POWER CORPORATION OF CANADA

CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]	**December 31, 2017**	December 31, 2016 [Note 16]
Assets		
Cash and cash equivalents [Note 4]	**5,903**	5,182
Investments [Note 5]		
Bonds	**120,590**	117,276
Mortgage loans	**30,088**	29,634
Shares	**10,142**	9,810
Investment properties	**4,851**	4,340
Loans to policyholders	**8,280**	8,467
	173,951	169,527
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]	**5,154**	3,553
Owner-occupied properties and capital assets [Note 8]	**1,734**	1,667
Derivative financial instruments [Note 25]	**424**	573
Other assets [Note 9]	**8,664**	7,997
Deferred tax assets [Note 16]	**1,023**	1,657
Intangible assets [Note 10]	**6,288**	6,258
Goodwill [Note 10]	**10,085**	9,499
Investments on account of segregated fund policyholders [Note 11]	**217,357**	200,403
Total assets	**445,521**	422,724
Liabilities		
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]	**9,351**	8,418
Derivative financial instruments [Note 25]	**1,364**	2,052
Other liabilities [Note 15]	**9,903**	9,104
Deferred tax liabilities [Note 16]	**1,769**	2,016
Insurance and investment contracts on account of segregated fund policyholders [Note 11]	**217,357**	200,403
Total liabilities	**408,705**	387,663
Equity		
Stated capital [Note 17]		
Non-participating shares	**965**	966
Participating shares	**717**	686
Retained earnings	**11,427**	10,805
Reserves	**1,506**	1,407
Total shareholders' equity	**14,615**	13,864
Non-controlling interests [Note 19]	**22,201**	21,197
Total equity	**36,816**	35,061
Total liabilities and equity	**445,521**	422,724

Approved by the Board of Directors

Signed,

J. David A. Jackson
Director

Signed,

André Desmarais
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31 [in millions of Canadian dollars, except per share amounts]	**2017**	2016
Revenues		
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	**6,636**	6,429
Change in fair value through profit or loss	**1,438**	3,906
Net investment income	**8,074**	10,335
Fee income	**8,356**	7,794
Other revenues	**898**	1,496
Total revenues	**51,253**	50,750
Expenses		
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]	**8,260**	8,023
Financing charges [Note 23]	**512**	490
Total expenses	**47,890**	46,778
Earnings before investments in jointly controlled corporations and associates, and income taxes	**3,363**	3,972
Share of earnings (losses) of investments in jointly controlled corporations and associates [Note 7]	**214**	(122)
Earnings before income taxes	**3,577**	3,850
Income taxes [Note 16]	**543**	587
Net earnings	**3,034**	3,263
Attributable to		
Non-controlling interests [Note 19]	**1,696**	2,129
Non-participating shareholders	**52**	52
Participating shareholders	**1,286**	1,082
	3,034	3,263
Earnings per participating share [Note 28]		
Net earnings attributable to participating shareholders		
– Basic	**2.77**	2.33
– Diluted	**2.76**	2.32

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 [in millions of Canadian dollars]	2017	2016
Net earnings	**3,034**	3,263
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)	**344**	244
Income tax (expense) benefit	**–**	(10)
Realized (gains) losses transferred to net earnings	**(416)**	(125)
Income tax expense (benefit)	**19**	16
	(53)	125
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	**18**	107
Income tax (expense) benefit	**(5)**	(40)
Realized (gains) losses transferred to net earnings	**405**	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	**(529)**	(1,566)
Realized (gains) losses on translation	**–**	(15)
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	**(90)**	42
Income tax (expense) benefit	**12**	(6)
	(607)	(1,545)
Share of other comprehensive income of investments in jointly controlled corporations and associates	**490**	365
Income tax (expense) benefit	**(2)**	–
	488	365
Total – items that may be reclassified	**86**	(987)
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit plans [Note 24]	**(95)**	(248)
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	**(97)**	(187)
Other comprehensive loss	**(11)**	(1,174)
Comprehensive income	**3,023**	2,089
Attributable to		
Non-controlling interests	**1,594**	1,415
Non-participating shareholders	**52**	52
Participating shareholders	**1,377**	622
	3,023	2,089

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2017 [in millions of Canadian dollars]	Stated capital			Reserves				
	Non-participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 27]	Total	Non-controlling interests	Total equity
Balance, beginning of year	966	686	10,805	183	1,224	1,407	21,197	35,061
Net earnings	–	–	1,338	–	–	–	1,696	3,034
Other comprehensive income (loss)	–	–	–	–	91	91	(102)	(11)
Comprehensive income	–	–	1,338	–	91	91	1,594	3,023
Dividends to shareholders								
Non-participating	–	–	(52)	–	–	–	–	(52)
Participating	–	–	(654)	–	–	–	–	(654)
Dividends to non-controlling interests	–	–	–	–	–	–	(1,275)	(1,275)
Share-based compensation [Note 18]	–	–	–	37	–	37	34	71
Stock options exercised	–	31	–	(35)	–	(35)	31	27
Repurchase of shares of the Corporation for cancellation	(1)	–	–	–	–	–	–	(1)
Effects of changes in capital and ownership of subsidiaries, and other	–	–	(10)	–	6	6	620	616
Balance, end of year	**965**	**717**	**11,427**	**185**	**1,321**	**1,506**	**22,201**	**36,816**

For the year ended December 31, 2016 [in millions of Canadian dollars]	Stated capital			Reserves				
	Non-participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 27]	Total	Non-controlling interests	Total equity
Balance, beginning of year	970	683	10,474	167	1,684	1,851	21,407	35,385
Net earnings	–	–	1,134	–	–	–	2,129	3,263
Other comprehensive loss	–	–	–	–	(460)	(460)	(714)	(1,174)
Comprehensive income (loss)	–	–	1,134	–	(460)	(460)	1,415	2,089
Dividends to shareholders								
Non-participating	–	–	(52)	–	–	–	–	(52)
Participating	–	–	(610)	–	–	–	–	(610)
Dividends to non-controlling interests	–	–	–	–	–	–	(1,217)	(1,217)
Share-based compensation [Note 18]	–	–	–	45	–	45	42	87
Stock options exercised	–	3	–	(29)	–	(29)	29	3
Repurchase of shares of the Corporation for cancellation	(4)	–	2	–	–	–	–	(2)
Effects of changes in capital and ownership of subsidiaries, and other	–	–	(143)	–	–	–	(479)	(622)
Balance, end of year	966	686	10,805	183	1,224	1,407	21,197	35,061

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 [in millions of Canadian dollars]	2017	2016
Operating activities		
Earnings before income taxes	**3,577**	3,850
Income tax paid, net of refunds	**(483)**	(443)
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	**(842)**	175
	6,892	6,742
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	**(1,267)**	(1,216)
Non-participating shares	**(52)**	(52)
Participating shares	**(654)**	(610)
	(1,973)	(1,878)
Issue of subordinate voting shares by the Corporation [Note 17]	**27**	3
Repurchase of non-participating shares by the Corporation [Note 17]	**(1)**	(2)
Issue of common shares by subsidiaries	**159**	53
Repurchase of common shares by subsidiaries	**(63)**	(423)
Issue of preferred shares by subsidiaries	**450**	–
Acquisition of non-controlling interests	**–**	(122)
Issue of debentures [Note 14]	**1,100**	–
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	**252**	80
Change in obligations to securitization entities and other	**(188)**	623
	(596)	(960)
Investment activities		
Bond sales and maturities	**27,723**	30,806
Mortgage loan repayments	**2,837**	2,616
Sale of shares	**4,248**	3,810
Sale of investment properties	**72**	427
Change in loans to policyholders	**(165)**	48
Business acquisitions, net of disposal of business (net of related cash and cash equivalents) [Note 3]	**(410)**	(46)
Investment in bonds	**(31,173)**	(34,919)
Investment in mortgage loans	**(3,559)**	(3,847)
Investment in shares	**(3,878)**	(3,490)
Deposits for investment in China AMC	**–**	(247)
Investments in jointly controlled corporations and associates [Note 7]	**(705)**	(281)
Investment in investment properties and other	**(526)**	(361)
	(5,536)	(5,484)
Effect of changes in exchange rates on cash and cash equivalents	**(39)**	(201)
Increase in cash and cash equivalents	**721**	97
Cash and cash equivalents, beginning of year	**5,182**	5,085
Cash and cash equivalents, end of year	**5,903**	5,182
Net cash from operating activities includes		
Interest and dividends received	**5,642**	5,821
Interest paid	**624**	576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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The following abbreviations are used in these Consolidated Financial Statements:

Abbreviation	Name
CALM	Canadian Asset Liability Method
Canada Life	The Canada Life Assurance Company
China AMC	China Asset Management Co., Ltd.
Great-West Life	The Great-West Life Assurance Company
Great-West Financial or Great-West Life & Annuity	Great-West Life & Annuity Insurance Company
IFRS	International Financial Reporting Standards
IGM or IGM Financial	IGM Financial Inc.
IntegraMed	IntegraMed America, Inc.
Investors Group	Investors Group Inc.
Irish Life	Irish Life Group Limited
Lifeco	Great-West Lifeco Inc.
London Life	London Life Insurance Company
Lumenpulse	Lumenpulse Group Inc.
Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation
Pargesa	Pargesa Holding SA
Parjointco	Parjointco N.V.
Portag3	Portag3 Ventures Limited Partnership
Power Corporation or the Corporation	Power Corporation of Canada
Power Energy	Power Energy Corporation
Power Financial	Power Financial Corporation
Putnam	Putnam Investments, LLC
Square Victoria Communications Group	Square Victoria Communications Group Inc.
Vein Clinics	Vein Clinics of America, Inc.
Wealthsimple	Wealthsimple Financial Corp.

NOTE 1 CORPORATE INFORMATION

Power Corporation of Canada is a publicly listed company (TSX: POW) incorporated and domiciled in Canada and located at 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Corporation is a diversified international management and holding company that holds interests, directly or indirectly, in companies in the financial services, renewable energy, communications and other business sectors.

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

The financial statements of Power Corporation 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 Corporation 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 and controlled portfolio investments are:

- Power Financial Corporation, a public company in which the Corporation holds a controlling interest of 65.5% (65.6% at December 31, 2016). Power Financial holds a controlling interest in the following:
  - Lifeco, a public company in which Power Financial 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 Power Financial 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. Power Financial, Lifeco and IGM hold a combined 100% equity interest in Portag3. Portag3 in turn holds a 29.4% equity interest in Wealthsimple, a technology-driven investment manager. In addition, Power Financial and IGM also hold equity interests in Wealthsimple of 10.8% and 37.1%, respectively.
- Other subsidiaries: Power Energy and Square Victoria Communications Group; and
- Controlled portfolio investments: IntegraMed and Vein Clinics (up to the date of disposal), which are controlled by an investment fund controlled by the Corporation.

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

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

Power Financial 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, Power Financial accounts for its investment in Parjointco using the equity method.

Power Corporation and Mackenzie Investments, a subsidiary of IGM, each hold a 13.9% equity interest in China AMC. The Corporation has significant influence and therefore accounts for its interest as an associate 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).
- 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).

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

- 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.

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

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.

Other subsidiaries

Revenues from other subsidiaries and controlled portfolio investments are recognized when the service is performed or when significant risks and rewards of ownership have been transferred to the customer and collection is reasonably assured.

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.

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.

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

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.

a) 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.

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

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

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are 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.

c) 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.

d) 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 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.

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

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.

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

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 20 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, power purchase agreements 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); ii) customer contract-related (8 to 30 years); and iii) power purchase agreements (20 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 asset recognized on the initial sale of

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

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.

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

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.

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

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.

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.

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

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.

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

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.

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.

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

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.

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 PARTICIPATING SHARE

Basic earnings per participating share is determined by dividing net earnings available to participating shareholders by the weighted average number of participating shares outstanding for the year. Diluted earnings per participating share is determined using the same method as basic earnings per participating share, except that net earnings available to participating shareholders and the weighted average number of participating 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.

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

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
IFRS 15 – Revenue from Contracts with Customers (IFRS 15)	In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which provides a single model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to customers in an amount that reflects the expected consideration. The revenue recognition requirements in IFRS 15 do not apply to the revenue arising from insurance contracts, leases and financial instruments. 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. 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.
IFRS 16 – Leases (IFRS 16)	The IASB issued IFRS 16, *Leases*, 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. The standard will be effective January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.
IFRS 17 – Insurance Contracts (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. 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: (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 (b) the contractual service margin: the future profit for providing insurance coverage. 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. 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. 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.

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

New standard	Summary of future changes
IFRS 9 – Financial Instruments (IFRS 9)	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments. The standard was completed in three separate phases: • Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. • Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model. • Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities. In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts* (IFRS 4). The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" 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: • *Deferral Approach:* 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 • *Overlay Approach:* provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. 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. 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. The Corporation and its subsidiaries continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. 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. 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. The Corporation is currently finalizing its assessment as to whether it will retain Pargesa's (through Parjointco) accounting policy in accordance with IFRS 9.
IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)	In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, 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.

NOTE 3 BUSINESS ACQUISITIONS AND DISPOSAL

LUMENPULSE

On June 21, 2017, Power Energy Corporation and management of Lumenpulse acquired 100% of the outstanding common shares of Lumenpulse for a consideration of $551 million. Lumenpulse is a leading manufacturer of high-performance, specification-grade LED lighting solutions. Following the completion of the transaction, Power Energy holds a 55.7% equity and voting interest in Lumenpulse. The financial results of Lumenpulse are consolidated from the date of acquisition.

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 Lumenpulse and Wealthsimple and their purchase price allocations.

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

	Lumenpulse	Wealthsimple
Assets acquired and goodwill		
Cash and cash equivalents	45	41
Other assets	81	52
Intangible assets	268	65
Goodwill	359	98
	753	256
Less: liabilities assumed		
Other liabilities	136	53
Deferred tax liabilities	66	17
	202	70
Net assets acquired	551	186
Consideration		
Cash	267	–
Fair value of the investment in Wealthsimple	–	130
Non-controlling interests, at fair value	212	56
Financing through other debt instruments	72	–
	551	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. The amount of goodwill expected to be deductible for tax purposes is $59 million resulting from the Lumenpulse acquisition.

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

NOTE 3 BUSINESS ACQUISITIONS AND DISPOSAL (continued)

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.

VEIN CLINICS

On December 29, 2017, an investment fund controlled by the Corporation disposed of its 97.3% controlling interest in Vein Clinics, a private healthcare services company, resulting in a gain of $67 million recorded in net investment income. The results of Vein Clinics have been included in the statements of earnings up to the date of disposal.

SAGARD 3

In December 2016, Sagard 3, a European investment fund, increased its fund size from €404 million to €808 million; consequently the Corporation's interest in Sagard 3 decreased to a level where it no longer controls the fund. Effective December 15, 2016, the Corporation derecognized the assets and liabilities of Sagard 3 and its two controlled portfolio investments.

NOTE 4 CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash	2,774	2,238
Cash equivalents	3,129	2,944
Cash and cash equivalents	5,903	5,182

At December 31, 2017, cash amounting to $314 million was restricted for use by subsidiaries ($290 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:

	December 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated as fair value through profit or loss [1]	87,988	87,988	85,697	85,697
Classified as fair value through profit or loss [1]	1,836	1,836	2,586	2,586
Available for sale	12,807	12,807	12,023	12,023
Loans and receivables	17,959	19,470	16,970	18,484
	120,590	122,101	117,276	118,790
Mortgage loans				
Loans and receivables	29,748	30,680	29,295	30,418
Classified as fair value through profit or loss [1]	340	340	339	339
	30,088	31,020	29,634	30,757
Shares				
Designated as fair value through profit or loss [1]	8,194	8,194	7,673	7,673
Available for sale [2]	1,948	1,948	2,137	2,137
	10,142	10,142	9,810	9,810
Investment properties	4,851	4,851	4,340	4,340
Loans to policyholders	8,280	8,280	8,467	8,467
	173,951	176,394	169,527	172,164

[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:

	Carrying value			
	Term to maturity			
December 31, 2017	1 year or less	1-5 years	Over 5 years	Total
Bonds	10,516	27,057	82,771	120,344
Mortgage loans	2,880	13,054	14,117	30,051
	13,396	40,111	96,888	150,395

	Carrying value			
	Term to maturity			
December 31, 2016	1 year or less	1-5 years	Over 5 years	Total
Bonds	12,143	26,844	77,974	116,961
Mortgage loans	2,836	13,162	13,576	29,574
	14,979	40,006	91,550	146,535

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	December 31, 2016
Impaired amounts by classification		
Fair value through profit or loss	233	283
Available for sale	17	10
Loans and receivables	44	82
Total	294	375

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	4,306	957	272	318	412	6,265
Net realized gains	40	85	466	–	–	591
Net allowances for credit losses on loans and receivables	2	(9)	–	–	–	(7)
Other income (expenses)	–	(9)	6	(87)	(123)	(213)
	4,348	1,024	744	231	289	6,636
Change in fair value through profit or loss	865	(25)	579	176	(157)	1,438
Net investment income	5,213	999	1,323	407	132	8,074

Year ended December 31, 2016	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,241	985	285	325	534	6,370
Net realized gains	110	67	95	–	–	272
Net allowances for credit losses on loans and receivables	(7)	(28)	–	–	–	(35)
Other income (expenses)	–	(9)	28	(84)	(113)	(178)
	4,344	1,015	408	241	421	6,429
Change in fair value through profit or loss	3,182	(2)	959	61	(294)	3,906
Net investment income	7,526	1,013	1,367	302	127	10,335

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.

NOTE 5 INVESTMENTS (continued)

INVESTMENT PROPERTIES

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

	December 31, 2017	December 31, 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)
Balance, end of year	4,851	4,340

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

	December 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
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	December 31, 2016
AAA	714	618
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:

	Jointly controlled corporations		Associates		
December 31, 2017	Parjointco	Other	China AMC	Other	Total
Carrying value, beginning of year	2,811	334	–	408	3,553
Investments	–	94	1,272	48	1,414
Disposal	–	–	–	(208)	(208)
Share of earnings	131	36	18	29	214
Share of other comprehensive income (loss)	491	(16)	21	(8)	488
Dividends	(78)	(2)	(21)	(6)	(107)
Effect of change in ownership and other [1][2]	(1)	(134)	–	(65)	(200)
Carrying value, end of year	3,354	312	1,290	198	5,154

[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).

	Jointly controlled corporations		Associates		
December 31, 2016	Parjointco	Other	China AMC	Other	Total
Carrying value, beginning of year	2,610	113	–	324	3,047
Investments	–	279	–	2	281
Share of earnings (losses)	(88)	(45)	–	11	(122)
Share of other comprehensive income (loss)	379	(5)	–	(8)	366
Dividends	(75)	(8)	–	(18)	(101)
Effect of change in ownership and other	(15)	–	–	97	82
Carrying value, end of year	2,811	334	–	408	3,553

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.

NOTE 7 INVESTMENTS IN JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES (continued)

CHINA AMC

On August 31, 2017, Power Corporation completed the acquisition of an additional 3.9% interest in China AMC, an asset management company established in Beijing, China. Power Corporation now holds directly a 13.9% interest in China AMC. The total cost for the additional interest amounted to $178 million. On the same date, Mackenzie Investments, a subsidiary of IGM, completed its acquisition of a 13.9% interest in China AMC for a total cost of $638 million. Total consideration of Power Corporation and IGM is comprised of cash payments made in 2017 of $563 million, conversion of deposits made in 2016 and transaction costs, combined with the fair value of the Corporation's previously held 10% interest in China AMC for an amount of $463 million.

The Corporation and IGM therefore hold a combined 27.8% interest in China AMC. The Corporation has determined that it has significant influence and therefore accounts for its interest as an associate using the equity method. Power Corporation previously held a 10% interest in China AMC and accounted for its interest as an available-for-sale investment. The reclassification of the investment from available for sale to an associate resulted in a gain of $174 million recorded in net investment income.

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 [1]		
Assets	1,827	9,464
Liabilities	405	2,097
Comprehensive income [2]		
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			December 31, 2016		
	Owner-occupied properties	Capital assets	Total	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	904	2,063	2,967	879	1,975	2,854
Additions	81	219	300	40	261	301
Business disposal/derecognition	–	(48)	(48)	–	(75)	(75)
Disposal/retirements	(4)	(77)	(81)	(2)	(90)	(92)
Changes in foreign exchange rates and other	–	(17)	(17)	(13)	(8)	(21)
Cost, end of year	981	2,140	3,121	904	2,063	2,967
Accumulated amortization, beginning of year	(144)	(1,156)	(1,300)	(129)	(1,096)	(1,225)
Amortization and impairment	(20)	(140)	(160)	(15)	(149)	(164)
Business disposal/derecognition	–	25	25	–	15	15
Disposal/retirements	–	38	38	–	86	86
Changes in foreign exchange rates and other	1	9	10	–	(12)	(12)
Accumulated amortization, end of year	(163)	(1,224)	(1,387)	(144)	(1,156)	(1,300)
Carrying value, end of year	818	916	1,734	760	907	1,667

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

	December 31, 2017	December 31, 2016
Canada	1,210	1,174
United States	318	352
Europe	206	141
	1,734	1,667

NOTE 9 OTHER ASSETS

	December 31, 2017	December 31, 2016[1]
Premiums in course of collection, accounts receivable and interest receivable	5,591	5,144
Deferred acquisition costs	633	597
Pension benefits [Note 24]	193	214
Assets held for sale	169	–
Income taxes receivable	219	184
Trading account assets [Note 11]	723	516
Finance leases receivable	350	273
Prepaid expenses	215	211
Deposits for investment in China AMC [Note 7]	–	247
Other	571	611
	8,664	7,997

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

Total Other assets of $7,331 million as at December 31, 2017 ($6,519 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			December 31, 2016		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Balance, beginning of year	10,749	(1,250)	9,499	10,955	(1,286)	9,669
Business acquisitions [Note 3]	645	–	645	95	–	95
Business disposal/derecognition [Note 3]	(55)	–	(55)	(246)	–	(246)
Changes in foreign exchange rates and other	(76)	72	(4)	(55)	36	(19)
Balance, end of year	11,263	(1,178)	10,085	10,749	(1,250)	9,499

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 [1]	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	Power purchase agreements	Deferred selling commissions	Other	Total
Cost, beginning of year	1,611	831	181	1,374	352	4,349
Additions	252	300	12	272	136	972
Disposal/redemption	(28)	–	–	(53)	(7)	(88)
Changes in foreign exchange rates	(39)	(10)	–	–	(7)	(56)
Other, including write-off of assets fully amortized	(128)	–	–	(164)	3	(289)
Cost, end of year	1,668	1,121	193	1,429	477	4,888
Accumulated amortization, beginning of year	(867)	(460)	(15)	(648)	(157)	(2,147)
Amortization	(163)	(59)	(10)	(207)	(23)	(462)
Impairment [1]	(109)	–	–	–	–	(109)
Disposal/redemption	24	–	–	29	6	59
Changes in foreign exchange rates	29	8	–	–	3	40
Other, including write-off of assets fully amortized	130	–	–	164	(2)	292
Accumulated amortization, end of year	(956)	(511)	(25)	(662)	(173)	(2,327)
Carrying value, end of year	712	610	168	767	304	2,561

[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	Power purchase agreements	Deferred selling commissions	Other	Total
Cost, beginning of year	1,376	810	157	1,356	410	4,109
Additions	267	42	24	235	7	575
Derecognition	–	–	–	–	(39)	(39)
Disposal/redemption	(7)	–	–	(68)	(4)	(79)
Changes in foreign exchange rates	(25)	(21)	–	–	(22)	(68)
Other, including write-off of assets fully amortized	–	–	–	(149)	–	(149)
Cost, end of year	1,611	831	181	1,374	352	4,349
Accumulated amortization, beginning of year	(753)	(418)	(7)	(629)	(142)	(1,949)
Amortization	(139)	(50)	(8)	(205)	(20)	(422)
Disposal/redemption	7	–	–	37	3	47
Changes in foreign exchange rates	18	8	–	–	2	28
Other, including write-off of assets fully amortized	–	–	–	149	–	149
Accumulated amortization, end of year	(867)	(460)	(15)	(648)	(157)	(2,147)
Carrying value, end of year	744	371	166	726	195	2,202

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			December 31, 2016		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
Lifeco						
Canada [1]						
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	609	39	648	225	–	225
	10,085	3,727	13,812	9,499	4,056	13,555

[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.

NOTE 10 GOODWILL AND INTANGIBLE ASSETS (continued)

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.

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (continued)

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" in the Lifeco section of the Corporation's December 31, 2017 Management's Discussion and Analysis.

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (continued)

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

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	December 31, 2017	December 31, 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

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	–	–

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (continued)

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 [1]	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 [1]	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.

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	December 31, 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.

NOTE 11 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (continued)

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			December 31, 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			December 31, 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
Participating liabilities						
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
Non-participating liabilities						
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
Total equity	5,706	669	552	146	18,463	25,536
Total carrying value	120,204	22,185	8,864	4,851	263,734	419,838
Fair value	121,715	23,005	8,906	4,851	263,734	422,211

December 31, 2016 [1]	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
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
Non-participating liabilities						
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
Total equity	6,110	628	655	179	17,436	25,008
Total carrying value	116,773	21,651	8,665	4,340	248,304	399,733
Fair value	118,287	22,550	8,655	4,340	248,304	402,136

[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			
December 31, 2017	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
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			
December 31, 2016	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
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.

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

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.

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.

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

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

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

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.

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).

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

Expenses

Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the 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.

Policyholder dividends and adjustable policy features

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

RISK MANAGEMENT

Insurance risk

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

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

NOTE 12 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (continued)

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)

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			December 31, 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			December 31, 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		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
DEBENTURES				
Power Corporation				
7.57% debentures, due April 22, 2019, unsecured	250	267	250	283
8.57% debentures, due April 22, 2039, unsecured	150	241	150	226
4.81% debentures, due January 31, 2047, unsecured	248	278	–	–
Power Financial				
6.90% debentures, due March 11, 2033, unsecured	250	339	250	328
Lifeco				
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
IGM Financial				
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)
Total debentures	7,323	8,408	7,485	8,394
OTHER DEBT INSTRUMENTS				
Power Corporation				
Revolving credit facility with interest equal to LIBOR rate plus 0.50%, unsecured	–	–	55	55
Lifeco				
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	–	–
Other subsidiaries				
Loan facilities due from June 28, 2024 to December 15, 2036 bearing interest at various rates from 3.33% to 7.36%, secured [1]	474	486	298	322
Term loan facilities due in June and December 2022, bearing interest at various rates from 5.70% to 10.65%, secured [1]	121	121	–	–
Other various debt instruments, secured [1]	12	12	10	10
Controlled portfolio investments				
Term loans due December 17, 2018 and revolving facilities, bearing interest at various rates from 4% to 12% (US$103 million)(US$107 million at December 31, 2016), secured [1]	128	128	142	142
Total other debt instruments	2,028	1,895	933	957
	9,351	10,303	8,418	9,351

[1] Secured by the assets of Other subsidiaries and controlled portfolio investments; the loans are non-recourse to the Corporation.

NOTE 14 DEBENTURES AND OTHER DEBT INSTRUMENTS (continued)

POWER CORPORATION

On January 31, 2017, Power Corporation issued $250 million of 30-year 4.81% debentures. The net proceeds were used by the Corporation to finance the acquisition of the additional 3.9% interest in China AMC and for general corporate purposes.

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.

OTHER SUBSIDIARIES

In 2017, Potentia Renewables Inc., a wholly owned subsidiary of Power Energy, entered into an agreement for a term loan facility of $145 million. The loan is advanced in two separate tranches with the first tranche of $107 million advanced in April 2017. The loan bears interest at 7.36% and will mature in June 2036.

In June 2017, Lumenpulse, a subsidiary of Power Energy, entered into agreements for term loan facilities of $125 million. These loans bear interest at various rates and will mature in 2022.

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

2018	944
2019	653
2020	531
2021	33
2022	119
Thereafter	7,135

NOTE 15 OTHER LIABILITIES

	December 31, 2017	December 31, 2016[1]
Accounts payable	3,248	2,583
Bank overdraft	435	447
Dividends and interest payable	299	274
Income taxes payable	519	507
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]	2,044	2,131
Other	1,967	1,901
	9,903	9,104

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

Total Other liabilities of $6,850 million as at December 31, 2017 ($6,137 million as at December 31, 2016) are expected to be settled within 12 months.

CAPITAL TRUST DEBENTURES

	December 31, 2017		December 31, 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	
	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	(8.2)	(5.9)
Lower effective tax rates on income not subject to tax in Canada	(5.8)	(5.7)
Share of (earnings) losses of investments in jointly controlled corporations and associates	(1.1)	0.8
U.S. tax reform impact of rate changes on deferred taxes	3.7	–
Other	(0.2)	(0.8)
Effective income tax rate	15.2	15.2

NOTE 16 INCOME TAXES (continued)

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 3.7%. 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.

INCOME TAXES

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

	Years ended December 31	
	2017	2016
Current taxes		
In respect of the current year	422	532
Recognition of previously unrecognized tax losses, tax credits or temporary differences	(7)	(32)
Adjustments in respect of prior years	(17)	(37)
	398	463
Deferred taxes		
Origination and reversal of temporary differences	4	116
Effect of change in tax rates or imposition of new taxes	128	(16)
Other	13	24
	145	124
	543	587

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

	December 31, 2017		December 31, 2016	
	Other comprehensive income	Equity	Other comprehensive income	Equity
Current taxes (recovery)	(13)	–	(9)	–
Deferred taxes (recovery)	149	(10)	(10)	(1)
	136	(10)	(19)	(1)

NOTE 16 INCOME TAXES (continued)

DEFERRED TAXES

Deferred taxes are attributable to the following items:

	December 31, 2017	December 31, 2016[1]
Loss carry forwards	1,189	1,818
Investments	(618)	(663)
Insurance and investment contract liabilities	(976)	(1,429)
Intangible assets	(772)	(793)
Other	431	708
	(746)	(359)
Presented on the balance sheets as follows:		
Deferred tax assets	1,023	1,657
Deferred tax liabilities	(1,769)	(2,016)
	(746)	(359)

[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.

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 $756 million ($528 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 $336 million ($320 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 Corporation consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Participating Preferred Shares; and an unlimited number of Subordinate Voting Shares.

ISSUED AND OUTSTANDING

	December 31, 2017		December 31, 2016	
	Number of shares	Stated capital	Number of shares	Stated capital
		$		$
Non-Participating Shares				
First Preferred Shares				
Cumulative Redeemable				
1986 Series	300,800	15	310,600	16
Non-cumulative Redeemable, fixed rate				
Series A	6,000,000	150	6,000,000	150
Series B	8,000,000	200	8,000,000	200
Series C	6,000,000	150	6,000,000	150
Series D	10,000,000	250	10,000,000	250
Series G	8,000,000	200	8,000,000	200
		965		966
Participating Shares				
Participating Preferred Shares	48,854,772	27	48,854,772	27
Subordinate Voting Shares				
Balance, beginning of year	414,461,536	659	414,366,313	656
Issued under Stock Option Plan	982,043	31	95,223	3
Balance, end of year	415,443,579	690	414,461,536	659
Total Participating Shares		717		686

NOTE 17 STATED CAPITAL (continued)

Non-Participating Shares

The Cumulative Redeemable First Preferred Shares, 1986 Series are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average of the prime rates quoted by two major Canadian chartered banks. The shares are redeemable by the Corporation at $50 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption. The Corporation will make all reasonable efforts to purchase for cancellation, on the open market, 20,000 shares per quarter, at a price not exceeding $50 per share. In 2017, 9,800 shares (79,978 shares in 2016) were purchased for cancellation.

The following First Preferred Shares series are entitled to fixed non-cumulative preferential cash dividends payable quarterly. The Corporation may redeem for cash the First Preferred Shares in whole or in part, at the Corporation's option, with all declared and unpaid dividends to, but excluding, the date of redemption. 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 A, 5.60%	0.350000	Currently redeemable	25.00
Series B, 5.35%	0.334375	Currently redeemable	25.00
Series C, 5.80%	0.362500	Currently redeemable	25.00
Series D, 5.00%	0.312500	Currently redeemable	25.00
Series G, 5.60%	0.350000	Currently redeemable	26.00

Participating Shares

Participating Preferred Shares are entitled to ten votes per share; and, subject to the rights of holders of the First Preferred Shares, to a non-cumulative dividend of 0.9375¢ per share per annum before dividends on the Subordinate Voting Shares and have the further right to participate, share and share alike, with the holders of the Subordinate Voting Shares in any dividends that may be paid with respect to the Subordinate Voting Shares.

Subordinate Voting Shares are entitled to one vote per share. In 2017, 982,043 Subordinate Voting Shares (95,223 in 2016) were issued under the Corporation's Executive Stock Option Plan for a consideration of $27 million ($3 million in 2016).

Dividends declared on the Corporation's participating shares in 2017 amounted to $1.4105 per share ($1.3163 per share in 2016).

NOTE 18 SHARE-BASED COMPENSATION

STOCK OPTION PLAN

Under Power Corporation's Executive Stock Option Plan, 24,988,425 Subordinate Voting 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 the basis of [i] the first 50%, three years from the date of grant and [ii] the remaining 50%, four years from the date of grant, except for a grant of 37,142 options in 2015 and grants of 96,291 options in 2016 which vest equally over a period of five years.

A summary of the status of Power Corporation's Executive 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	18,768,640	28.75	18,690,790	28.99
Granted	1,127,871	31.46	1,464,636	29.44
Exercised	(982,043)	27.38	(95,223)	26.81
Forfeited and expired	(1,283,802)	37.23	(1,291,563)	33.16
Outstanding at end of year	17,630,666	28.38	18,768,640	28.75
Options exercisable at end of year	13,215,326	27.43	13,404,564	28.15

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

	Options outstanding			Options exercisable	
Range of exercise prices	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
$		(yrs)	$		$
18.52	1,135,855	1.2	18.52	1,135,855	18.52
22.64 – 23.73	932,400	1.4	22.77	932,400	22.77
27.25 – 27.30	2,964,229	4.3	27.25	2,927,599	27.25
27.60	1,564,741	3.2	27.60	1,564,741	27.60
28.24	2,647,168	5.4	28.24	2,647,168	28.24
28.81 – 29.73	1,372,161	8.2	29.51	12,340	29.22
29.89 – 29.91	2,367,270	3.8	29.90	1,678,377	29.90
30.07	1,699,448	2.2	30.07	1,699,448	30.07
30.94 – 31.48	1,126,668	9.2	31.46	1,425	31.48
33.13 – 36.24	1,820,726	4.9	33.83	615,973	33.87
	17,630,666	4.4	28.38	13,215,326	27.43

Compensation expense

During the year ended December 31, 2017, Power Corporation granted 1,127,871 options (1,464,636 options in 2016) under its Executive 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%	3.9%
Expected volatility	19.3%	21.5%
Risk-free interest rate	1.4%	1.1%
Expected life (years)	8.3	8.3
Fair value per stock option ($/option)	3.15	3.46
Weighted-average exercise price ($/option)	31.46	29.44

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

NOTE 18 SHARE-BASED COMPENSATION (continued)

Power Financial, 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 $71 million in 2017 ($87 million in 2016) and is recorded in operating and administrative expenses in the statements of earnings.

PERFORMANCE SHARE UNIT PLAN

Power Corporation 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 Subordinate Voting 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 Subordinate Voting Shares based on the value of the PSU or PDSU at the dividend payment date. The carrying value of the PSU liability of $5 million ($4 million in 2016) is recorded within other liabilities.

DEFERRED SHARE UNIT PLAN

Power Corporation 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 Subordinate Voting 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 Subordinate Voting Shares, based on the value of a deferred share unit on the date on which the dividends were paid on the Subordinate Voting 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 $18 million ($15 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 Corporation 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 the Corporation on the open market. Power Corporation 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 $63 million in 2017 ($28 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 Power Financial and other subsidiaries reflected in the balance sheets are as follows:

	December 31, 2017			December 31, 2016		
	Power Financial	Other subsidiaries	Total	Power Financial	Other subsidiaries	Total
Non-controlling interests, beginning of year	21,130	67	21,197	21,199	208	21,407
Net earnings (losses) attributable to non-controlling interests	1,704	(8)	1,696	2,127	2	2,129
Other comprehensive loss attributable to non-controlling interests	(99)	(3)	(102)	(705)	(9)	(714)
Dividends	(1,275)	–	(1,275)	(1,217)	–	(1,217)
Change in ownership interest and other [1]	491	194	685	(274)	(134)	(408)
Non-controlling interests, end of year	21,951	250	22,201	21,130	67	21,197

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

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

	December 31, 2017	December 31, 2016
Common shareholders	19,371	18,617
Preferred shareholders	2,830	2,580
	22,201	21,197

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

	2017	2016
Balance sheet		
Assets	440,224	418,407
Liabilities	406,700	386,191
Equity	33,524	32,216
Comprehensive income		
Net earnings	2,814	3,386
Other comprehensive income (loss)	43	(1,139)
Cash flows		
Operating activities	7,255	6,900
Financing activities	(1,156)	(1,015)
Investing activities	(5,146)	(5,479)

NOTE 20 CAPITAL MANAGEMENT

As a holding company, Power Corporation'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, non-participating shares, participating shareholders' equity and non-controlling interests. The Corporation views non-participating 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 participating shares, non-participating 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.

NOTE 20 CAPITAL MANAGEMENT (continued)

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

- 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.

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.

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.

NOTE 21 RISK MANAGEMENT (continued)

POWER CORPORATION, POWER FINANCIAL AND OTHER SUBSIDIARIES

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

Liquidity risk

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

Power Corporation and Power Financial regularly review their liquidity requirements and seek to maintain sufficient levels of liquidities to meet their operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time. The ability of Power Corporation, Power Financial and other subsidiaries to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Corporation, Power Financial and their subsidiaries.

Liquidity is also available through the Corporation's lines of credit with Canadian banks. The Corporation has a committed line of credit of $250 million. The Corporation also maintains an uncommitted line of credit of $100 million, and any advances are at the bank's sole discretion. At December 31, 2017, both lines of credit were unutilized.

Power Energy's subsidiaries also have committed lines of credit of $65 million with Canadian banks ($54 million was undrawn at December 31, 2017).

Principal repayments on debentures and pension funding (other than those of Lifeco and IGM discussed below) represent the only significant contractual liquidity requirements.

	Payments due by period			
December 31, 2017	Less than 1 year	1–5 years	After 5 years	Total
Debentures and other debt instruments	166	461	1,024	1,651
Pension contributions	24	–	–	24
	190	461	1,024	1,675

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

Credit risk

Fixed income securities and derivatives are subject to credit risk. Power Corporation and Power Financial mitigate credit risk on their 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.

NOTE 21 RISK MANAGEMENT (continued)

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 Corporation and Power Financial operate, as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. Power Corporation and Power Financial regularly review the credit ratings of their 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 Power Corporation and Power Financial and are monitored by the Corporation and Power Financial for effectiveness as economic hedges even if specific hedge accounting requirements are not met. Power Corporation and Power Financial regularly review the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Other subsidiaries' financial instruments do not have significant exposure to credit risk.

Power Corporation and 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.

Market risk

Power Corporation and Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, investment funds and hedge funds), derivatives and debentures.

a) Foreign exchange risk

In managing their own cash and cash equivalents as well as fixed income securities, Power Corporation, Power Financial and other subsidiaries 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 Corporation and Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2017, approximately 67% of Power Corporation, Power Financial and other subsidiaries' cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Most of Power Corporation's other investments are classified as available for sale. As such, unrealized gains and losses on these investments, resulting from foreign exchange rate variations, are recorded in other comprehensive income until realized. As at December 31, 2017, the impact of a 5% strengthening of the Canadian dollar against foreign currencies would result in an unrealized loss recorded in other comprehensive income of approximately $83 million. Power Corporation's and Power Financial's debentures do not have exposure to foreign exchange risk. A controlled portfolio investment of the Corporation has debt instruments in foreign currencies. Unrealized gains or losses on these debt instruments resulting from foreign exchange variations are recorded in other comprehensive income.

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. Power Corporation is also exposed to foreign exchange risk on its investment in China AMC. Foreign currency translation gains and losses on its investment in China AMC are recorded in other comprehensive income.

NOTE 21 RISK MANAGEMENT (continued)

b) Interest rate risk

Power Corporation, Power Financial and other subsidiaries' financial instruments do not have significant exposure to interest rate risk.

c) Equity risk

Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

During the year, the Corporation recorded investment impairment charges amounting to $20 million ($90 million in 2016). As at December 31, 2017, the impact of a 5% decrease in the value of other investments would have resulted in an approximate $69 million unrealized loss to be recorded in other comprehensive income.

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.

Other subsidiaries' financial instruments do not have significant exposure to equity risk.

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.

	Payments due by period						
December 31, 2017	1 year	2 years	3 years	4 years	5 years	After 5 years	Total
Debentures and other debt instruments	628	–	500	–	–	4,535	5,663
Capital trust debentures [1]	–	–	–	–	–	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).

NOTE 21 RISK MANAGEMENT (continued)

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.

a) 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	December 31, 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 [1]	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 [2] [3]	554	721
Derivative assets	384	528
Total balance sheet maximum credit exposure	175,816	172,907

[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).

NOTE 21 RISK MANAGEMENT (continued)

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.

b) 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.

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

NOTE 21 RISK MANAGEMENT (continued)

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

c) Asset quality

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

d) 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	December 31, 2016
Less than 30 days	1	54
30–90 days	–	–
Greater than 90 days	1	2
Total	2	56

NOTE 21 RISK MANAGEMENT (continued)

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

Market risk

a) 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.

b) 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.

NOTE 21 RISK MANAGEMENT (continued)

- 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.

NOTE 21 RISK MANAGEMENT (continued)

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		December 31, 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)

c) 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		December 31, 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		December 31, 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)

NOTE 21 RISK MANAGEMENT (continued)

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.

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

	Payments due by period				
December 31, 2017	Demand	Less than 1 year	1–5 years	After 5 years	Total
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
Total contractual maturities	490	1,403	6,760	1,698	10,351

NOTE 21 RISK MANAGEMENT (continued)

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.

NOTE 21 RISK MANAGEMENT (continued)

- 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.

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.

NOTE 21 RISK MANAGEMENT (continued)

Market risk

a) Foreign exchange risk

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

b) 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.

c) 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	4,018	4,067
General and administrative expenses	2,731	3,101
Amortization, depreciation and impairment	396	381
Premium taxes	463	411
Loss on assets held for sale [Note 9]	202	–
Restructuring and other	450	63
	8,260	8,023

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	464	442
Interest on capital trust debentures	11	11
Other	37	37
	512	490

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 trusteed 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 trusteed 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		December 31, 2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	7,104	–	6,963	–
Interest income	241	–	257	–
Employee contributions	22	–	25	–
Employer contributions [1]	297	24	168	22
Actual return on assets greater than interest income	337	–	258	–
Benefits paid	(382)	(24)	(314)	(22)
Settlement	–	–	(19)	–
Administrative expenses	(9)	–	(14)	–
Foreign exchange and other	87	–	(220)	–
Fair value of plan assets, end of year	7,697	–	7,104	–
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	8,424	506	8,038	510
Current service cost	178	4	167	5
Employee contributions	22	–	25	–
Interest cost	285	19	297	22
Actuarial (gains) losses on:				
Financial assumption changes	414	18	544	13
Demographic assumption changes	1	(9)	(12)	(8)
Arising from member experience	12	(1)	(35)	(1)
Benefits paid	(382)	(24)	(314)	(22)
Past service cost and plan amendments	(53)	(1)	6	(4)
Settlement	–	–	(19)	(1)
Curtailment [2]	(34)	1	(14)	(7)
Foreign exchange and other	78	(2)	(259)	(1)
Defined benefit obligation, end of year	8,945	511	8,424	506
Funded status				
Fund deficit	(1,248)	(511)	(1,320)	(506)
Unrecognized amount due to asset ceiling (see below)	(92)	–	(91)	–
Accrued benefit liability	(1,340)	(511)	(1,411)	(506)

[1] Includes a one-time contribution by a subsidiary for past services of $66 million in 2017.

[2] 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	December 31, 2016
Wholly or partly funded plans	8,274	7,776
Wholly unfunded plans	671	648

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

	December 31, 2017			December 31, 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]	(1,533)	(511)	(2,044)	(1,625)	(506)	(2,131)
Accrued benefit liability	(1,340)	(511)	(1,851)	(1,411)	(506)	(1,917)

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Corporation and its subsidiaries must assess whether the pension asset has economic benefit to the Corporation and its subsidiaries through future contribution reductions, 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	December 31, 2016
Asset ceiling, beginning of year	91	83
Interest on beginning-of-period 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		December 31, 2016	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Defined benefit current service cost	178	4	167	5
Net interest cost	48	19	43	22
Past service cost, plan amendments and curtailments [1]	(71)	(1)	(8)	(11)
Administration fees	9	–	14	–
Defined contribution current service cost	77	–	69	–
Expense recognized in net earnings	241	22	285	16
Actuarial losses recognized	427	8	497	4
Return on assets greater than interest income	(337)	–	(258)	–
Change in asset ceiling	(3)	–	5	–
Expense recognized in other comprehensive income	87	8	244	4
Total expense	328	30	529	20

[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

	Defined benefit pension plans	
Percentage (%)	December 31, 2017	December 31, 2016
Equity securities	45	48
Debt securities	43	41
All other assets	12	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 Corporation and 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		December 31, 2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Benefit obligation without future salary increases	8,148	511	7,665	506
Effect of assumed future salary increases	797	–	759	–
Defined benefit obligation	8,945	511	8,424	506

Allocation of defined benefit obligation by membership

	December 31, 2017		December 31, 2016	
Percentage (%)	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Actives	39	27	45	27
Deferred vesteds	23	–	17	–
Retirees	38	73	38	73
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	18.1	12.8	18.4	13.1

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	241	–
Unfunded defined benefit plans	26	25
Defined contribution plans	89	–
Total	356	25

NOTE 24 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

Actuarial assumptions

	December 31, 2017		December 31, 2016	
Percentage (%)	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 – 3.7	3.5 – 3.8	3.2 – 4.1	3.7 – 4.1
Weighted average assumptions used to determine benefit cost [1]				
Discount rate	3.4	3.9	3.9	4.1
Rate of compensation increase	3.2	–	3.2	–
Weighted average assumptions used to determine accrued benefit obligation at year-end [1]				
Discount rate	3.2	3.6	3.4	3.8
Rate of compensation increase	3.1	–	3.2	–
Weighted average healthcare trend rates [1]				
Initial healthcare trend rate		5.2		5.3
Ultimate healthcare trend rate		4.5		4.4
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		December 31, 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 [1]:				
Male				
Age 65 in fiscal year	22.9	22.5	22.8	22.4
Age 65 for those age 35 in the fiscal year	25.0	24.1	24.9	24.0
Female				
Age 65 in fiscal year	24.8	24.9	24.7	24.7
Age 65 for those age 35 in the fiscal year	26.8	26.3	26.6	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	(1,394)	1,798
Impact of a change to the rate of compensation increase	346	(302)
Impact of a change to the rate of inflation	661	(595)
Other post-employment benefits:		
Impact of a change to the discount rate	(58)	71
Impact of a change to assumed medical cost trend rates	54	(44)

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:

	Notional amount					
December 31, 2017	1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,599	2,299	1,848	5,746	145	80
Options purchased	46	202	59	307	50	50
Futures – long	17	8	–	25	–	–
Futures – short	43	9	–	52	–	–
	1,705	2,518	1,907	6,130	195	130
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)
	3,825	4,522	10,193	18,540	404	(795)
Cash flow hedges						
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	19	36	–	55	10	10
	519	36	407	962	20	(103)
Net investment hedges						
Foreign exchange contracts						
Forward contracts	–	475	–	475	–	(42)
	4,344	5,033	10,600	19,977	424	(940)

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Notional amount					
December 31, 2016	1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	2,151	2,256	1,787	6,194	211	132
Options purchased	39	194	85	318	49	49
Futures – long	2	9	–	11	–	–
Futures – short	70	28	–	98	–	–
	2,262	2,487	1,872	6,621	260	181
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	9,071	18,595	495	(1,088)
Cash flow hedges						
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	16	33	–	49	4	2
	1,334	533	432	2,299	46	(396)
Net investment hedges						
Foreign exchange contracts						
Forward contracts	450	49	–	499	32	6
Fair value hedges						
Foreign exchange contracts						
Forward contracts	33	–	–	33	–	(1)
	6,867	5,056	9,503	21,426	573	(1,479)

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.

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 exchange 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, cash flows and other investments. 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.

NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Lifeco's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between Lifeco and its counterparties in the event of default.

The following disclosure shows the potential effect on the 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.

				December 31, 2017
		Related amounts not set off in the balance sheet		
	Gross amount of financial instruments presented in the balance sheet	Offsetting counterparty position[1]	Financial collateral received / pledged[2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	424	(359)	(26)	39
Reverse repurchase agreements [3]	29	–	(29)	–
	453	(359)	(55)	39
Financial instruments (liabilities)				
Derivative financial instruments	1,364	(359)	(359)	646
	1,364	(359)	(359)	646

				December 31, 2016
		Related amounts not set off in the balance sheet		
	Gross amount of financial instruments presented in the balance sheet	Offsetting counterparty position[1]	Financial collateral received / pledged[2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	573	(379)	(131)	63
	573	(379)	(131)	63
Financial instruments (liabilities)				
Derivative financial instruments	2,052	(379)	(403)	1,270
	2,052	(379)	(403)	1,270

[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
Assets					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	89,824	–	89,759	65	89,824
Available for sale	12,807	–	12,807	–	12,807
Mortgage loans					
Fair value through profit or loss	340	–	340	–	340
Shares					
Fair value through profit or loss	8,194	7,949	1	244	8,194
Available for sale	1,617	775	10	832	1,617
Investment properties	4,851	–	–	4,851	4,851
Funds held by ceding insurers	7,938	132	7,806	–	7,938
Derivative instruments	424	1	411	12	424
Other assets	892	503	389	–	892
	126,887	9,360	111,523	6,004	126,887
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 [1]	331	–	–	331	331
Funds held by ceding insurers	106	–	–	106	106
	48,144	–	42,396	8,191	50,587
Total	175,031	9,360	153,919	14,195	177,474
Liabilities					
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	97	9	–	88	97
	3,302	11	3,173	118	3,302
Liabilities disclosed at fair value					
Obligations to securitization entities	7,596	–	–	7,658	7,658
Debentures and other debt instruments	9,351	440	9,863	–	10,303
Capital trust debentures	160	–	221	–	221
Deposits and certificates	555	–	555	–	555
	17,662	440	10,639	7,658	18,737
Total	20,964	451	13,812	7,776	22,039

[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
Assets					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	88,283	–	88,282	1	88,283
Available for sale	12,023	–	12,023	–	12,023
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	1,761	481	2	1,278	1,761
Investment properties	4,340	–	–	4,340	4,340
Funds held by ceding insurers	8,605	214	8,391	–	8,605
Derivative instruments	573	3	567	3	573
Other assets	516	302	213	1	516
	124,113	8,583	109,826	5,704	124,113
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 [1]	376	–	–	376	376
Funds held by ceding insurers	118	–	–	118	118
	46,759	–	40,935	8,461	49,396
Total	170,872	8,583	150,761	14,165	173,509
Liabilities					
Liabilities recorded at fair value					
Investment contract liabilities	2,009	–	1,989	20	2,009
Derivative instruments	2,052	1	2,025	26	2,052
Other liabilities	10	10	–	–	10
	4,071	11	4,014	46	4,071
Liabilities disclosed at fair value					
Obligations to securitization entities	7,721	–	–	7,873	7,873
Debentures and other debt instruments	8,418	483	8,868	–	9,351
Capital trust debentures	161	–	212	–	212
Deposits and certificates	471	–	472	–	472
	16,771	483	9,552	7,873	17,908
Total	20,842	494	13,566	7,919	21,979

[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.

NOTE 26 FAIR VALUE MEASUREMENT (continued)

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.

	Bonds	Shares						
December 31, 2017	Fair value through profit or loss	Fair value through profit or loss [2]	Available for sale	Investment properties	Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
Balance, beginning of year	1	81	1,278	4,340	(23)	1	(20)	5,658
Total gains (losses)								
In net earnings	1	10	270	176	13	(1)	–	469
In other comprehensive income [1]	4	(3)	(61)	68	–	–	–	8
Purchases	–	166	116	339	(2)	(67)	–	552
Sales	–	(14)	(285)	(72)	–	(1)	–	(372)
Settlements	–	–	–	–	16	–	–	16
Other [3]	–	–	(463)	–	–	(20)	(2)	(485)
Transfers into Level 3	60	4	–	–	–	–	–	64
Transfers out of Level 3	(1)	–	(23)	–	–	–	–	(24)
Balance, end of year	65	244	832	4,851	4	(88)	(22)	5,886

[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.

[3] On August 31, 2017, the investment in China AMC was reclassified from available for sale to an investment in an associate (Note 7).

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.
Shares	The determination of the fair value of shares requires the use of estimates such as future cash flows, discount rates, projected earnings multiples, or recent transactions.	Discount rate	Various	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

NOTE 27 OTHER COMPREHENSIVE INCOME

Year ended December 31, 2017	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		
	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	Total
Balance, beginning of year	373	902	433	(468)	(16)	1,224
Other comprehensive income (loss)	110	(285)	309	(41)	(2)	91
Other	–	–	–	–	6	6
Balance, end of year	483	617	742	(509)	(12)	1,321

Year ended December 31, 2016	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		
	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	Total
Balance, beginning of year	224	1,659	192	(374)	(17)	1,684
Other comprehensive income (loss)	149	(757)	241	(94)	1	(460)
Balance, end of year	373	902	433	(468)	(16)	1,224

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
Earnings		
Net earnings attributable to shareholders	1,338	1,134
Dividends on non-participating shares	(52)	(52)
Net earnings attributable to participating shareholders	1,286	1,082
Dilutive effect of subsidiaries	(1)	(3)
Net earnings adjusted for dilutive effect	1,285	1,079
Number of participating shares [millions]		
Weighted average number of participating shares outstanding – Basic	463.8	463.2
Potential exercise of outstanding stock options	1.7	1.0
Weighted average number of participating shares outstanding – Diluted	465.5	464.2
Net earnings per participating share		
Basic	2.77	2.33
Diluted	2.76	2.32

For 2017, 3.6 million stock options (9.1 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, CONTROLLED PORTFOLIO INVESTMENTS AND JOINTLY CONTROLLED CORPORATIONS

The financial statements of Power Corporation include the operations of the following subsidiaries, indirect subsidiaries and investments in jointly controlled corporations and associates:

			% equity interest	
Corporations	Incorporated in	Primary business operation	2017	2016
Power Financial Corporation	Canada	Financial services holding company	65.5	65.6
Great-West Lifeco Inc. [1]	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 [2]	United States	Financial services	95.9	96.2
IGM Financial Inc. [3]	Canada	Financial services	65.3	65.3
Investors Group Inc.	Canada	Financial services	100	100
Mackenzie Financial Corporation	Canada	Financial services	100	100
Parjointco N.V.	Netherlands	Holding company	50	50
Pargesa Holding SA	Switzerland	Holding company	55.5	55.5
Portag3 Venture Limited Partnership [4]	Canada	Investment fund	100	100
Wealthsimple Financial Corp. [5]	Canada	Financial services	77.3	46.5
China Asset Management Co., Ltd. [6]	China	Asset management company	27.8	13.9
Power Energy Corporation	Canada	Holding company	100	100
Potentia Renewables Inc.	Canada	Renewable energy	100	100
Lumenpulse Group Inc.	Canada	Sustainable energy	55.7	–
Eagle Creek Renewable Energy, LLC [7]	United States	Renewable energy	32.9	31.2
The Lion Electric Co.	Canada	Sustainable energy	43.8	–
Square Victoria Communications Group Inc.	Canada	Communications and media	100	100
Sagard SAS	France	Holding company	100	100
152245 Canada Inc.	Canada	Holding company	100	100
Sagard Capital Partners Management Corp.	United States	Holding company	100	100
Sagard Holdings ULC	Canada	Investment company	100	100
Peak Achievement Athletics Inc.	Canada	Manufacturer of sports equipment and apparel	42.6	–
Sagard Capital Partners, LP	United States	Investment fund	100	100
IntegraMed America, Inc.	United States	Healthcare services	91.6	96.7
Vein Clinics of America, Inc. [8]	United States	Healthcare services	–	97.3

[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.

[6] Power Corporation and Mackenzie Investments each hold equity interest of 13.9% in China AMC.

[7] Held through Power Energy Eagle Creek, LLP (60%).

[8] Disposed of in December 2017 (Note 3).

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Power Corporation 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.

NOTE 29 RELATED PARTIES (continued)

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 and a subsidiary of Power Corporation obtained advanced tax rulings which permitted tax loss consolidation transactions; whereby shares of a subsidiary that has generated tax losses may be acquired by IGM. The Corporation recognized the benefit of the tax losses to be realized throughout this program.

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	26	27
Post-employment benefits	8	11
Share-based payments	21	23
	55	61

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.

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.

The Corporation has outstanding commitments of $408 million representing future capital contributions to investment funds.

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.

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	192	156	135	118	94	561	1,256

NOTE 32 SEGMENTED INFORMATION

The Corporation's reportable operating segments are Lifeco, IGM Financial and Pargesa. These reportable segments reflect Power Corporation'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.
- 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.

The column entitled "Other" is comprised of corporate and investment activities of Power Corporation. It includes the results of Power Energy and Square Victoria Communications Group as well as the results of the Corporation's controlled portfolio investments, IntegraMed and Vein Clinics, up to the date of disposal. This column also includes Power Corporation's 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	Power Financial Corporate	Power Financial Sub-total	Other	Total
Revenues							
Premium income, net	33,947	–	–	(22)	33,925	–	33,925
Net investment income	7,582	139	–	(111)	7,610	464	8,074
Fee income	5,454	3,006	–	(117)	8,343	13	8,356
Other revenues	–	–	–	–	–	898	898
Total revenues	46,983	3,145	–	(250)	49,878	1,375	51,253
Expenses							
Total paid or credited to policyholders	35,643	–	–	–	35,643	–	35,643
Commissions	2,410	1,142	–	(77)	3,475	–	3,475
Operating and administrative expenses	5,925	1,113	–	92	7,130	1,130	8,260
Financing charges	300	114	–	18	432	80	512
Total expenses	44,278	2,369	–	33	46,680	1,210	47,890
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,705	776	–	(283)	3,198	165	3,363
Share of earnings (losses) of investments in jointly controlled corporations and associates	25	9	131	35	200	14	214
Earnings before income taxes	2,730	785	131	(248)	3,398	179	3,577
Income taxes	422	174	–	(12)	584	(41)	543
Net earnings	2,308	611	131	(236)	2,814	220	3,034
Attributable to							
Non-controlling interests	1,357	381	45	(95)	1,688	8	1,696
Non-participating shareholders	–	–	–	–	–	52	52
Participating shareholders	951	230	86	(141)	1,126	160	1,286
	2,308	611	131	(236)	2,814	220	3,034

TOTAL ASSETS AND LIABILITIES

December 31, 2017	Lifeco	IGM	Pargesa	Power Financial Corporate	Power Financial Sub-total	Other	Total
Invested assets (including cash and cash equivalents)	167,480	9,073	–	1,113	177,666	2,188	179,854
Investments in jointly controlled corporations and associates	2	648	3,354	12	4,016	1,138	5,154
Other assets	24,635	1,139	–	83	25,857	926	26,783
Goodwill and intangible assets	10,371	4,789	–	168	15,328	1,045	16,373
Investments on account of segregated fund policyholders	217,357	–	–	–	217,357	–	217,357
Total assets [1]	419,845	15,649	3,354	1,376	440,224	5,297	445,521
Total liabilities	394,302	11,674	–	724	406,700	2,005	408,705

[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)	83,734	44,674	51,446	179,854
Investments in jointly controlled corporations and associates	1,369	429	3,356	5,154
Other assets	4,810	3,918	18,055	26,783
Goodwill and intangible assets	11,521	2,184	2,668	16,373
Investments on account of segregated fund policyholders	80,399	34,038	102,920	217,357
Total assets	181,833	85,243	178,445	445,521
Total revenues	21,585	9,862	19,806	51,253

NOTE 32 SEGMENTED INFORMATION (continued)

CONSOLIDATED NET EARNINGS

For the year ended December 31, 2016	Lifeco	IGM	Pargesa	Power Financial Corporate	Power Financial Sub-total	Other	Total
Revenues							
Premium income, net	31,125	–	–	–	31,125	–	31,125
Net investment income	10,145	188	–	(130)	10,203	132	10,335
Fee income	5,101	2,857	–	(164)	7,794	–	7,794
Other revenues	–	–	–	–	–	1,496	1,496
Total revenues	46,371	3,045	–	(294)	49,122	1,628	50,750
Expenses							
Total paid or credited to policyholders	34,675	–	–	–	34,675	–	34,675
Commissions	2,602	1,090	–	(102)	3,590	–	3,590
Operating and administrative expenses	5,450	916	–	14	6,380	1,643	8,023
Financing charges	302	92	–	18	412	78	490
Total expenses	43,029	2,098	–	(70)	45,057	1,721	46,778
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,342	947	–	(224)	4,065	(93)	3,972
Share of earnings (losses) of investments in jointly controlled corporations and associates	10	–	(88)	(20)	(98)	(24)	(122)
Earnings before income taxes	3,352	947	(88)	(244)	3,967	(117)	3,850
Income taxes	396	168	–	17	581	6	587
Net earnings	2,956	779	(88)	(261)	3,386	(123)	3,263
Attributable to							
Non-controlling interests	1,782	468	(31)	(92)	2,127	2	2,129
Non-participating shareholders	–	–	–	–	–	52	52
Participating shareholders	1,174	311	(57)	(169)	1,259	(177)	1,082
	2,956	779	(88)	(261)	3,386	(123)	3,263

TOTAL ASSETS AND LIABILITIES

December 31, 2016 [1]	Lifeco	IGM	Pargesa	Power Financial Corporate	Power Financial Sub-total	Other	Total
Invested assets (including cash and cash equivalents)	162,535	8,819	–	786	172,140	2,569	174,709
Investments in jointly controlled corporations and associates	259	–	2,811	33	3,103	450	3,553
Other assets	26,226	1,263	–	32	27,521	781	28,302
Goodwill and intangible assets	10,409	4,831	–	–	15,240	517	15,757
Investments on account of segregated fund policyholders	200,403	–	–	–	200,403	–	200,403
Total assets [2]	399,832	14,913	2,811	851	418,407	4,317	422,724
Total liabilities	374,725	10,878	–	588	386,191	1,472	387,663

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2016 [1]	Canada	United States	Europe	Total
Invested assets (including cash and cash equivalents)	81,257	45,184	48,268	174,709
Investments in jointly controlled corporations and associates	50	433	3,070	3,553
Other assets	5,108	4,489	18,705	28,302
Goodwill and intangible assets	10,566	2,700	2,491	15,757
Investments on account of segregated fund policyholders	74,909	35,414	90,080	200,403
Total assets	171,890	88,220	162,614	422,724
Total revenues	20,325	10,070	20,355	50,750

[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 Corporation of Canada

We have audited the accompanying consolidated financial statements of Power Corporation of Canada, 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 Corporation of Canada 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 [1]

March 23, 2018

Montréal, Québec

[1] CPA auditor, CA, public accountancy permit No. A110092