.9	96.2
IGM Financial Inc. <sup>[3]</sup>	Canada	Financial services	65.3	65.3
Investors Group Inc.	Canada	Financial services	100	100
Mackenzie Financial Corporation	Canada	Financial services	100	100
China Asset Management Co., Ltd.	China	Asset management company	13.9	-
Parjointco N.V.	Netherlands	Holding company	50	50
Pargesa Holding SA	Switzerland	Holding company	55.5	55.5
Portag3 Venture Limited Partnership <sup>[4]</sup>	Canada	Investment fund	100	100
Wealthsimple Financial Corp. <sup>[5]</sup>	Canada	Financial services	77.3	46.5

[1] Power Financial holds a 67.7% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco.

[2] Lifeco holds 100% of the voting shares and 95.9% of the total outstanding shares.

[3] Power Financial holds a 61.5% equity interest and The Great-West Life Assurance Company holds a 3.8% equity interest in IGM Financial.

[4] Power Financial holds a 63.0% equity interest and Lifeco and IGM Financial each hold an equity interest of 18.5% in Portag3.

[5] Power Financial, Portag3 and IGM Financial hold an equity interest of 10.8%, 29.4% and 37.1%, respectively, in Wealthsimple.

**NOTE 29** Related Parties (continued)**TRANSACTIONS WITH RELATED PARTIES**

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.

In 2017, IGM sold residential mortgage loans to Great-West Life, London Life and segregated funds maintained by London Life for \$137 million (\$184 million in 2016).

In October 2017, IGM obtained advanced tax rulings which permitted tax loss consolidation transactions with a subsidiary of Power Corporation, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM. The acquisitions are expected to close in the fourth quarter of each year. IGM will recognize the benefit of the tax losses realized throughout the year. On December 29, 2017, IGM acquired shares of the subsidiary and recorded the benefit of the tax losses acquired.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Corporation, Power Financial and Lifeco and its subsidiaries.

**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	2017	2016
Compensation and employee benefits	20	21
Post-employment benefits	6	10
Share-based payments	16	17
	42	48

**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 in the United States is a defendant in an action in relation to its role as collateral manager of a collateralized debt obligation brought by an institution involved in the collateralized debt obligation. On April 28, 2014, the matter was dismissed. On July 2, 2014, the complainant filed an appeal of the dismissal and on April 15, 2015 the United States Court of Appeals for the Second Circuit issued its decision overturning the dismissal of the action and remanding the matter for further proceedings, which are ongoing.

Subsidiaries of Lifeco in the United States are defendants in proposed class actions relating to the administration of their staff retirement plans, or to the costs and features of certain of their retirement or fund products. Management of Lifeco believes the claims are without merit and will be aggressively defending these actions.

## 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 provisions have been recognized related to these agreements.

### LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities at Lifeco is US\$1.7 billion, of which US\$1.6 billion were issued as of December 31, 2017.

The Reinsurance operation also periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities.

### 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:

	2018	2019	2020	2021	2022	2023 and thereafter	Total
Future lease payments	149	119	101	87	64	394	914

## NOTE 32 Segmented Information

The Corporation's reportable operating segments are Lifeco, IGM Financial and Pargesa. These reportable segments reflect Power Financial's management structure and internal financial reporting. The Corporation evaluates the performance based on the operating segment's contribution to earnings. The following provides a brief description of the three reportable operating segments:

- Lifeco is a financial services holding company with interests in life insurance, health insurance, retirement and investment management services, 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.

### 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 fulfillment of certain contract conditions were \$939 million as at December 31, 2017, with \$938 million maturing within one year and \$1 million maturing within two years.

### PLEDGING OF ASSETS FOR REINSURANCE AGREEMENTS

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

- [i] The amount of assets included in the Corporation's balance sheet which have a security interest by way of pledging is \$1,562 million (\$1,709 million at December 31, 2016) in respect of reinsurance agreements.

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

- [ii] Lifeco has pledged, in the normal course of business, \$66 million (\$62 million at December 31, 2016) of its assets for the purpose of providing collateral for the counterparty.

- Pargesa is held through Parjointco. Pargesa is a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialty solutions for industry; testing, inspection and certification; cement, aggregates and concrete; wines and spirits; design and distribution of sportswear; materials technology and recycling of precious metals; oil, gas and chemical industries; a global luxury brand; disposable hygiene products; supply of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors; and operation of regional leisure parks.

The column entitled "Corporate" is comprised of corporate activities of Power Financial and the results of Wealthsimple and Portag3. This column also includes consolidation elimination entries.

Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets. The contribution to earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other as well as certain consolidation adjustments.

**NOTE 32** Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

For the year ended December 31, 2017	Lifeco	IGM	Pargesa	Corporate	Total
<b>REVENUES</b>					
Premium income, net	33,947	-	-	(22)	33,925
Net investment income	7,582	139	-	(111)	7,610
Fee income	5,454	3,006	-	(117)	8,343
<b>Total revenues</b>	<b>46,983</b>	<b>3,145</b>	<b>-</b>	<b>(250)</b>	<b>49,878</b>
<b>EXPENSES</b>					
Total paid or credited to policyholders	35,643	-	-	-	35,643
Commissions	2,410	1,142	-	(77)	3,475
Operating and administrative expenses	5,925	1,113	-	92	7,130
Financing charges	300	114	-	18	432
<b>Total expenses</b>	<b>44,278</b>	<b>2,369</b>	<b>-</b>	<b>33</b>	<b>46,680</b>
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,705	776	-	(283)	3,198
Share of earnings (losses) of investments in jointly controlled corporations and associates	25	9	131	35	200
Earnings before income taxes	2,730	785	131	(248)	3,398
Income taxes	422	174	-	(12)	584
<b>Net earnings</b>	<b>2,308</b>	<b>611</b>	<b>131</b>	<b>(236)</b>	<b>2,814</b>
<b>ATTRIBUTABLE TO</b>					
Non-controlling interests	857	261	-	(154)	964
Perpetual preferred shareholders	-	-	-	133	133
Common shareholders	1,451	350	131	(215)	1,717
	<b>2,308</b>	<b>611</b>	<b>131</b>	<b>(236)</b>	<b>2,814</b>

**TOTAL ASSETS AND LIABILITIES**

December 31, 2017	Lifeco	IGM	Pargesa	Corporate	Total
Invested assets (including cash and cash equivalents)	167,480	9,073	-	1,113	177,666
Investments in jointly controlled corporations and associates	2	648	3,354	12	4,016
Other assets	24,635	1,139	-	83	25,857
Goodwill and intangible assets	10,371	4,789	-	168	15,328
Investments on account of segregated fund policyholders	217,357	-	-	-	217,357
<b>Total assets<sup>[1]</sup></b>	<b>419,845</b>	<b>15,649</b>	<b>3,354</b>	<b>1,376</b>	<b>440,224</b>
<b>Total liabilities</b>	<b>394,302</b>	<b>11,674</b>	<b>-</b>	<b>724</b>	<b>406,700</b>

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

**TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION**

December 31, 2017	Canada	United States	Europe	Total
Invested assets (including cash and cash equivalents)	82,512	44,268	50,886	177,666
Investments in jointly controlled corporations and associates	660	-	3,356	4,016
Other assets	4,021	3,787	18,049	25,857
Goodwill and intangible assets	10,799	1,975	2,554	15,328
Investments on account of segregated fund policyholders	80,399	34,038	102,920	217,357
<b>Total assets</b>	<b>178,391</b>	<b>84,068</b>	<b>177,765</b>	<b>440,224</b>
<b>Total revenues</b>	<b>21,046</b>	<b>9,078</b>	<b>19,754</b>	<b>49,878</b>

**NOTE 32** Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

For the year ended December 31, 2016	Lifeco	IGM	Pargesa	Corporate	Total
<b>REVENUES</b>					
Premium income, net	31,125	-	-	-	31,125
Net investment income	10,145	188	-	(130)	10,203
Fee income	5,101	2,857	-	(164)	7,794
<b>Total revenues</b>	<b>46,371</b>	<b>3,045</b>	<b>-</b>	<b>(294)</b>	<b>49,122</b>
<b>EXPENSES</b>					
Total paid or credited to policyholders	34,675	-	-	-	34,675
Commissions	2,602	1,090	-	(102)	3,590
Operating and administrative expenses	5,450	916	-	14	6,380
Financing charges	302	92	-	18	412
<b>Total expenses</b>	<b>43,029</b>	<b>2,098</b>	<b>-</b>	<b>(70)</b>	<b>45,057</b>
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,342	947	-	(224)	4,065
Share of earnings (losses) of investments in jointly controlled corporations and associates	10	-	(88)	(20)	(98)
Earnings before income taxes	3,352	947	(88)	(244)	3,967
Income taxes	396	168	-	17	581
<b>Net earnings</b>	<b>2,956</b>	<b>779</b>	<b>(88)</b>	<b>(261)</b>	<b>3,386</b>
<b>ATTRIBUTABLE TO</b>					
Non-controlling interests	1,166	306	-	(129)	1,343
Perpetual preferred shareholders	-	-	-	124	124
Common shareholders	1,790	473	(88)	(256)	1,919
	2,956	779	(88)	(261)	3,386

**TOTAL ASSETS AND LIABILITIES**

December 31, 2016 <sup>[1]</sup>	Lifeco	IGM	Pargesa	Corporate	Total
Invested assets (including cash and cash equivalents)	162,535	8,819	-	786	172,140
Investments in jointly controlled corporations and associates	259	-	2,811	33	3,103
Other assets	26,226	1,263	-	32	27,521
Goodwill and intangible assets	10,409	4,831	-	-	15,240
Investments on account of segregated fund policyholders	200,403	-	-	-	200,403
<b>Total assets<sup>[2]</sup></b>	<b>399,832</b>	<b>14,913</b>	<b>2,811</b>	<b>851</b>	<b>418,407</b>
<b>Total liabilities</b>	<b>374,725</b>	<b>10,878</b>	<b>-</b>	<b>588</b>	<b>386,191</b>

**TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION**

December 31, 2016 <sup>[1]</sup>	Canada	United States	Europe	Total
Invested assets (including cash and cash equivalents)	79,317	44,904	47,919	172,140
Investments in jointly controlled corporations and associates	33	-	3,070	3,103
Other assets	4,466	4,351	18,704	27,521
Goodwill and intangible assets	10,361	2,388	2,491	15,240
Investments on account of segregated fund policyholders	74,909	35,414	90,080	200,403
<b>Total assets</b>	<b>169,086</b>	<b>87,057</b>	<b>162,264</b>	<b>418,407</b>
<b>Total revenues</b>	<b>20,078</b>	<b>9,448</b>	<b>19,596</b>	<b>49,122</b>

[1] Lifeco reclassified certain comparative figures to reflect the current presentation (Note 16).

[2] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

# 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, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, 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 23, 2018  
Montréal, Québec

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A110092

# Power Financial Corporation

## Five-Year Financial Summary

December 31 [in millions of Canadian dollars, except per share amounts] (unaudited)	2017	2016 <sup>[1]</sup>	2015	2014	2013
<b>CONSOLIDATED BALANCE SHEETS</b>					
Cash and cash equivalents	5,321	4,396	4,188	3,989	4,344
Total assets	440,224	418,407	417,630	373,843	341,682
Shareholders' equity	20,513	19,481	19,473	16,942	15,916
<b>CONSOLIDATED STATEMENTS OF EARNINGS</b>					
<b>REVENUES</b>					
Premium income, net	33,925	31,125	24,501	21,222	20,236
Net investment income	7,610	10,203	4,319	13,563	2,661
Fee income	8,343	7,794	7,692	6,990	5,933
Total revenues	49,878	49,122	36,512	41,775	28,830
<b>EXPENSES</b>					
Total paid or credited to policyholders	35,643	34,675	22,842	29,160	17,811
Commissions	3,475	3,590	3,133	2,901	2,590
Operating and administrative expenses	7,130	6,380	5,883	5,162	4,474
Financing charges	432	412	413	413	400
Total expenses	46,680	45,057	32,271	37,636	25,275
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,198	4,065	4,241	4,139	3,555
Share of earnings (losses) of investments in jointly controlled corporations and associates	200	(98)	224	211	134
Earnings before income taxes	3,398	3,967	4,465	4,350	3,689
Income taxes	584	581	679	834	678
Net earnings	2,814	3,386	3,786	3,516	3,011
<b>ATTRIBUTABLE TO</b>					
Non-controlling interests	964	1,343	1,337	1,248	984
Perpetual preferred shareholders	133	124	130	132	131
Common shareholders	1,717	1,919	2,319	2,136	1,896
	2,814	3,386	3,786	3,516	3,011
<b>PER SHARE</b>					
Net earnings attributable to common shareholders	2.41	2.69	3.25	3.00	2.67
Adjusted net earnings attributable to common shareholders <sup>[2]</sup>	2.99	2.99	3.14	2.96	2.40
Dividends declared on common shares	1.65	1.57	1.49	1.40	1.40
Book value per common share	24.77	23.69	23.69	20.18	18.51
<b>MARKET PRICE (Common shares)</b>					
High	37.00	34.70	38.78	36.70	36.79
Low	31.91	29.02	30.28	30.14	27.02
Year-end	34.54	33.56	31.81	36.18	36.00

[1] Lifeco reclassified certain comparative figures to reflect the current presentation (Note 16).

[2] Please refer to the review of financial performance for non-IFRS financial measure definition.

## 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>2017</b>					
First quarter	13,569	800	484	0.68	0.68
Second quarter	11,780	817	545	0.76	0.76
Third quarter	10,907	776	463	0.65	0.65
Fourth quarter	13,622	421	225	0.32	0.31
<b>2016</b>					
First quarter	12,970	564	259	0.36	0.36
Second quarter	13,470	834	505	0.71	0.71
Third quarter	14,106	860	539	0.76	0.76
Fourth quarter	8,576	1,128	616	0.86	0.86

# Board of Directors

**MARC A. BIBEAU**<sup>[2]</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

**GARY A. DOER**, O.M.<sup>[2, 3, 5]</sup>

Senior Business Advisor,  
Dentons Canada LLP

**GÉRALD FRÈRE**<sup>[3]</sup>

Vice-Chairman and Managing Director,  
Pargesa Holding SA

**ANTHONY R. GRAHAM**, LL.D.<sup>[4]</sup>

Vice-Chairman,  
Wittington Investments, Limited

**J. DAVID A. JACKSON**, LL.B.<sup>[1, 4]</sup>

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>[2, 3, 4, 5]\*</sup>

Company Director

**T. TIMOTHY RYAN, JR.**<sup>[2, 5]</sup>

Company Director

**EMŐKE J.E. SZATHMÁRY**, C.M., O.M., PH.D., FRSC<sup>[2]</sup>

President Emeritus,  
University of Manitoba

## Director Emeritus

**JAMES W. BURNS**, O.C., O.M.

[1] LEAD DIRECTOR OF THE CORPORATION

[2] MEMBER OF THE AUDIT COMMITTEE

[3] MEMBER OF THE COMPENSATION COMMITTEE

[4] MEMBER OF THE GOVERNANCE AND NOMINATING COMMITTEE

[5] MEMBER OF THE RELATED PARTY AND CONDUCT REVIEW COMMITTEE

\* NOT STANDING FOR RE-ELECTION



# Officers

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**PAUL DESMARAIS, JR., O.C., O.Q.**

Executive Co-Chairman

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**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, FCPA, FCA**

Executive Vice-President  
and Chief Financial Officer

---

**CLAUDE GÉNÉREUX**

Executive Vice-President

---

**OLIVIER DESMARAIS**

Senior Vice-President

---

**PAUL DESMARAIS III**

Senior Vice-President

---

**PAUL C. GENEST**

Senior Vice-President

---

**ARNAUD VIAL**

Senior Vice-President

---

**JOCELYN LEFEBVRE, CPA, C.A.**

Managing Director,  
Power Financial Europe B.V.

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**DENIS LE VASSEUR, CPA, C.A.**

Vice-President and Controller

---

**STÉPHANE LEMAY**

Vice-President,  
General Counsel and Secretary

---

**FABRICE MORIN**

Vice-President

---

**EOIN Ó HÓGÁIN, CFA**

Vice-President

---

**RICHARD PAN**

Vice-President

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**PIERRE PICHÉ**

Vice-President

---

**LUC RENY, CFA**

Vice-President

\* RETIRED JANUARY 1, 2018

# Corporate Information

## POWER FINANCIAL CORPORATION

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Montréal, Québec, Canada H2Y 2J3  
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1-800-890-7440

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Toronto, Ontario, Canada M5J 2S1  
416-607-2250

[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 O: PWF.PR.O
Series D: PWF.PR.E	Series P: PWF.PR.P
Series E: PWF.PR.F	Series Q: PWF.PR.Q
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	Series V: PWF.PR.Z
Series L: PWF.PR.L	

## Transfer Agent and Registrar

Computershare Investor Services Inc.

Offices in:  
Montréal, Québec; Toronto, Ontario  
[www.investorcentre.com](http://www.investorcentre.com)

## Shareholder Services

Shareholders with questions relating to the payment of dividends, change of address, share certificates, direct registration and estate transfers 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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