



POWER CORPORATION
OF CANADA

2017 Annual Report

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

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

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

All figures mentioned in this report are in Canadian dollars and as of December 31, 2017, unless otherwise noted.

ABBREVIATIONS

The following abbreviations are used throughout this report:

Power Corporation or the Corporation

(Power Corporation of Canada)

adidas (adidas AG)

BME (Madrid Stock Exchange)

Burberry (Burberry Group plc)

Canada Life (The Canada Life Assurance Company)

China AMC (China Asset Management Co., Ltd.)

Eagle Creek (Eagle Creek Renewable Energy, LLC)

EBR (Euronext Brussels)

EPA (Euronext Paris)

GBL (Groupe Bruxelles Lambert)

GEA (GEA Group)

Great-West Financial or Great-West Life & Annuity

(Great-West Life & Annuity Insurance Company)

Great-West Life (The Great-West Life Assurance Company)

IFRS (International Financial Reporting Standards)

IGM or IGM Financial (IGM Financial Inc.)

IntegraMed (IntegraMed America, Inc.)

Investment Planning Counsel (Investment Planning Counsel Inc.)

Investors Group (Investors Group Inc.)

Irish Life (Irish Life Group Limited)

LafargeHolcim (LafargeHolcim Ltd)

La Presse (La Presse, Itée)

Lifeco or Great-West Lifeco (Great-West Lifeco Inc.)

Lion Electric (The Lion Electric Co.)

LON (London Stock Exchange)

London Life (London Life Insurance Company)

Lumenpulse (Lumenpulse Group Inc.)

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

Net earnings attributable to participating shareholders are comprised of:

- adjusted net earnings attributable to participating shareholders; and
- other items, which include the after-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Other items include the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation.

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

Adjusted net earnings attributable to participating shareholders and adjusted net earnings per share are non-IFRS financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-IFRS financial measures to results reported in accordance with IFRS, see the Reconciliation of IFRS and non-IFRS financial measures section further in this report.

Mackenzie or Mackenzie Investments

(Mackenzie Financial Corporation)

Ontex (Ontex N.V.)

PanAgora or PanAgora Asset Management

(PanAgora Asset Management, Inc.)

Pargesa (Pargesa Holding SA)

Parjointco (Parjointco N.V.)

Parques (Parques Reunidos Servicios Centrales, S.A.)

Peak (Peak Achievement Athletics Inc.)

Portag3 or Portag3 Ventures (Portag3 Ventures Limited Partnership)

Potentia or Potentia Renewables (Potentia Renewables Inc.)

Power Energy (Power Energy Corporation)

Power Energy Eagle Creek (Power Energy Eagle Creek LLP)

Power Financial (Power Financial Corporation)

Putnam or Putnam Investments (Putnam Investments, LLC)

Sagard Holdings (Sagard Holdings ULC)

Sagard Investment Funds

(Sagard Europe, Sagard Holdings and Sagard China)

SGS (SGS SA)

SIX (Swiss Stock Exchange)

Square Victoria Communications Group or SVCG

(Square Victoria Communications Group Inc.)

Total (Total SA)

Umicore (Umicore, NV/SA)

Vein Clinics (Vein Clinics of America, Inc.)

Wealthsimple (Wealthsimple Financial Corp.)

XETR (XETRA Stock Exchange)

Financial Highlights

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2017	2016
Revenues	51,253	50,750
Net earnings – attributable to participating shareholders	1,286	1,082
Net earnings – per participating share	2.77	2.33
Adjusted net earnings ^[1] – attributable to participating shareholders	1,560	1,223
Adjusted net earnings ^[1] – per participating share	3.36	2.64
Dividends declared – per participating share	1.41	1.32
Consolidated assets ^[2]	445,521	422,724
Shareholders' equity ^[3]	14,615	13,864
Book value per participating share	29.40	27.84
Participating shares outstanding [in millions]	464.3	463.3

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

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

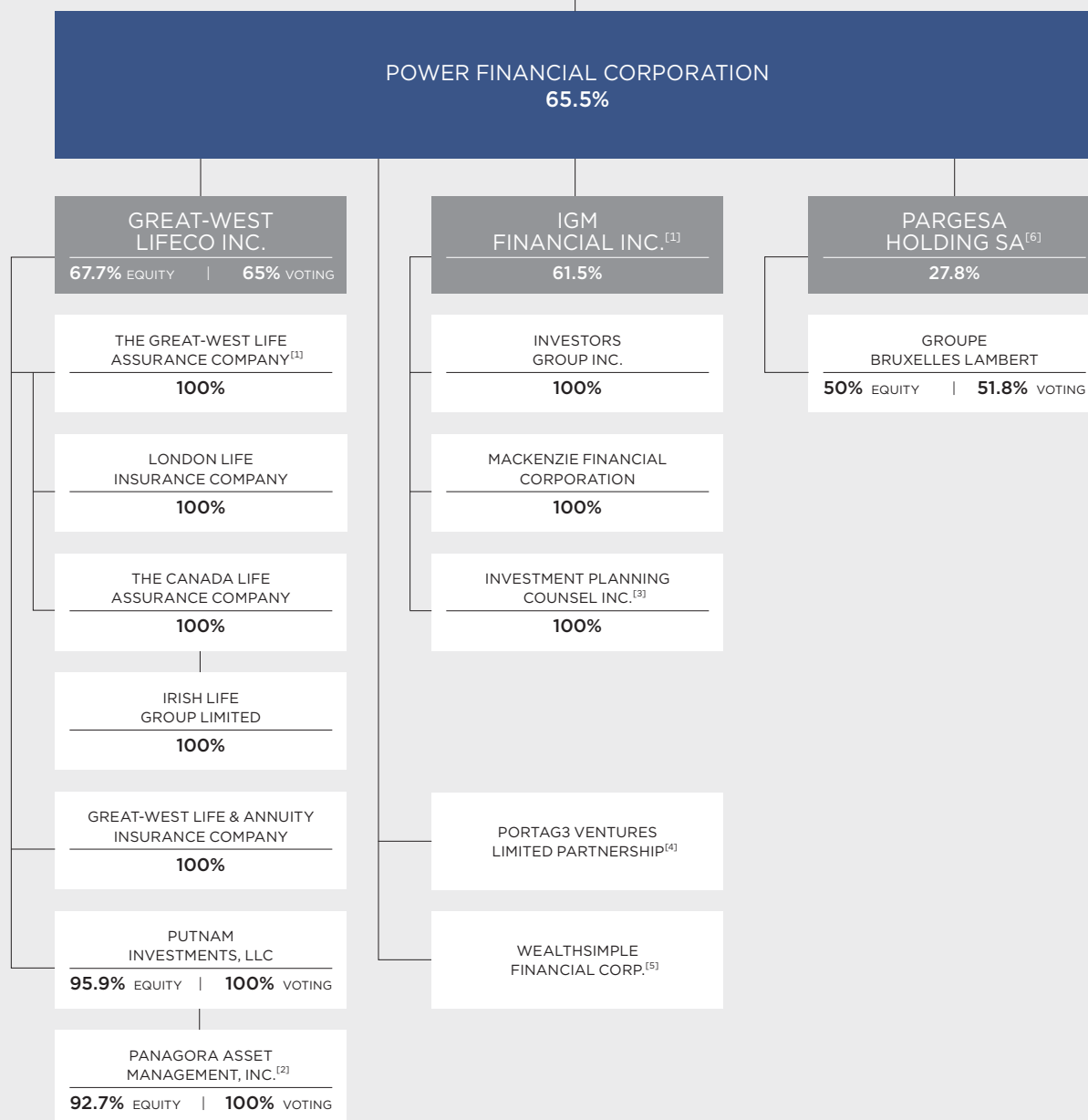
[3] Represents non-participating and participating shareholders' equity.

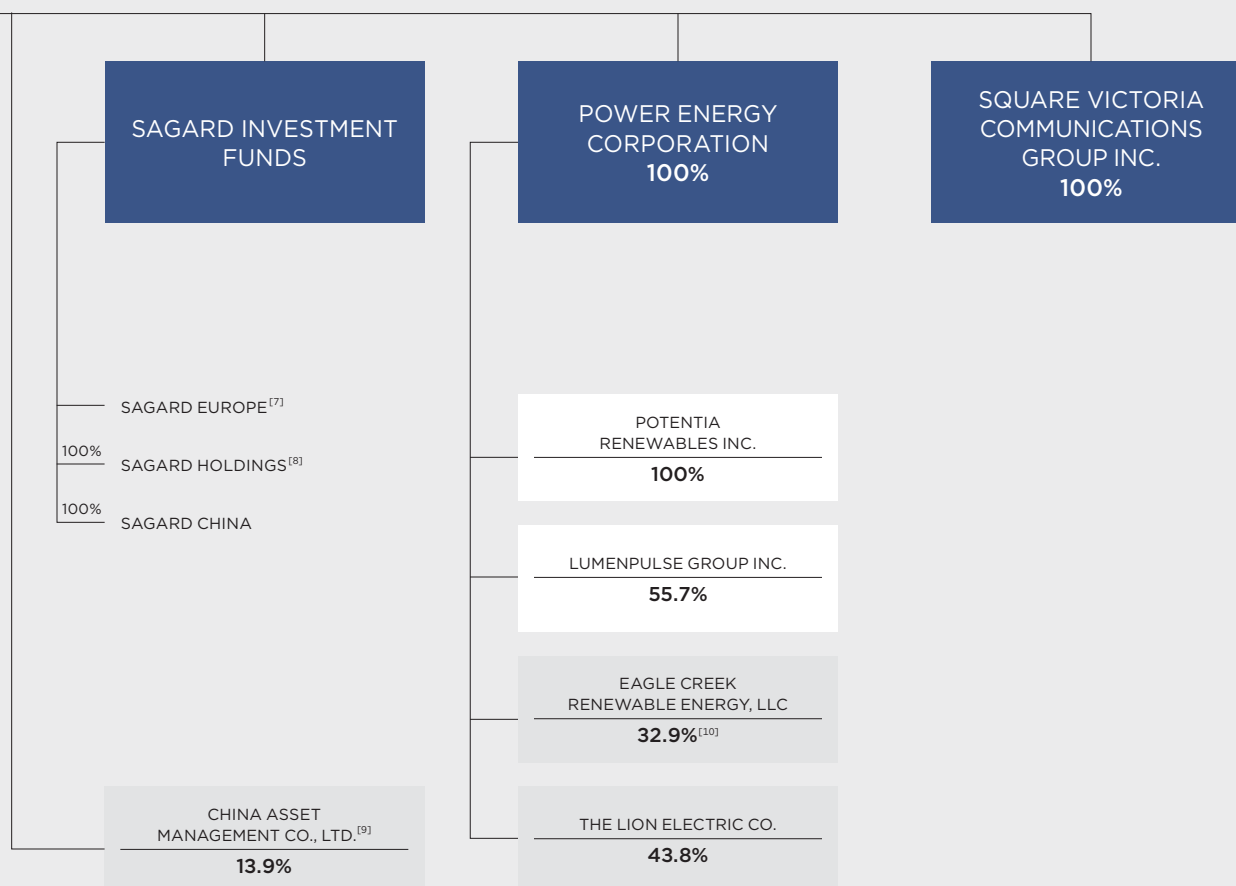
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Group Organization Chart

Power Corporation of Canada





Percentages represent participating equity interest and voting interest (unless otherwise indicated) at December 31, 2017.

[1] IGM Financial holds a 4.0% interest in Great-West Lifeco and Great-West Life holds a 3.8% interest in IGM Financial.

[2] As of February 9, 2018.

[3] As of January 19, 2018.

[4] Power Financial directly holds 63% of Portag3, and both Great-West Lifeco and IGM Financial hold equal interests of 18.5%.

[5] Power Financial directly holds 10.8% of Wealthsimple, and Portag3 and IGM Financial also hold 29.4% and 37.1%, respectively.

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

[7] See page 21 for the Corporation's interest in the Sagard Europe Funds.

[8] Sagard Holdings holds a 91.6% interest in IntegraMed.

[9] Mackenzie also holds a 13.9% interest in China AMC. Power Corporation and Mackenzie hold a combined 27.8% interest in China AMC.

[10] Held through Power Energy Eagle Creek LLP, in which Power Corporation has a 60% interest.



POWER CORPORATION HOLDS INTERESTS IN:

POWER FINANCIAL

holds a controlling interest in both Great-West Lifeco and IGM Financial. Power Financial and the Frère Group each hold a 50 per cent interest in Parjointco, through which their 55.5% interest in Pargesa is held.

Power Financial has an interest in Portag3 Ventures, an investment fund dedicated to backing innovative financial services companies. Power Financial also has a controlling interest in Wealthsimple, a technology-driven investment manager.

Great-West Lifeco

is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. The company has operations in Canada, the United States and Europe through Great-West Life, London Life, Canada Life, Irish Life, Great-West Financial, Putnam Investments and PanAgora. Great-West Lifeco and its companies have \$1.35 trillion in total assets under administration.



Great-West Life is a leading Canadian insurer, with interests in life insurance, health insurance, investment, savings and retirement income, and reinsurance businesses, primarily in Canada and Europe. In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions and serve the financial security needs of 13 million people. In Europe, Great-West Life has operations through Canada Life and Irish Life.

London Life offers financial security advice and planning in Canada through its Freedom 55 Financial™ division. Freedom 55 Financial offers London Life's own brand of investments, savings and retirement income, annuities, life insurance and mortgage products, and a broad range of financial products from other financial institutions. London Life also participates in international reinsurance markets through London Reinsurance Group Inc.

Canada Life provides insurance and wealth management products and services in Canada, the United Kingdom, Isle of Man and Germany, and in Ireland through Irish Life. Canada Life is a leading provider of traditional mortality, structured and longevity reinsurance solutions for life insurers in the U.S. and in international markets.

Great-West Financial provides life insurance, annuities and executive benefits products in the U.S. Its Great-West Investments unit offers fund management, investment and advisory services. Its Empower Retirement arm is the second-largest retirement services provider in the U.S. by participants. Serving the corporate, government, non-profit and institutional sectors, Empower also offers individual retirement accounts.

Putnam Investments is a U.S.-based global asset manager with 80 years of investment experience. In addition to over 100 mutual funds, the firm offers a full range of investment products and services for financial advisors, institutional investors and retirement plan sponsors.

PanAgora, a Putnam affiliate, offers a broad range of investment solutions using sophisticated quantitative techniques.

Incorporated in 1925, Power Corporation is a diversified international management and holding company with interests in companies in the financial services, asset management, sustainable and renewable energy, communications and other business sectors.

IGM Financial

is one of Canada's premier personal financial services companies, and one of the country's largest managers and distributors of investment funds and other managed asset products, with \$157 billion in total assets under management at December 31, 2017. The company serves the financial needs of Canadians through multiple distinct businesses, including Investors Group, Mackenzie Investments and Investment Planning Counsel.



MACKENZIE
Investments



Investors Group is a national leader in delivering personalized financial solutions through a network of consultants to approximately one million Canadians. Investors Group is committed to comprehensive planning and offers an exclusive family of mutual funds and other investment vehicles, along with a wide range of insurance, securities, mortgage and other financial services.

Mackenzie Investments is recognized as one of Canada's premier investment managers and provides investment advisory and related services through multiple distribution channels focused on the provision of financial advice. Mackenzie Investments offers mutual funds, pooled funds, segregated accounts and separate accounts for retail and institutional investors.

Pargesa Group

is a holding company which focuses on a limited number of global industrial and services companies, held through its subsidiary, Groupe Bruxelles Lambert.



Groupe Bruxelles Lambert

Groupe Bruxelles Lambert, the second largest listed holding company in Europe, holds significant positions in major global companies based in Europe: Imerys (mineral-based specialty solutions for industry); SGS (testing, inspection and certification); LafargeHolcim (cement, aggregates and concrete); Pernod Ricard (wines and spirits); adidas (design and distribution of sportswear); Umicore (materials technology and recycling of precious metals); Total (oil, gas and chemical industries); Burberry (a global luxury brand); Ontex (disposable hygiene products); GEA (supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors); and Parques (operation of regional leisure parks).

SAGARD INVESTMENT FUNDS

The Corporation operates equity investment funds in three geographies under the Sagard name: Sagard Europe, Sagard Holdings in North America and Sagard China.



Sagard Holdings

SAGARD CHINA

CHINA AMC

Power Corporation holds an interest in China AMC. A leader in the Chinese asset management sector, China AMC was one of the first asset management companies approved by the China Securities Regulatory Commission.



ChinaAMC

POWER ENERGY

Power Energy actively manages investments in the sustainable and renewable energy sector. To date, Power Energy has invested in Potentia Renewables (a renewable energy generating company active in North America and the Caribbean); Lumenpulse (a leading manufacturer of high-performance, specification-grade LED lighting solutions); Eagle Creek Renewable Energy (a U.S.-based owner and operator of hydroelectric facilities); and Lion Electric (a manufacturer of zero-emission vehicles sold throughout North America).



lumenpulse



SQUARE VICTORIA COMMUNICATIONS GROUP



Square Victoria Communications Group is a wholly owned subsidiary. Its principal asset is La Presse, a French-language news media company providing content on several platforms: the La Presse+ digital edition for tablets, the news website LaPresse.ca and the La Presse mobile application for smartphones.

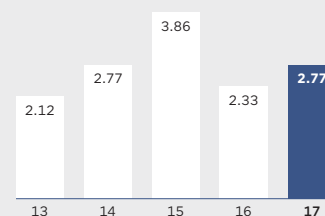
2017 Overview

\$1,286
MILLION

Net Earnings^[1]

Net Earnings
per Participating Share
In dollars

\$2.77

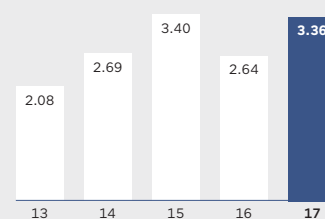


\$1,560
MILLION

Adjusted
Net Earnings^[1, 2]

Adjusted Net Earnings^[2]
per Participating Share
In dollars

\$3.36

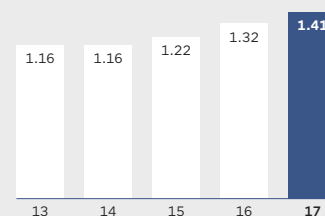


\$706
MILLION

Total Dividends
Declared

Dividends Declared
per Participating Share
In dollars

\$1.41



[1] Attributable to participating shareholders.

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

Directors' Report to Shareholders

Power Corporation delivered strong financial results in 2017, once again, led by its financial services companies and growing contributions from its diversified investment platforms. During 2017, Great-West Lifeco announced a 6.0 per cent dividend increase in February, Power Financial announced a 5.1 per cent dividend increase in March, Pargesa approved a 2.5 per cent dividend increase in May, and Power Corporation then followed, announcing a 7.0 per cent dividend increase in the same month.

Economic and market conditions were strong in 2017 across the group's operating geographies. GDP and employment growth were robust while inflation pressures remained subdued. Global financial markets were calm throughout the year. In many advanced economies, rising bond yields reflected improving economic conditions. Economic and business confidence was supported by major policy announcements regarding tax and regulatory reform in the United States, however, it is being tempered by ongoing political uncertainties and growing tensions in international trade. Despite strong economic conditions, we remain vigilant of elevated risks arising from a volatile political environment and are acting with appropriate prudence in the setting of business strategies, as well as in the management of our capital and liquidity.

Financial Results

Power Corporation's net earnings^[1] were \$1,286 million or \$2.77 per share for the year ended December 31, 2017, compared with \$1,082 million or \$2.33 per share in 2016.

Adjusted net earnings^[1, 2] were \$1,560 million or \$3.36 per share, compared with \$1,223 million or \$2.64 per share in 2016.

Contributions from Power Financial and investment activities to Power Corporation's adjusted net earnings were strong:

In millions	2017	2016
Power Financial	\$1,400	\$1,400
Sagard Investment Funds, China AMC and Other investments	\$445	\$74
Corporate and Other subsidiaries	\$(285)	\$(251)
	\$1,560	\$1,223

Net earnings and adjusted net earnings in 2017 reflect a \$175 million loss at Lifeco on estimated hurricane claims, the Corporation's share being \$81 million.

Contributions from other subsidiaries were lower in 2017, reflecting the investment and development stages of these companies.

Dividends declared on the Corporation's participating shares totalled \$1.41 per share, compared with \$1.32 per share in 2016.

[1] Attributable to participating shareholders.

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

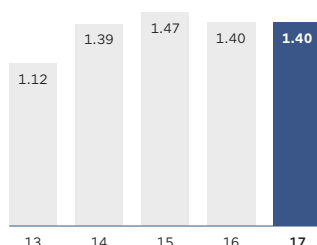
Results of Group Companies

POWER FINANCIAL

The year 2017 was a significant year for Power Financial and its group companies. The opportunities to help meet the financial, physical and mental wellbeing needs of large populations will remain attractive for many decades to come, both from a business perspective and as a vital role to be played in society. Our companies are well placed to serve the needs of such populations in the future, occupying leading positions in almost all of the markets in which we operate. But we can only seize such opportunities if we transform our business models to meet the heightened client expectations, technological change and regulatory initiatives. Several years ago, different businesses that make up Great-West Lifeco and IGM Financial embarked upon transformation strategies which involved augmenting their talent pools, their technology platforms and their product and service offerings, while also reducing their prices in many instances. We are as convinced today as we were a few years back as to the wisdom of such choices. They are consistent with our historic and ongoing objective of creating superior shareholder value over the long term.

Power Financial's
Contribution to
Power Corporation's
Adjusted Net Earnings
In billions of dollars

\$1.4
BILLION



At December 31, 2017, Power Corporation held a 65.5 per cent economic interest in Power Financial.

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

Adjusted net earnings were \$2,135 million or \$2.99 per share in 2017, compared with \$2,136 million or \$2.99 per share in 2016.

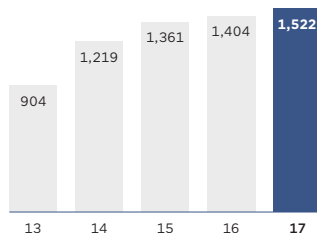
At December 31, 2017, Power Financial's assets under administration were \$1.52 trillion and assets under management were \$848 billion.

Dividends declared by Power Financial totalled \$1.65 per common share, compared with \$1.57 per common share in 2016.

On March 23, 2018, Power Financial announced a five per cent increase in the quarterly dividend on its common shares, from \$0.4125 to \$0.4330 per share.

Power Financial's Assets
under Administration
In billions of dollars

\$1,522
BILLION



Earnings (as reported by):

In millions		2017	2016
Great-West Lifeco	Net earnings	\$2,149	\$2,641
	Adjusted net earnings	\$2,647	\$2,685
IGM Financial	Net earnings	\$602	\$771
	Adjusted net earnings	\$728	\$737
Pargesa	Net earnings (loss)	SF382	SF(32)
	Adjusted net earnings ^[1]	SF384	SF321

[1] Described as Economic operating income by Pargesa.

GREAT-WEST LIFECO

Great-West Lifeco delivered solid results across all of its businesses in 2017. The company sustained its strong and stable capital position and industry-leading credit ratings. The company is finding the right balance between delivering solid results today, and investing in a strong foundation to drive sustainable growth in the future. While its approaches vary across operating regions, they share a common strategy that is focused on customer outcomes in a changing world, and strong risk management to ensure the company delivers on its current and future commitments.

Lifeco's adjusted net earnings were \$2.6 billion or \$2.676 per common share in 2017, compared with \$2.7 billion or \$2.712 per common share in 2016. The 2017 year-to-date adjusted net earnings included a loss of \$175 million related to estimated hurricane claims reflected in the third quarter 2017 results.

\$2.6 BILLION

2017 ADJUSTED NET EARNINGS

Great-West Lifeco reported return on equity based on adjusted net earnings of 13.4 per cent.

Total assets under administration at December 31, 2017 were \$1.35 trillion, an 8 per cent increase from December 31, 2016.

In February of 2018, Great-West Lifeco announced a six per cent increase in its quarterly dividend.

Key priorities for Great-West Lifeco's operating companies included advancing their understanding of diverse customer needs, leveraging technology to enhance customer reach, and investing in their people and communities.

In Canada, Great-West Life, together with its subsidiaries London Life and Canada Life, is focused on improving the financial, physical and mental well-being of Canadians. Their products and services touch the lives of more than 13 million people – approximately one in three Canadians.

In 2017, Great-West Life finished building its teams within the new structure established in late 2016. With teams in place within the individual and group customer business units, along with a new strategic customer

marketing function, the company is developing a deeper understanding of its customers on a segmented basis, learning as it engages with customers across multiple touch points over a lifetime. The company is also investing in digital and innovative capabilities and services that will help achieve its vision: "putting the customer at the centre of what we do."

Great-West Lifeco's U.S. companies are playing a significant role in positively impacting millions of American workers, investors and businesses across the nation through a dynamic, innovative and thoughtful approach to financial well-being.

Empower Retirement, the second-largest retirement service provider in the U.S., offers an unrivalled online retirement planning experience that uses personal data to help individuals better understand their future income needs. Empower's income projection tools include many ways for retirement investors to model savings scenarios and then implement those changes with just a few clicks of the mouse.

Putnam continued its strong performance across asset classes: at the end of December 2017, nearly 95 per cent of Putnam's fund assets performed at levels above Lipper median for the one-year period and 85 per cent were above median for five years. Additionally, nearly half of Putnam's mutual fund assets performed in the Lipper top quartile for the one-year period and nearly 55 per cent were top quartile on a five-year basis. In March 2018, Putnam's investment performance was ranked in the "top ten" among investment firms in all time periods (one, five, ten years) in *Barron's* Best Fund Families of 2017.

In Europe, Great-West Lifeco is making significant investments to build key new capabilities for customers so that the company is able to sustain the strong positions that it has in its chosen markets and grow, both organically and through acquisition.

Canada Life U.K. completed its acquisition of financial services provider Retirement Advantage in January 2018, bringing over 30,000 pension and equity release customers, and more than £2 billion of assets under management, including a £1.5 billion block of in-force annuities (as of June 30, 2017). The transaction strengthens Canada Life's scale and capabilities in the growing United Kingdom retirement income market. It will also further strengthen the company's position as a leading insurer in the U.K., where it has operated since 1903.

Irish Life passed a major milestone in its customer experience program by achieving a top quartile customer satisfaction score for the first time. The score is benchmarked against hundreds of companies in the U.K. and Ireland across all sectors, not just financial services, and measures how strong an organization is in doing best what matters most to its customers. Improved digital services for customers, the introduction of web chat, innovative new products, and the combined efforts of its employees to make every customer touch point count, all contributed to the achievement of this record customer satisfaction score.

IGM FINANCIAL

In 2017, IGM Financial continued to focus on fulfilling the company's mission of delivering long-term growth and value to its clients and shareholders through its principal businesses, Investors Group, Mackenzie Investments and Investment Planning Counsel. The company is a respected leader in the Canadian financial services industry. It has a broad reach across Canadian communities and is well diversified through its multi-channel distribution model, product types, global investment management team and strong brands. Assets under management are diversified by country of investment, industry sector, security type and management style.

Adjusted net earnings were \$728 million or \$3.02 per share in 2017, compared with \$737 million or \$3.05 per share in 2016.

\$728 MILLION

2017 ADJUSTED NET EARNINGS

Return on average common equity based on adjusted net earnings for the year ended December 31, 2017 was 15.6 per cent.

Total assets under management at December 31, 2017 totalled \$157 billion, compared with \$143 billion at December 31, 2016.

In 2017, IGM Financial took major steps forward in its multi-year strategy to transform its business. A number of significant initiatives were introduced to support the company's client-focused vision, create operational efficiencies, and accelerate innovation and digitization. An experienced, expanded IGM leadership team worked to build on the momentum of 2016, acting on a range of opportunities to position the company for accelerated growth.

The company created a Client and Regulatory Affairs office responsible for championing a client-centric vision across all business functions, including corporate initiatives, business planning, and strategy. The office, which is uncommon in the Canadian financial services industry, makes IGM Financial well positioned to navigate change and excel in an evolving regulatory environment.

In August, the company completed its acquisition of a 13.9% interest in China AMC, China's premier asset management firm. This investment broadens IGM's reach and expands its capabilities, allowing both companies to develop products in each other's geographies. In the fall, Mackenzie launched the Mackenzie All China Equity Fund, sub-advised by China AMC. This is a unique product that gives Canadian investors access to the entire spectrum of the Chinese capital markets.

In October, the company combined the investment management functions of Investors Group and Mackenzie to form a single global investment management organization to support both companies. This combined entity, operating under Mackenzie, strengthens the company's ability to deliver the very best investment solutions to retail and institutional clients and to its advisors.

Investors Group and Mackenzie Investments continue to offer unique and diverse products, maintaining their separate product shelves and distribution capabilities. Investors Group clients and Consultants now have access to a broader array of solutions and investment expertise, and Mackenzie distribution channels have access to talent previously exclusive to the Investors Group channel.

In November, IGM introduced a number of initiatives to enhance operational effectiveness. To leverage scale and opportunities across Investors Group and Mackenzie Investments, the company expanded its shared services model beyond the investment management function to include the areas of marketing, human resources, customer service and other operational teams.

PARGESA

The Pargesa group, through Belgian holding company Groupe Bruxelles Lambert, holds significant positions in global industrial and services companies based in Europe: Imerys, SGS, LafargeHolcim, Pernod Ricard, adidas, Umicore, Total, Burberry, Ontex, GEA and Parques.

SF384 MILLION

2017 ADJUSTED NET EARNINGS

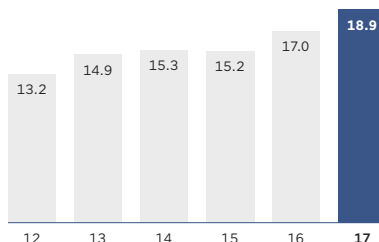
Pargesa reported adjusted net earnings of SF384 million in 2017, compared with SF321 million in 2016.

GBL seeks to invest in companies with leading positions in their sector and robust business models:

- focused on both organic and external growth as an important lever to long-term value creation;
- developed in a sustainable manner by high-quality management teams driven by a strategic vision; and
- supported by a sound financial structure.

GBL Net Asset Value
In billions of euros

€18.9
BILLION



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

Since the initiation of its portfolio rotation and diversification strategy, GBL has invested €5.7 billion in 7 listed companies, with a global market value of €8.5 billion at year-end 2017, and having unrealized gains of €2.8 billion.

At its annual general meeting in April, GBL is expected to propose that its dividend be increased by 2.4 per cent, to €3.00 per share. At its upcoming annual meeting in May, the board of directors of Pargesa is expected to propose a 2018 dividend of SF2.50 per bearer share, an increase of 2.5 per cent, payable May 15, 2018.

INVESTMENT ACTIVITIES

Power Corporation conducts investment activities, leveraging a network of deep and long-standing relationships, to provide superior long-term returns on a diversified basis. These investment activities include the Sagard funds, and interests in China resulting from 40+ years of engagement.

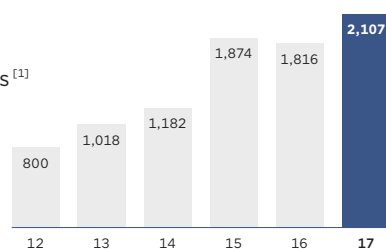
SAGARD INVESTMENT FUNDS

Since the launch of its first Sagard fund in 2002 in Europe, Power Corporation has continued to support and develop its investment funds. Currently, the Corporation operates equity investment funds in three geographical regions under the Sagard name – Sagard Europe, Sagard Holdings (North America) and Sagard China. The Sagard platforms are managed locally by experienced investment professionals who have an in-depth knowledge of the local public and private markets and who benefit from the collaboration within the group of Power companies. Each of the Sagard businesses adheres closely to Power Corporation's investment philosophy and governance model.

As an investor, Power Corporation's style is characterized by a value approach which emphasizes the discipline of deep and detailed fundamental analysis. We seek influence, where appropriate, through involvement and close dialogue with investee companies.

Total Fair Value of
Sagard Investment Funds ^[1]
In millions of dollars

\$2,107
MILLION



Unrealized gains of \$439 million at December 31, 2017.

[1] Includes controlled portfolio investments and cash held in the funds.

Sagard Europe

The Sagard Europe funds invest in mid-sized private companies based in France, Belgium, Luxembourg and Switzerland. As at December 31, 2017, Power Corporation had invested a total of \$664 million in the Sagard Europe funds. The Corporation has received distributions from these funds totalling \$642 million since inception, and the fair value of the investments was \$499 million at December 31, 2017, compared with \$281 million in 2016. Pargesa, GBL and third parties also invest in Sagard Europe.

Sagard Holdings

Sagard Holdings invests in the equity and debt capital of middle-market companies in the United States and Canada. In certain circumstances, Sagard Holdings will seek control of companies that have superior growth and return profiles.

Sagard Holdings holds a 91.6 per cent interest in IntegraMed, the largest network of assisted reproductive medicine clinics in North America, serving patients in the U.S. and Canada.

In February 2017, Sagard Holdings and Fairfax Financial Holdings Limited acquired the assets of Performance Sports Group, Ltd. for US\$575 million. The company designs and markets sports equipment and apparel for ice hockey, baseball, softball and lacrosse under iconic brands that include Bauer and Easton.

In December 2017, Sagard Holdings successfully completed the first closing of Sagard Credit Partners LP, a fund which provides credit capital directly to public and private middle-market companies across Canada and the United States. Of the total US\$260 million committed by limited partners, Sagard Holdings has committed US\$100 million.

Also in December 2017, Sagard Holdings disposed of its investment in Vein Clinics, a provider of business and management services to a network of vein clinics in the United States. The Corporation realized a gain of \$67 million on this transaction.

At December 31, 2017, the fair value of Sagard Holdings was \$824 million, compared with \$888 million in 2016.

In the past five years, the Corporation invested \$788 million in the Sagard Investment Funds and received distributions in cash of \$330 million. During this period, the fair value of the Corporation's investments in the funds has grown from \$800 million at December 31, 2012 to \$2,107 million at December 31, 2017, an increase of \$1,307 million. Gains in the last five years on these investments were \$849 million, of which \$376 million were realized. The internal rate of return during this period was 13.1%.

CHINA ASSET MANAGEMENT

On August 31, 2017, Power Corporation completed the acquisition of an additional 3.9 per cent interest in China AMC. Together with a 10 per cent interest purchased in 2011, Power Corporation now directly holds a 13.9 per cent equity interest in China AMC. IGM, through its subsidiary Mackenzie Investments, also completed its acquisition of a 13.9 per cent interest in China AMC on August 31, 2017.

Founded in 1998 as one of the first asset management companies in China, China AMC has developed and maintained its position among the market leaders in China's asset management industry. China AMC's assets under management, excluding subsidiary assets under management, were RMB¥870 billion (C\$168 billion) at December 31, 2017.

Sagard China

Sagard China, based in Shanghai, is a long-term investor seeking absolute returns through a portfolio of selected stocks. It began participating in Chinese equities through the Chinese stock market in 2005 and in the Hong Kong stock market in 2010. The fair value of Sagard China's investment portfolio was \$784 million at December 31, 2017, compared with \$647 million in 2016.

The investment in China AMC provides Power Corporation with an opportunity to leverage the Power group's extensive experience in wealth management and distribution as it works with China AMC. Companies within the group will benefit from the strategic relationship by identifying opportunities to work together on product development and future sub-advisory relationships.

THIRD-PARTY PRIVATE EQUITY AND HEDGE FUNDS AND OTHER

Power Corporation has also invested for many years in a number of third-party private equity and hedge funds. The fair value of these investments was \$179 million at December 31, 2017, compared with \$411 million at December 31, 2016. Although these investments have, over the years, produced solid returns and have been a positive contributor to the Corporation's profitability, the Corporation is re-investing distributions from these funds in favor of its proprietary platforms.

Income from the investments above can be volatile in nature due to the effect of markets as well as the timing of realizations. Income from investments was \$445 million in 2017, compared with \$74 million in 2016. The fair value of the Corporation's investments at December 31, 2017 was \$2.9 billion, compared with \$2.7 billion at the end of 2016.

POWER ENERGY

Power Energy, a wholly owned subsidiary established in 2012, actively manages investments in the sustainable and renewable energy sector with the goal of building and owning, over the long term, companies that can generate growing and stable cash flows.

Power Energy invests in industries that benefit from the global energy transformation and currently has invested in companies that develop, own and operate solar, hydro and wind generating activities in North America as well as leading manufacturers of sustainable technologies.

Potentia owns and operates rooftop solar generation facilities in Ontario with approximately 150 megawatts of operating solar assets, and manages a pipeline of over 2 gigawatts of solar and wind development projects in Western Canada. Eagle Creek owns and operates 226 megawatts of hydroelectric facilities in the United States.

On June 21, 2017, as part of a going-private transaction by Lumenpulse, Power Energy acquired 55.7 per cent of the company for a consideration of \$267 million. Lumenpulse is a leading manufacturer of high-performance, specification-grade LED lighting solutions.

On October 31, 2017, Power Energy acquired a 43.8 per cent interest in Lion Electric. Lion is an innovative company manufacturing zero-emission vehicles sold throughout North America.

Power Energy has invested a total of \$654 million in these four companies.

COMMUNICATIONS AND MEDIA

Square Victoria Communications Group owns La Presse, a French-language media company providing news content on several digital platforms: the La Presse+ edition for tablets, the website LaPresse.ca, and the La Presse Mobile application for smartphones.

La Presse is known for its distinctive, rich and diversified coverage of national and international news and current events, for its exclusive reports, and for its columnists and reporters, whose work has garnered many awards for excellence in journalism.

The Power Group

Power Corporation closely adheres to principles which have been developed over multiple decades. We invest in companies that have a long-term perspective and maintain a prudent financial structure, a capacity for sustaining earnings and an expectation for growing earnings and dividends. A core tenet of our governance model is active ownership, which is exercised through our presence on the boards of directors of our controlled companies and through our influence as significant shareholders in our non-controlled holdings.

We invest in high-quality, socially responsible companies with sustainable franchises in diverse industries and geographies. Our companies have a long and proud history of contributing to the well-being of the communities in which they operate. The principles underlying our approach to responsible management are outlined later in this report and on www.PowerCorporationCSR.com.

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

We also expect that the ability to act on investment opportunities having acceptable risk-adjusted returns will increasingly require local capabilities throughout the world. Our investment activities around the globe, which have been developed through our extensive network

of long term relationships, will provide us with a unique and valuable lens to allocate our capital having regard for our risk appetite.

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

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

On behalf of the Board of Directors,

Signed,

Paul Desmarais, Jr., o.c., o.g.
Chairman and
Co-Chief Executive Officer

March 23, 2018

Signed,

André Desmarais, o.c., o.g.
Deputy Chairman, President and
Co-Chief Executive Officer

Responsible Management

Creating Value

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



Creating Jobs and Economic Prosperity

The Power Corporation group of companies has a global and diverse employee base of 30,400 people. In 2017, our group paid out \$7.5 billion in salaries and other benefits, and commissions, and \$4.7 billion in payments to suppliers and various levels of government. Together, these funds impact hundreds of communities where we are present. Our investments in training and new technologies are also developing the local talent and intellectual capital of our people.

Enabling Financial Security

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

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

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

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

www.PowerCorporationCSR.com

To read about organizations we support and the important stories they have to tell:

www.PowerCorporationCommunity.com

Promoting Health and Wellness

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

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

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

Supporting Social Inclusion

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

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

Review of Financial Performance

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

MARCH 23, 2018

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

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

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

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

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

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

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including its most recent Management's Discussion and Analysis and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

Readers are reminded that a list of the abbreviations used throughout can be found on the inside front cover of this Annual Report. In addition, the following abbreviations are used in the Review of Financial Performance and in the Financial Statements and Notes thereto: Audited Consolidated Financial Statements of Power Corporation and Notes thereto for the year ended December 31, 2017 (the 2017 Consolidated Financial Statements or the Financial Statements).

Overview

POWER CORPORATION OF CANADA

Incorporated in 1925, Power Corporation is a diversified international management and holding company that holds interests in the financial services, sustainable and renewable energy, asset management, communications and other business sectors in North America, Europe and Asia. Its principal asset is a controlling interest in Power Financial, which in turn controls Lifeco and IGM. Power Financial also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa. Power Corporation also invests in the sustainable and renewable energy sector through Power Energy and in communications and media through Square Victoria Communications Group. Power Corporation conducts investment activities, built upon a network of deep and long-standing relationships, to provide superior returns on a diversified basis. The investment activities include the Sagard Investment Funds and interests in China.

POWER FINANCIAL

Power Financial, TSX: PWF; market capitalization of \$24.7 billion, is a diversified international management and holding company that holds interests substantially in the financial services sector in Canada, the U.S. and Europe, through its controlling interests in Lifeco, IGM and Wealthsimple and investment in Pargesa. As of March 23, 2018, Power Corporation held 65.5% of the equity and voting interests in Power Financial.

LIFECO

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

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

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

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

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

Power Corporation adheres to four overriding investing principles with the objective of achieving sound long-term investment diversification and sustainable value-creation for its shareholders:

- Long-term perspective
- Leading franchises with attractive growth profiles
- Strong governance oversight
- Prudent approach to risk management

Power Corporation is anchored through its core investment in Power Financial. Its value creation strategy is designed to capitalize on its long-term relationships to achieve superior investment returns and stable cash flows.

IGM FINANCIAL

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

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

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

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

On August 31, 2017, Mackenzie Investments completed its acquisition of a 13.9% interest in China AMC. Refer to section "China AMC for more details.

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

PARGESA AND GBL

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

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

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

Review of Financial Performance

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

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|--|---|
| ■ Imerys (EPA: NK) – mineral-based specialty solutions for industry | ■ Total (EPA: FP) – oil, gas and chemical industries |
| ■ SGS (SIX: SGSN) – testing, inspection and certification | ■ Burberry (LON: BRBY) – a global luxury brand |
| ■ LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete | ■ Ontex (EBR: ONTEX) – disposable hygiene products |
| ■ Pernod Ricard (EPA: RI) – wines and spirits | ■ GEA (XETR: GIA) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors |
| ■ adidas (XETR: ADS) – design and distribution of sportswear | ■ Parques (BME: PQR) – operation of regional leisure parks |
| ■ Umicore (EBR: UMI) – materials technology and recycling of precious metals | |
-

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

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

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

OTHER SUBSIDIARIES

Other subsidiaries are comprised of Power Energy, SVCG and controlled portfolio investments.

POWER ENERGY

Established in 2012, Power Energy is a wholly owned subsidiary that actively manages investments in the sustainable and renewable energy sector with the goal of building and owning, over the long-term, companies that can generate growing and stable cash flows. Power Energy invests in companies that benefit from the global energy transformation and currently has invested in companies that develop, own and operate solar, hydro and wind generating assets in North America as well as leading manufacturers of sustainable technologies. Currently, investments are as follows:

- **Potentia Renewables:** Potentia is a renewable energy generating company, active in North America and the Caribbean, with approximately 150 megawatts (MW) of operating solar assets and over 2 gigawatts (GW) of solar and wind development projects. Total assets of Potentia were \$726 million at December 31, 2017.
- **Eagle Creek Renewable Energy:** Power Energy indirectly holds a 32.9% interest in Eagle Creek. Eagle Creek owns and operates 226 MW of hydroelectric facilities in the United States. Total assets of Eagle Creek were \$547 million (US\$436 million) at December 31, 2017.

SAGARD INVESTMENT FUNDS

Since the launch of the first Sagard fund in 2002, Power Corporation has continued to develop investment platforms and operate equity investment funds in three principle geographies: Sagard Europe, Sagard Holdings (North America), and Sagard China. The Sagard platforms are managed locally by experienced investment professionals that have an in-depth knowledge of the local public and private markets and benefit from the collaboration

PORTAG3 AND WEALTHSIMPLE

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

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

- **Lumenpulse:** On June 21, 2017, as part of a going-private transaction by Lumenpulse, Power Energy acquired 55.7% of the company for a consideration of \$267 million. Lumenpulse is a leading manufacturer of high-performance, specification-grade LED lighting solutions.
- **Lion Electric:** On October 31, 2017, Power Energy acquired a 43.8% interest in Lion Electric. Lion is an innovative company manufacturing zero-emission vehicles sold throughout North America.

Power Energy has invested \$654 million in these four companies.

SQUARE VICTORIA COMMUNICATIONS GROUP

Power Corporation, through Square Victoria Communication Group, owns La Presse, a French-language news media company which provides content on several digital platforms. These include LaPresse+, a digital edition for tablets, the website LaPresse.ca and La Presse Mobile, an application for smartphones. La Presse is known for its distinctive, rich and diversified coverage of national and international news and events.

CONTROLLED PORTFOLIO INVESTMENTS

At December 31, 2017, Sagard Holdings held a controlling interest in IntegraMed (91.6%), a private healthcare services company. Sagard Holdings disposed of its controlling interest in Vein Clinics on December 29, 2017 (see “Sagard Holdings” section below).

within the group of Power companies. Power Corporation's investment fund activities: (i) leverage its extensive global network and business relationships; (ii) seek to achieve long-term capital appreciation through fundamental investment analysis; and (iii) seek opportunities to acquire controlling interests in its most promising investments. Each of the Sagard funds adheres to Power Corporation's investment philosophy and governance model.

Review of Financial Performance

SAGARD EUROPE

Sagard Europe, headquartered in Paris, is managed by Sagard SAS, a wholly owned subsidiary of the Corporation. Sagard Europe operates Sagard I, Sagard II and Sagard 3. These funds invest in mid-sized private companies based in France, Belgium, Luxembourg and Switzerland. Sagard I disposed of its last investment in June 2017 and made its final distribution in the fourth quarter.

The Corporation's interest in these three funds is classified as available-for-sale investments.

Sagard Europe funds:

December 31, 2017 [in millions; in Canadian dollars except as otherwise noted]	Sagard I	Sagard II	Sagard 3
Fund size	€535	€748	€808
Corporation's commitment ^[1]	€100	€148	€302
Interest [%]	18.7	19.8	37.3
Corporation's outstanding commitment at December 31, 2017	–	€5	€156
Corporation's investment to date	175	207	282
Corporation's share of distributions to date	420	143	79
Fair value of the Corporation's investment at December 31, 2017	–	147	352

[1] Excludes commitments of Pargesa (€37 million in Sagard II), and GBL (€50 million in Sagard I, €113 million in Sagard II, and €218 million in Sagard 3).

The Corporation has invested \$664 million to date in the Sagard Europe funds and has received distributions of \$642 million. At December 31, 2017, the fair value of the Corporation's investments in the Sagard Europe funds, excluding the Corporation's share of investments held indirectly through Pargesa and GBL, was \$499 million, compared with \$281 million at December 31, 2016.

SAGARD HOLDINGS

Sagard Holdings, a wholly owned investment vehicle of the Corporation which was launched in 2005, invests in the equity and debt capital of middle-market companies in the U.S. and Canada. Sagard Holdings holds a 91.6% interest in IntegraMed, a private fertility network in North America (see "Other subsidiaries").

On February 27, 2017, Peak Achievement Athletics Inc. (Peak), an acquisition vehicle jointly controlled by Sagard Holdings and Fairfax Financial Holdings Limited, completed the acquisition of the assets of Performance Sports Group, Ltd. for total consideration of US\$575 million. Peak designs and markets sports equipment and apparel for ice hockey, baseball, softball and lacrosse under iconic brands including Bauer and Easton. At December 31, 2017, the Corporation had invested \$204 million (US\$154 million) in Peak. Sagard Holdings holds a 42.6% equity interest and 50% of the voting rights in Peak. The Corporation's investment is accounted for using the equity method.

On December 29, 2017, Sagard Holdings disposed of its 97.3% controlling interest in Vein Clinics, a private healthcare services company. The sale resulted in a gain of \$67 million (US\$54 million).

CHINA AMC

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained its position among the market leaders in China's asset management industry.

On August 31, 2017, Power Corporation completed the acquisition of an additional 3.9% interest in China AMC. Together with a 10% interest purchased in 2011, Power Corporation now directly holds a 13.9% equity interest in China AMC. IGM, through its subsidiary Mackenzie Investments, also completed its acquisition of a 13.9% interest in China AMC on August 31, 2017.

On December 21, 2017, Sagard Holdings successfully completed the first closing of Sagard Credit Partners LP, a fund which provides credit capital directly to public and private middle-market companies across Canada and the U.S. Of the total US\$260 million committed by limited partners, Sagard Holdings has committed US\$100 million.

To date, the Corporation has invested \$616 million in Sagard Holdings and has received distributions of \$64 million. At December 31, 2017, the fair value of Sagard Holdings' investments, including cash, was \$824 million, compared with \$888 million at December 31, 2016.

SAGARD CHINA

Power Corporation operates as a Qualified Foreign Institutional Investor (QFII) in the Chinese "A" shares market. In addition, the Corporation invests in Chinese companies listed on the Hong Kong Stock Exchange ("H" shares) and the Shenzhen or Shanghai Stock Exchange ("B" shares). Collectively, the Chinese "A", "B" and "H" share investment activities operate as Sagard China.

Since its inception in 2005, the Corporation has invested \$313 million in Sagard China and has received distributions of \$19 million.

December 31	2017	2016
Investments		
Money market funds	42	41
A, B and H equities	616	275
Cash	126	331
Total portfolio, at fair value	784	647

As the Corporation and IGM hold a combined 27.8% interest in China AMC, they have significant influence and account for their respective interests as an associate using the equity method. Previously, the Corporation accounted for its 10% interest in China AMC as an available-for-sale investment. In the third quarter, the reclassification of the investment from available for sale to associate resulted in a gain of \$174 million.

The investment in China AMC represents the potential to leverage the group's extensive knowledge in wealth management and distribution. Subsidiaries within the group will benefit from the strategic relationship to help identify opportunities to work together on developing products and future sub-advisory relationships.

IFRS Basis of Presentation

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

Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its subsidiaries. The consolidated financial statements present the financial results of Power Corporation (parent), its subsidiaries, and other controlled portfolio investments after the elimination of intercompany balances and transactions.

The financial statements of the Corporation are consolidated with those of Power Financial which include the results of Lifeco, IGM and Wealthsimple, which are controlled and consolidated by Power Financial.

Power Financial's investment in Pargesa is held through Parjointco. Parjointco is a holding company jointly controlled by Power Financial and the Frère Group and is accounted for using the equity method.

Under the equity method, the investment is initially recognized at cost and adjusted thereafter for changes in the share of net earnings (losses), other comprehensive income (loss) and changes in equity. The investment is reduced by the amount of dividends received.

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

Control	Accounting Method	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	Consolidation	Consolidated with non-controlling interests	Goodwill and indefinite life intangible assets are tested at least annually for impairment	Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	Equity method	Corporation's share of earnings and other comprehensive income	Entire investment is tested for impairment	Reversed if there is evidence the investment has recovered its value
Non-controlled portfolio investments	Available for sale (AFS)	Earnings consist of dividends received and gains or losses on disposals The investments are marked to market through other comprehensive income Earnings are reduced by impairment charges, if any	Impairment testing is done at the individual investment level A significant or prolonged decline in the value of the investment results in an impairment charge A share price decrease subsequent to an impairment charge leads to a further impairment	A subsequent recovery of value does not result in a reversal

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

Holdings	% economic interest	Nature of investment	Accounting method
Power Financial	65.5	Controlling interest	Consolidation
Lifeco ^[1]	67.7	Controlling interest	Consolidation
IGM ^[2]	61.5	Controlling interest	Consolidation
Pargesa ^[3]	27.8	Joint control	Equity method
Portag3 ^[4]	63.0	Controlling interest	Consolidation
Wealthsimple ^[5]	10.8	Controlling interest	Consolidation
Power Energy	100.0	Controlling interest	Consolidation
Potentia	100.0	Controlling interest	Consolidation
Lumenpulse	55.7	Controlling interest	Consolidation
Power Energy Eagle Creek	60.0	Controlling interest	Consolidation
Eagle Creek	54.8	Joint control	Equity method
Lion	43.8	Significant influence	Equity method
Square Victoria Communications Group	100.0	Controlling interest	Consolidation
China AMC ^[6]	13.9	Significant influence	Equity method

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

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

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

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

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

[6] IGM, through Mackenzie, also holds an interest of 13.9% in China AMC.

Review of Financial Performance

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

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

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

At December 31, 2017, the holdings of the Sagard Investment Funds were as follows:

Sagard Investment Funds	% economic interest	Nature of investment	Accounting method
Sagard Europe			
Sagard II	19.8	Portfolio investment	Available for sale
Sagard 3	37.3	Portfolio investment	Available for sale
Sagard Holdings	100.0		
IntegraMed	91.6	Controlling interest	Consolidation
Peak	42.6	Joint control	Equity method
Investments	< 50.0	Significant influence or portfolio investments	Equity method or available for sale
Sagard China	100.0		
Investments	< 5.0	Portfolio investments	Available for sale

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

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

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

This review of financial performance presents and discusses financial measures which are not in accordance with IFRS. Management uses these financial measures in its presentation and analysis of the financial performance of Power Corporation, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. The non-IFRS financial measures used herein are defined as follows:

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

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

RECONCILIATION OF IFRS AND NON-IFRS FINANCIAL MEASURES

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

Twelve months ended December 31	2017	2016
Net earnings – IFRS financial measure ^[1]	1,286	1,082
Share of Other items, net of tax		
Lifeco	223	20
IGM	51	(14)
Pargesa	–	135
	274	141
Adjusted net earnings – Non-IFRS financial measure ^[1]	1,560	1,223

[1] Available to participating shareholders of Power Corporation.

Twelve months ended December 31	2017	2016
Net earnings per share – IFRS financial measure ^[1]	2.77	2.33
Share of Other items, net of tax		
Lifeco	0.48	0.05
IGM	0.11	(0.03)
Pargesa	–	0.29
	0.59	0.31
Adjusted net earnings per share – Non-IFRS financial measure ^[1]	3.36	2.64

[1] Available to participating shareholders of Power Corporation.

Results of Power Corporation

This section presents:

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

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

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

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

CONSOLIDATED NET EARNINGS - TWELVE MONTHS ENDED

	Power Financial					Other ⁽²⁾	Power Corporation Consolidated net earnings	
December 31	Lifeco	IGM	Pargesa	Corporate ⁽¹⁾	Sub-total		2017	2016
REVENUES								
Premium income, net	33,947	–	–	(22)	33,925	–	33,925	31,125
Net investment income	7,582	139	–	(111)	7,610	464	8,074	10,335
Fee income	5,454	3,006	–	(117)	8,343	13	8,356	7,794
Other revenues	–	–	–	–	–	898	898	1,496
Total revenues	46,983	3,145	–	(250)	49,878	1,375	51,253	50,750
EXPENSES								
Total paid or credited to policyholders	35,643	–	–	–	35,643	–	35,643	34,675
Commissions	2,410	1,142	–	(77)	3,475	–	3,475	3,590
Operating and administrative expenses	5,925	1,113	–	92	7,130	1,130	8,260	8,023
Financing charges	300	114	–	18	432	80	512	490
Total expenses	44,278	2,369	–	33	46,680	1,210	47,890	46,778
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,705	776	–	(283)	3,198	165	3,363	3,972
Share of earnings (losses) of investments in jointly controlled corporations and associates	25	9	131	35	200	14	214	(122)
Earnings before income taxes	2,730	785	131	(248)	3,398	179	3,577	3,850
Income taxes	422	174	–	(12)	584	(41)	543	587
Net earnings	2,308	611	131	(236)	2,814	220	3,034	3,263
ATTRIBUTABLE TO								
Non-controlling interests	1,357	381	45	(95)	1,688	8	1,696	2,129
Non-participating shareholders	–	–	–	–	–	52	52	52
Participating shareholders of Power Corporation	951	230	86	(141)	1,126	160	1,286	1,082
	2,308	611	131	(236)	2,814	220	3,034	3,263

[1] “Corporate” is comprised of corporate operations, investment activities of Power Financial, Portag3, Wealthsimple and consolidation entries.

[2] “Other” is comprised of the Corporation's investment activities and operations and includes results of Other subsidiaries as well as consolidation entries.

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

NON-CONSOLIDATED STATEMENTS OF EARNINGS

In this section, the contributions from Power Financial and other subsidiaries to the net earnings and adjusted net earnings attributable to Power Corporation's participating shareholders are accounted for using the equity method.

Twelve months ended December 31	2017	2016
Adjusted net earnings ^[1]		
Power Financial		
Lifeco ^[2]	1,174	1,194
IGM ^[2]	281	297
Pargesa	86	78
Corporate operations of Power Financial	(141)	(169)
	1,400	1,400
Other subsidiaries ^[3]	(89)	(65)
	1,311	1,335
Corporate operations		
Income – Sagard Investment Funds, China AMC and other Investments	445	74
Operating and other expenses	(144)	(134)
Dividends on non-participating shares	(52)	(52)
Adjusted net earnings ^[4]	1,560	1,223
Other items ^[5]		
Power Financial		
Lifeco	(223)	(20)
IGM	(51)	14
Pargesa	–	(135)
	(274)	(141)
Net earnings ^[4]	1,286	1,082
Earnings per share – basic ^[4]		
Adjusted net earnings	3.36	2.64
Other items	(0.59)	(0.31)
Net earnings	2.77	2.33

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

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

[3] Other subsidiaries include earnings (losses) from controlled portfolio investments.

[4] Attributable to participating shareholders.

[5] See "Other items" section below.

2017 vs. 2016

Net earnings	\$1,286 million or \$2.77 per share, compared with \$1,082 million or \$2.33 per share in 2016, an increase of 18.9% on a per share basis.
Adjusted net earnings	\$1,560 million or \$3.36 per share, compared with \$1,223 million or \$2.64 per share in 2016, an increase of 27.3% on a per share basis.
Contribution to adjusted net earnings from Power Financial and other subsidiaries	Contribution of \$1,311 million, compared with \$1,335 million in 2016, a decrease of 1.8%.

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

CONTRIBUTION TO ADJUSTED NET EARNINGS**POWER FINANCIAL****Contribution to Power Corporation**

Twelve months ended December 31	2017	2016
Contribution to Power Corporation's ^[1] :		
Adjusted net earnings	1,400	1,400
Other items	(274)	(141)
Net earnings	1,126	1,259

[1] Power Corporation's average direct ownership in Power Financial was 65.6% for the year ended December 31, 2017.

Adjusted and net earnings as reported by Power Financial

Twelve months ended December 31	2017	2016
Adjusted net earnings		
Lifeco	1,791	1,821
IGM	428	452
Pargesa	131	119
	2,350	2,392
Corporate operations of Power Financial	(82)	(132)
Dividends on perpetual preferred shares	(133)	(124)
Adjusted net earnings ^[1]	2,135	2,136
Other items		
Lifeco	(340)	(31)
IGM	(78)	21
Pargesa	-	(207)
	(418)	(217)
Net earnings ^[1]	1,717	1,919

[1] Attributable to Power Financial common shareholders.

2017 vs. 2016

Net earnings	\$1,717 million or \$2.41 per share, compared with \$1,919 million or \$2.69 per share in 2016, a decrease of 10.4% on a per share basis.
Adjusted net earnings	\$2,135 million or \$2.99 per share, comparable with the corresponding period in 2016.

The operating segments of Power Financial and Power Corporation are Lifeco, IGM and Pargesa.

LIFECO

Contribution to Power Corporation

Twelve months ended December 31	2017	2016
Contribution to Power Corporation's ^[1] :		
Adjusted net earnings	1,174	1,194
Other items	(223)	(20)
Net earnings	951	1,174

[1] Power Financial's average direct ownership in Lifeco and Power Corporation's average direct ownership in Power Financial were 67.7% and 65.6%, respectively, for the year ended December 31, 2017.

Adjusted and net earnings by segment as reported by Lifeco

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

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

[2] Attributable to Lifeco common shareholders.

2017 vs. 2016

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

INDIVIDUAL CUSTOMER

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

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

GROUP CUSTOMER

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

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

United States

FINANCIAL SERVICES

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

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

ASSET MANAGEMENT

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

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

Europe

INSURANCE AND ANNUITIES

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

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

REINSURANCE

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

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

Other items

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

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

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

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

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

IGM FINANCIAL

Contribution to Power Corporation

Twelve months ended December 31	2017	2016
Contribution to Power Corporation's ^[1] :		
Adjusted net earnings	281	297
Other items	(51)	14
Net earnings	230	311

[1] Power Financial's average direct ownership in IGM and Power Corporation's average direct ownership in Power Financial were 61.5% and 65.6%, respectively, for the year ended December 31, 2017.

Adjusted and net earnings by segment as reported by IGM

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

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

[2] Available to IGM common shareholders.

2017 vs. 2016

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

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

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

Mackenzie

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

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

Assets and investment fund assets under management

Total assets under management were as follows:

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

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

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

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

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

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

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

Other items

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

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

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

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

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

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

PARGESA

Contribution to Power Corporation

Twelve months ended December 31 [In millions of Canadian dollars]	2017	2016
Contribution to Power Corporation's ^[1] :		
Adjusted net earnings	86	78
Other items	–	(135)
Net earnings	86	(57)

[1] Power Financial's average direct ownership in Pargesa and Power Corporation's average direct ownership in Power Financial were 27.8% and 65.6%, respectively, in the year ended December 31, 2017.

Adjusted and net earnings as reported by Pargesa

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

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

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

[3] Attributable to Pargesa shareholders.

2017 vs. 2016

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

Review of Financial Performance

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

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

Results

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

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

Other items

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

- Pargesa's share of a gain on disposal of a 1.8% equity interest in Total in the amount of SF667 million.
- Share of impairment charges of SF960 million on its holding of LafargeHolcim due to a significant decline in LafargeHolcim's share price.
- Pargesa's share of a further impairment charge on Engie shares as well as a loss on disposal of Engie for a total amount of SF41 million.

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

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

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

OTHER SUBSIDIARIES

The contribution to the Corporation's adjusted net earnings from Power Energy, SVCG and controlled portfolio investments IntegraMed and Vein Clinics, was a loss of \$89 million for the twelve-month period ended December 31, 2017, compared with a loss of \$65 million in the corresponding period in 2016.

At the end of the fourth quarter, the investment in Vein Clinics was sold, resulting in a gain of US\$54 million (C\$67 million) and recorded in income from Sagard Investment Funds (Sagard Holdings).

CORPORATE OPERATIONS

Corporate operations include income from the Sagard Investment Funds, China AMC and Other Investments, operating expenses, financing charges, depreciation and income taxes.

INCOME FROM SAGARD INVESTMENT FUNDS, CHINA AMC AND OTHER INVESTMENTS

Summary of income from Sagard Investment Funds, China AMC and Other Investments:

Twelve months ended December 31	2017	2016
Sagard Investment Funds ^[1]		
Sagard Europe	5	14
Sagard Holdings ^[2, 3]	92	27
Sagard China	69	16
China AMC	184	6
Other Investments		
Investment and hedge funds	100	19
Other ^[4]	(5)	(8)
	445	74

[1] Income from investments for the Sagard Investment Funds is presented net of expenses of their separate dedicated teams.

[2] Excludes the Corporation's share of the results of IntegraMed and Vein Clinics, presented in the section "Other subsidiaries". Includes the gain on disposal of Vein Clinics of \$67 million.

[3] Includes share of earnings (loss) from investments in a jointly controlled corporation and an associate.

[4] Consists mainly of foreign exchange gains or losses and interest on cash and cash equivalents.

On August 31, 2017, the investment in China AMC previously accounted for as available for sale was reclassified as an associate and is now accounted for using the equity method. This resulted in a gain of \$174 million, representing an unrealized gain previously recorded in "Other comprehensive income".

Income from investment and hedge funds for the twelve-month period ended December 31, 2017 was \$100 million, which is mainly comprised of a gain in the second quarter on the disposition of a private investment fund.

Earnings from Sagard Investment Funds, as well as from Other Investments, are volatile in nature as they depend on many factors, including and primarily the timing of realizations.

Impairment charges included in income from Sagard Investment Funds and Other Investments were as follows:

Twelve months ended December 31	2017	2016
Sagard Holdings	11	65
Sagard China	9	21
Investment and hedge funds	–	4
	20	90

OPERATING AND OTHER EXPENSES

Twelve months ended December 31	2017	2016
Operating expenses	88	90
Financing charges	44	33
Depreciation	11	10
Income taxes	1	1
Operating and other expenses	144	134

OTHER ITEMS (not included in adjusted net earnings)

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

Twelve months ended December 31	2017	2016
Power Financial		
Lifeco		
Impact of U.S. tax reform	(96)	-
Restructuring charges ^[1]	(71)	(20)
Net charge on sale of an equity investment	(54)	-
Share of IGM's other items	(2)	-
	(223)	(20)
IGM		
Restructuring and other charges	(58)	-
Pension plan	15	-
Reduction of income tax estimates	-	14
Share of Lifeco's other items	(8)	-
	(51)	14
Pargesa		
Total - Gains on partial disposal	-	115
LafargeHolcim - Impairment charges	-	(237)
Engie - Impairment charge and loss on partial disposal	-	(9)
Other (charge) income	-	(4)
	-	(135)
	(274)	(141)

[1] Amounts in comparative period have been reclassified.

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

Financial Position

CONSOLIDATED BALANCE SHEETS (condensed)

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

							Power Corporation Consolidated balance sheets	
December 31	Power Corporation	Power Financial	Lifeco	IGM	Other subsidiaries	Consolidation adjustments and other ⁽¹⁾	2017	2016
ASSETS								
Cash and cash equivalents	646	1,054	3,551	967	115	(430)	5,903	5,182
Investments	1,733	142	164,020	8,230	53	(227)	173,951	169,527
Investments – Power Financial, Lifeco and IGM	11,589	16,637	362	903	–	(29,491)	–	–
Investments – Other subsidiaries	512	–	–	–	–	(512)	–	–
Investment – Parjointco	–	3,354	–	–	–	–	3,354	2,811
Investments – other jointly controlled corporations and associates	642	–	2	648	189	319	1,800	742
Funds held by ceding insurers	–	–	9,893	–	–	–	9,893	10,781
Reinsurance assets	–	–	5,045	–	–	–	5,045	5,627
Other assets ⁽²⁾	444	122	9,697	1,139	648	(205)	11,845	11,894
Intangible assets	–	–	3,732	1,952	540	64	6,288	6,258
Goodwill	–	–	6,179	2,660	544	702	10,085	9,499
Investments on account of segregated fund policyholders	–	–	217,357	–	–	–	217,357	200,403
Total assets	15,566	21,309	419,838	16,499	2,089	(29,780)	445,521	422,724
LIABILITIES								
Insurance and investment contract liabilities	–	–	161,365	–	–	–	161,365	157,949
Obligations to securitization entities	–	–	–	7,596	–	–	7,596	7,721
Debentures and other debt instruments ⁽³⁾	648	250	5,617	2,175	735	(74)	9,351	8,418
Other liabilities ⁽²⁾	303	546	9,963	1,903	567	(246)	13,036	13,172
Insurance and investment contracts on account of segregated fund policyholders	–	–	217,357	–	–	–	217,357	200,403
Total liabilities	951	796	394,302	11,674	1,302	(320)	408,705	387,663
EQUITY								
Non-participating shares	965	2,830	2,714	150	–	(5,694)	965	966
Participating shareholders' equity	13,650	17,683	19,887	4,675	548	(42,793)	13,650	12,898
Non-controlling interests ^(4, 5)	–	–	2,935	–	239	19,027	22,201	21,197
Total equity	14,615	20,513	25,536	4,825	787	(29,460)	36,816	35,061
Total liabilities and equity	15,566	21,309	419,838	16,499	2,089	(29,780)	445,521	422,724

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

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

[3] The debentures and other debt instruments of Other subsidiaries are secured by the Other subsidiaries and controlled portfolio investments' assets which are non-recourse to the Corporation.

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

[5] Non-controlling interests in consolidation adjustments represents non-controlling interests in the equity of Power Financial and Other subsidiaries.

Review of Financial Performance

Total assets of the Corporation increased to \$445.5 billion at December 31, 2017, compared with \$422.7 billion at December 31, 2016, mainly due to the impact of positive market movement and new business growth, partially offset by the negative impact of currency movements.

Liabilities increased to \$408.7 billion at December 31, 2017, compared with \$387.7 billion at December 31, 2016, mainly due to the following, as disclosed by Lifeco:

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

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, investments in subsidiaries are presented by the Corporation using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the information provided in this review of financial performance and assist the reader by identifying changes in Power Corporation's non-consolidated balance sheets.

December 31	2017	2016
ASSETS		
Cash and cash equivalents ^[1]	646	827
Investments		
Power Financial	11,589	11,085
Other subsidiaries	512	325
Sagard Investment Funds ^[2]	1,554	1,026
China AMC	642	463
Other Investments	179	411
Other assets	444	442
Total assets	15,566	14,579
LIABILITIES		
Debentures and other debt instruments	648	455
Other liabilities	303	260
Total liabilities	951	715
EQUITY		
Non-participating shares	965	966
Participating shareholders' equity	13,650	12,898
Total equity	14,615	13,864
Total liabilities and equity	15,566	14,579

[1] Cash equivalents include \$179 million (\$204 million at December 31, 2016) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified in investments in the Consolidated Financial Statements. Cash and cash equivalents also include cash held within the Sagard Investment Funds (see below).

[2] Excludes controlled portfolio investments (IntegraMed and Vein Clinics), which are included in "Other subsidiaries". Vein Clinics was disposed of in December 2017.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounted to \$646 million at December 31, 2017, compared with \$827 million at the end of December 2016 (see "Non-consolidated Statements of Cash Flows" below for details). Of this amount, \$345 million (\$456 million at December 31, 2016) was held by the Sagard Investment Funds.

INVESTMENTS

Power Financial and Other subsidiaries

The carrying value of Power Corporation's investments in Power Financial and in Other subsidiaries (including a controlled portfolio investment), accounted for using the equity method, increased to \$12,101 million at December 31, 2017, compared with \$11,410 million at December 31, 2016:

	Power Financial	Other subsidiaries	Total
Carrying value, at the beginning of the year	11,085	325	11,410
Investments in subsidiaries, net of disposal	–	238	238
Share of adjusted net earnings (losses)	1,400	(89)	1,311
Share of other items	(274)	–	(274)
Share of other comprehensive income (loss)	148	(10)	138
Gain on disposal	–	67	67
Dividends	(772)	(8)	(780)
Other, mainly related to effects of changes in ownership	2	(11)	(9)
Carrying value, at December 31, 2017	11,589	512	12,101

Sagard Investment Funds

The investments in the Sagard Investment Funds were \$1,554 million at December 31, 2017, compared with \$1,026 million at December 31, 2016. Sagard Holdings' investments include a jointly controlled corporation and an associate. Including cash, the fair value of the investments in the Sagard Investment Funds, and the adjustment for the fair value of investments in a jointly controlled corporation and an associate amounted to \$2,107 million at December 31, 2017, compared with \$1,816 million at December 31, 2016.

	2017				2016			
December 31	Sagard Europe	Sagard Holdings	Sagard China	Total ^[2]	Sagard Europe	Sagard Holdings	Sagard China	Total ^[2]
Cost	250	402	570	1,222	211	388	306	905
Unrealized gain (loss)	249	(5)	88	332	70	41	10	121
Fair value of non-controlled portfolio investments ^[1]	499	397	658	1,554	281	429	316	1,026
Cash	–	219	126	345	–	125	331	456
Fair value of controlled portfolio investments and other	–	208	–	208	–	334	–	334
Total fair value	499	824	784	2,107	281	888	647	1,816

[1] As reported in the Corporation's non-consolidated balance sheets.

[2] Fair value of non-controlled portfolio investments includes \$693 million of investments at December 31, 2017 (\$425 million at December 31, 2016) valued using quoted prices in active markets.

China AMC

The carrying value of Power Corporation's investment in China AMC was \$642 million at December 31, 2017. On August 31, 2017, the Corporation acquired an additional 3.9% interest for a total cost, including transaction costs, of \$178 million. Carrying value of the investment in China AMC was \$463 million at December 31, 2016.

Carrying value, at the beginning of the year ^[1]	463
Investment	178
Share of adjusted net earnings	9
Dividend	(11)
Other comprehensive income	3
Carrying value, at December 31, 2017	642

[1] On August 31, 2017, the investment in China AMC was reclassified from available for sale to an associate. The carrying value at the beginning of the year represents its fair value.

China AMC's assets under management, excluding subsidiary assets under management, were RMB¥ 870 billion (C\$168 billion) at December 31, 2017, compared with RMB¥ 1,006 billion (C\$194 billion) at December 31, 2016.

Other investments

Other investments include portfolio investments in private investment funds and a select number of hedge funds. These investments are classified as available for sale and are carried at fair value. At December 31, 2017, the fair value of other investments amounted to \$179 million, compared with \$411 million at December 31, 2016.

The fair value of private investment funds was \$124 million at December 31, 2017, compared with \$351 million at December 31, 2016, and the Corporation had outstanding commitments to make future capital contributions to these

funds for an aggregate amount of \$61 million. The Corporation expects that future distributions from these funds will be sufficient to meet outstanding commitments. In the second quarter of 2017, the Corporation sold an investment for proceeds of \$203 million.

At December 31, 2017, the fair value of investments in hedge funds and other was \$55 million.

EQUITY**NON-PARTICIPATING SHARES**

Non-participating (preferred) shares of the Corporation consist of six series of First Preferred Shares with an aggregate stated capital of \$965 million at December 31, 2017, of which \$950 million are non-cumulative (same as at December 31, 2016). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

PARTICIPATING SHAREHOLDERS' EQUITY

Participating shareholders' equity was \$13,650 million at December 31, 2017, compared with \$12,898 million at December 31, 2016:

Twelve months ended December 31	2017	2016
Participating shareholders' equity, at the beginning of the year	12,898	13,008
Changes in retained earnings		
Net earnings before dividends on non-participating shares	1,338	1,134
Dividends declared	(706)	(662)
Effects of changes in capital and ownership of subsidiaries, and other	(10)	(141)
	622	331
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	(285)	(757)
Investment revaluation and cash flow hedges	110	149
Actuarial losses on defined benefit plans	(41)	(94)
Share of Pargesa and other jointly controlled corporations and associates	313	242
Share-based compensation	2	16
	99	(444)
Issuance of subordinate voting shares (982,043 shares in 2017 and 95,223 shares in 2016) under the Corporation's Executive Stock Option Plan ^[1]	31	3
Participating shareholders' equity at December 31	13,650	12,898

[1] Issued for \$27 million in 2017 and including an amount of \$4 million representing the cumulative expenses related to these options.

The book value per participating share of the Corporation was \$29.40 at December 31, 2017, compared with \$27.84 at the end of 2016.

OUTSTANDING NUMBER OF PARTICIPATING SHARES

As of the date hereof, there were 48,854,772 Participating Preferred Shares of the Corporation outstanding, the same as at December 31, 2016, and 415,873,704 Subordinate Voting Shares of the Corporation outstanding, compared with 414,461,536 at December 31, 2016. As of the date hereof, options were outstanding to purchase up to an aggregate of 16,966,405 Subordinate Voting Shares of the Corporation under the Corporation's Executive Stock Option Plan.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (condensed)

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

	Power Financial								Power Corporation Consolidated cash flows	
Twelve months ended December 31	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Sub-total	Power Corporation	Other subsidiaries	Consolidation adjustments	2017	2016
Cash flows from:										
Operating activities	1,307	6,757	658	(1,467)	7,255	605	(201)	(767)	6,892	6,742
Financing activities	(1,031)	(1,659)	170	1,364	(1,156)	(487)	655	392	(596)	(960)
Investing activities	(64)	(4,778)	(472)	168	(5,146)	(290)	(499)	399	(5,536)	(5,484)
Effect of changes in exchange rates on cash and cash equivalents										
	-	(28)	-	-	(28)	(9)	(2)	-	(39)	(201)
Increase (decrease) in cash and cash equivalents										
	212	292	356	65	925	(181)	(47)	24	721	97
Cash and cash equivalents, at the beginning of the year										
	842	3,259	611	(316)	4,396	827	162	(203)	5,182	5,085
Cash and cash equivalents, at December 31										
	1,054	3,551	967	(251)	5,321	646	115	(179)	5,903	5,182

Consolidated cash and cash equivalents increased by \$721 million in the twelve-month period ended December 31, 2017, compared with an increase of \$97 million in the corresponding period in 2016.

Operating activities produced a net inflow of \$6,892 million in the twelve-month period ended December 31, 2017, compared with a net inflow of \$6,742 million in the corresponding period in 2016.

Cash flows from financing activities, which include dividends paid on the participating and non-participating shares of the Corporation and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of \$596 million in the twelve-month period ended December 31, 2017, compared with a net outflow of \$960 million in the corresponding period in 2016.

Cash flows from investing activities resulted in a net outflow of \$5,536 million in the twelve-month period ended December 31, 2017, compared with a net outflow of \$5,484 million in the corresponding period in 2016.

The Corporation decreased its level of fixed income securities with maturities of more than three months, resulting in a net inflow of \$25 million in the twelve-month period ended December 31, 2017, compared with a net outflow of \$13 million in the corresponding period in 2016.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Corporation is a holding company, corporate cash flows are primarily comprised of dividends received and income from investments, less operating expenses, financing charges, income taxes, and non-participating and participating share dividends. Dividends received from Power Financial, which is also a holding company, represent a significant component of the Corporation's corporate cash flows.

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

Twelve months ended December 31	2017	2016
OPERATING ACTIVITIES		
Dividends from subsidiaries	771	725
Corporate operations, net of non-cash items	(166)	(190)
	605	535
FINANCING ACTIVITIES		
Dividends paid on non-participating shares	(52)	(52)
Dividends paid on participating shares	(654)	(610)
Issuance of subordinate voting shares	27	3
Repurchase of non-participating shares for cancellation	(1)	(2)
Issuance of debentures	250	-
Change in other debt instruments	(55)	55
Other	(2)	-
	(487)	(606)
INVESTING ACTIVITIES		
Proceeds from disposal of investments	743	1,063
Purchase of investments and China AMC	(786)	(702)
Deposit for investment in China AMC	-	(54)
Investment in other subsidiaries, net of disposal	(238)	(211)
Other (including acquisition of capital assets)	(9)	(20)
	(290)	76
Effect of changes in exchange rates on cash and cash equivalents	(9)	(9)
Increase (decrease) in cash and cash equivalents	(181)	(4)
Cash and cash equivalents, at the beginning of the year	827	831
Cash and cash equivalents, at December 31	646	827
CASH AND CASH EQUIVALENTS:		
Corporate	301	371
Sagard Investment Funds	345	456
	646	827

On a non-consolidated basis, cash and cash equivalents decreased by \$181 million in the twelve-month period ended December 31, 2017, compared with a decrease of \$4 million in the corresponding period in 2016.

Operating activities resulted in a net inflow of \$605 million in the twelve-month period ended December 31, 2017, compared with a net inflow of \$535 million in the corresponding period in 2016.

- Dividends paid by Power Financial on its common shares during the twelve-month period ended December 31, 2017 were \$1.63 per share, compared with \$1.55 per share in the corresponding period in 2016. Power Corporation received dividends of \$763 million from Power Financial in the twelve-month period ended December 31, 2017, compared with \$725 million in the corresponding period in 2016. On March 23, 2018, Power Financial announced a 5% increase in the quarterly dividend on its common shares from \$0.4125 to \$0.4330 per share, payable on May 1, 2018.

The Corporation's financing activities during the twelve-month period ended December 31, 2017 were a net outflow of \$487 million, compared with a net outflow of \$606 million in the corresponding period in 2016, and included:

- Dividends paid on non-participating and participating shares by the Corporation were \$706 million, compared with \$662 million in the corresponding period in 2016. In the twelve-month period ended December 31, 2017, dividends paid on the Corporation's participating shares were \$1.4105 per share, compared with \$1.3163 per share in the corresponding period in 2016.
- Issuance of Subordinate Voting Shares of the Corporation for \$27 million pursuant to the Corporation's Executive Stock Option Plan, compared with issuance for an amount of \$3 million in the corresponding period in 2016.
- Issuance of debentures for \$250 million, compared with no issuance in the corresponding period in 2016.
- Reimbursement of a revolving credit facility for an amount of \$55 million, compared with borrowings of \$55 million in the corresponding period in 2016.

The Corporation's investing activities during the twelve-month period ended December 31, 2017 represented a net outflow of \$290 million, compared with a net inflow of \$76 million in the corresponding period in 2016.

Proceeds from disposal of investments and purchase of investments are comprised of investment activities of the Sagard Investment Funds, China AMC and Other Investments.

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;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to capital markets.

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

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of participating shares, non-participating shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Pargesa and GBL, govern and have responsibility for their respective company's capital management.

With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of: debentures, 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's consolidated capitalization includes the debentures, preferred shares and other debt instruments issued by its consolidated subsidiaries, including those of its controlled portfolio investments. Debentures and other debt instruments issued by Power Financial, Lifeco, IGM and Other subsidiaries are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Non-participating shares and total equity accounted for 80% of consolidated capitalization at December 31, 2017.

December 31	2017	2016
DEBENTURES AND OTHER DEBT INSTRUMENTS		
Power Corporation	648	455
Power Financial	250	250
Lifeco	5,617	5,980
IGM	2,175	1,325
Other subsidiaries ^[1, 2]	735	450
Consolidation adjustments	(74)	(42)
	8,703	7,963
	9,351	8,418
NON-PARTICIPATING SHARES		
Power Corporation	965	966
Power Financial	2,830	2,580
Lifeco	2,714	2,514
IGM	150	150
	5,694	5,244
	6,659	6,210
EQUITY		
Participating shareholders' equity	13,650	12,898
Non-controlling interests ^[3]	16,507	15,953
	30,157	28,851
	46,167	43,479

[1] Other subsidiaries include controlled portfolio investments. Increase is due to Potentia (\$178 million) and Lumenpulse (\$125 million).

[2] Secured by the Other subsidiaries and controlled portfolio investment assets which are non-recourse to the Corporation.

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

POWER CORPORATION

- The Corporation filed a short-form base shelf prospectus dated December 7, 2016, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of \$2 billion of First Preferred Shares, Subordinate Voting Shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.
- On January 9, 2017, the Corporation established 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.
- On January 31, 2017, the Corporation issued \$250 million of 30-year 4.81% debentures. The net proceeds were used by the Corporation to finance the acquisition of an additional 3.9% interest in China AMC and for general corporate purposes.

POWER FINANCIAL

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

LIFECO

- On February 8, 2017, Irish Life Assurance, a subsidiary of Lifeco, redeemed its 5.25% €200 million subordinated debentures at their principal amount together with accrued interest.
- On May 18, 2017, Lifeco issued 8,000,000 5.15% Non-Cumulative First Preferred Shares Series T for gross proceeds of \$200 million.

RATINGS

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

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites. These ratings are not a recommendation to buy, sell or hold the securities of a Corporation and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

Risk Management

Power Corporation is a diversified international management and holding company with interests in the financial services, renewable energy, asset management and other business sectors. Its principal holding is a controlling interest in Power Financial which holds substantial interests in the financial services sector through its controlling interest in each of Lifeco and IGM. Power Financial also holds a joint controlling interest in Parjointco, which itself holds a controlling interest in GBL through Pargesa. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. A complete description of these risks is presented in their public

- On May 26, 2017, Great-West Lifeco Finance (Delaware) LP issued US\$700 million principal amount of 4.15% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, maturing in 2047.
- On June 21, 2017, Great-West Lifeco Finance (Delaware) LP redeemed all of the \$1 billion principal amount of its 5.691% subordinated debentures due June 21, 2067, at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

SUBSEQUENT EVENT

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

IGM FINANCIAL

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

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

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

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

The respective boards of directors of Power Financial, Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies.

RISK OVERSIGHT APPROACH

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors and executive officers of the Corporation have overall responsibility for risk management associated with the investment activities and operations of the holding company and maintain a comprehensive and appropriate set of policies and controls.

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

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

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

STRATEGIC RISK

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

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

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

LIQUIDITY RISK

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

As a holding company, Power Corporation's ability to meet its obligations, including payment of interest, other operating expenses and dividends, and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon dividends from its principal subsidiaries and other investments, and its ability to raise additional capital. Dividends to shareholders of Power Corporation are dependent on the operating performance, profitability, financial position and creditworthiness of its subsidiaries, jointly controlled corporations and associates as well as on their ability to pay dividends. The payment of interest and dividends by Power Financial's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained.

The Corporation makes certain investments through Sagard Investment Funds and Power Energy in the securities of private companies and illiquid securities. These investments may offer relatively high potential returns, but may also be subject to a relatively higher degree of risk. From time to time, it may be in the best interests of the Corporation to exit these investments. However, securities of private companies and illiquid securities may not have a ready market and the Corporation may be unable to sell such securities at acceptable prices on a timely basis or at all. Illiquidity may limit the Corporation's ability to realize a return or to vary components of its investment portfolio promptly in response to changing conditions. In some cases, the Corporation may also be restricted by contract or by applicable laws from selling such securities for a period of time. The valuation of private companies is inherently difficult because there is a certain level of uncertainty in the assumptions used to determine the fair value of these investments. See Note 26 to the Corporation's 2017 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2017.

The Corporation regularly reviews its liquidity requirements and seeks to maintain a sufficient level of liquidity to meet its operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time, as defined in its policies. The ability of Power Corporation to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Corporation and its subsidiaries. Although the Corporation has been able to access capital on financial markets in the past, there can be no assurance this will be possible in the future. The inability of Power Corporation to access sufficient capital on acceptable terms could have a material adverse effect on the Corporation's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

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 and an uncommitted line of credit of \$100 million, and any advances are at the banks' sole discretion.

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

CREDIT RISK AND MARKET RISK

In order to maintain an appropriate level of available liquidity, the Corporation maintains a portfolio of financial instruments which can be a combination of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, investment funds and hedge funds) and derivatives. The Corporation also holds, through its Sagard Investment Funds, shares of private and publicly traded companies. Those investments bear credit and market risks as described in the following sections.

CREDIT RISK

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

Power Corporation manages credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum ratings and concentration limits.

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

Derivatives can be also used mainly to mitigate foreign exchange exposures. Power Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

The Corporation's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2016.

MARKET RISK

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

Foreign Exchange Risk

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

In its ongoing operations, the Corporation may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2017, approximately 85% of the \$646 million of Power Corporation's cash and cash equivalents and fixed income securities were denominated in foreign currencies, consisting of \$355 million in U.S. dollars, \$62 million in euros, \$13 million in Hong Kong dollars and \$119 million in Chinese renminbi.

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. Power Corporation also holds, through its Sagard Investment Funds and Power Energy, investments in foreign companies which are subject

to foreign exchange risk. These investment funds are diversified among the U.S. dollar, the euro and the Chinese renminbi, which contribute to reducing the concentration of foreign exchange risk. 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.

Interest Rate Risk

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

At December 31, 2017, the sensitivity of the financial instruments portfolio to a change of 1% in interest rate was less than \$1 million over a portfolio of \$70 million. The majority of the portfolio matures in the next year.

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

Equity Risk

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

Most of Power Corporation's other investments are classified as available for sale. Unrealized gains and losses on these investments are recorded in other comprehensive income until realized. Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

Power Corporation also holds, through its Sagard Investment Funds, shares of private and publicly traded companies which are subject to equity risk. At December 31, 2017, the Sagard Investment Funds had \$693 million in shares of publicly traded companies and \$861 million in shares of private companies. The three Sagard platforms are diversified; investing in three distinct economic regions: North America, Europe and China. This diversification avoids a concentration in any one single economy.

At December 31, 2017, the impact of a 5% decrease in the value of other investments and Sagard Investment Funds would have been a \$69 million unrealized loss recorded in other comprehensive income.

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

OPERATIONAL RISK

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

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

CYBERSECURITY RISK

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

REGULATORY COMPLIANCE RISK

Regulatory compliance risk is the risk of the Corporation or its employees failing to comply with the regulatory requirements in effect where the Corporation does business, both in Canada and internationally. There are many laws, governmental rules and regulations, including financial reporting and disclosure rules that apply to the Corporation. Interpretation of these laws, rules and regulations by the Corporation, governmental agencies or the courts could result in situations of regulatory non-compliance and could adversely affect the Corporation's reputation and result in penalties, fines and sanctions or increased oversight by regulators. The Corporation, in addition to complying with these laws, rules and regulations, must also monitor them closely so that changes therein are taken into account in the management of its activities.

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

REPUTATION RISK

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

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

EMERGING RISKS

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

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

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

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values represent management's estimates and are generally calculated using market information and at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

The Corporation's assets and liabilities recorded at fair value and those for which fair value is disclosed have been categorized based upon the following fair value hierarchy:

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

- Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

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

Review of Financial Performance

The following table presents the carrying amounts and fair value of the Corporation and its subsidiaries' assets and liabilities recorded or disclosed at fair value. The table distinguishes between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

At December 31	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	89,824	89,824	88,283	88,283
Available for sale	12,807	12,807	12,023	12,023
Mortgage loans				
Fair value through profit or loss	340	340	339	339
Shares				
Fair value through profit or loss	8,194	8,194	7,673	7,673
Available for sale	1,617	1,617	1,761	1,761
Investment properties	4,851	4,851	4,340	4,340
Funds held by ceding insurers	7,938	7,938	8,605	8,605
Derivative instruments	424	424	573	573
Other assets	892	892	516	516
	126,887	126,887	124,113	124,113
Assets disclosed at fair value				
Bonds				
Loans and receivables	17,959	19,470	16,970	18,484
Mortgage loans				
Loans and receivables	29,748	30,680	29,295	30,418
Shares				
Available for sale ^[1]	331	331	376	376
Funds held by ceding insurers	106	106	118	118
	48,144	50,587	46,759	49,396
Total	175,031	177,474	170,872	173,509
LIABILITIES				
Liabilities recorded at fair value				
Investment contract liabilities	1,841	1,841	2,009	2,009
Derivative instruments	1,364	1,364	2,052	2,052
Other liabilities	97	97	10	10
	3,302	3,302	4,071	4,071
Liabilities disclosed at fair value				
Obligations to securitization entities	7,596	7,658	7,721	7,873
Debentures and other debt instruments	9,351	10,303	8,418	9,351
Capital trust debentures	160	221	161	212
Deposits and certificates	555	555	471	472
	17,662	18,737	16,771	17,908
Total	20,964	22,039	20,842	21,979

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the twelve-month period ended December 31, 2017. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

December 31	2017			2016		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Corporation	7	1	1	39	1	-
Power Financial	17	2	2	14	1	1
Lifeco	16,589	384	(952)	17,229	528	(1,484)
IGM	3,269	36	8	4,094	43	5
Other subsidiaries	95	1	1	50	-	(1)
	19,970	423	(941)	21,387	572	(1,479)
	19,977	424	(940)	21,426	573	(1,479)

In 2017, there was a decrease of \$1.4 billion in the notional amount of derivatives outstanding, primarily due to the expiration and settlement of foreign exchange contracts held by Lifeco that were cash flow hedges for \$1.0 billion of Lifeco's subordinated debentures, redeemed on June 21, 2017, as well as the maturity of the hedge related to IGM's acquisition of China AMC, partially offset by regular hedging activities. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) decreased to \$424 million at

December 31, 2017, from \$573 million at December 31, 2016. The decrease is primarily due to the strengthening of the British pound against the U.S. dollar on cross-currency swaps that pay British pounds and receive U.S. dollars and to the expiration and settlement of foreign exchange contracts that paid euros and received British pounds.

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

Off-Balance Sheet Arrangements

GUARANTEES

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

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See Note 31 to the Corporation's 2017 Consolidated Financial Statements.

Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation.

Commitments and Contractual Obligations

Payments due by period	Less than 1 year	1-5 years	More than 5 years	Undefined	Total
Power Corporation ^[1, 2]	4	250	401	408	1,063
Power Financial	8	5	251	–	264
Lifeco	2,094	939	5,043	–	8,076
IGM	1,924	6,810	1,659	–	10,393
Other subsidiaries	273	344	540	–	1,157
Total	4,303	8,348	7,894	408	20,953
Debentures and other debt instruments ^[3]	944	1,336	7,135	–	9,415
Obligations to securitization entities	1,193	6,357	46	–	7,596
Capital trust debentures	–	–	150	–	150
Deposits and certificates	546	7	2	–	555
Operating leases ^[4]	192	503	561	–	1,256
Purchase obligations ^[5]	109	144	–	–	253
Pension contributions ^[6]	381	–	–	–	381
Contractual commitments ^[1, 7]	938	1	–	408	1,347
Total	4,303	8,348	7,894	408	20,953

[1] Includes \$408 million of outstanding commitments from the Corporation to make future capital contributions to investment funds; the exact amount and timing of each capital contribution cannot be determined.

[2] Includes debentures of the Corporation of \$650 million.

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

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

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

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

[7] Represents \$939 million of commitments by Lifeco. These contractual commitments are essentially commitments to investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfillment of certain contract conditions.

Income Taxes (non-consolidated basis)

The Corporation had, at December 31, 2017, non-capital losses of \$256 million available to reduce future taxable income (including capital gains). These losses expire from 2029 to 2037.

Transactions with Related Parties

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

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

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Corporation, Power Financial, and Lifeco and its subsidiaries. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

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

In 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 has recognized the benefit of the tax losses to be realized throughout this program.

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

Summary of Critical Accounting Estimates and Judgments

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

CONSOLIDATION

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiaries are responsible for determining the amount of the liabilities in order to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

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

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

FAIR VALUE MEASUREMENT

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

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

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

BONDS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE FOR SALE

Fair values for bonds recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers factors such as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

SHARES AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE FOR SALE

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movement relative to the market and utilization of information provided by the underlying investment manager. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure shares at fair value in its fair value through profit or loss and available-for-sale portfolios.

MORTGAGE LOANS AND BONDS CLASSIFIED AS LOANS AND RECEIVABLES

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

INVESTMENT PROPERTIES

Fair values for investment properties are determined using independent qualified appraisal services and include adjustments by Lifeco management for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment properties requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

IMPAIRMENT OF INVESTMENTS

Investments are reviewed regularly on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired mortgage loans and bonds classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale bonds, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed to net investment income.

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

GOODWILL AND INDEFINITE LIFE INTANGIBLES IMPAIRMENT TESTING

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

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of disposal or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

- The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined by reference to market yields on high-quality corporate bonds.
- If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.
- Net interest costs, current service costs, past service costs and curtailment gains or losses are included in operating and administrative expenses.
- Remeasurements arising from defined benefit plans represent actuarial gains and losses, and the actual return on plan assets, less interest calculated at the discount rate and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not subsequently reclassified to net earnings.
- The accrued benefit asset (liability) represents the plan surplus (deficit).
- Payments to the defined contribution plans are expensed as incurred.

INCOME TAXES

CURRENT INCOME TAX

Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

DEFERRED INCOME TAX

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

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

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

Changes in Accounting Policies

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

Future Accounting Changes

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

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

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

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

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

The Corporation's management, under the supervision of the Co-Chief Executive Officers and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting as

at December 31, 2017, based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Co-Chief Executive Officers and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective as at December 31, 2017.

There have been no changes in the Corporation's internal control over financial reporting during the year ended December 31, 2017 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Selected Annual Information

For the years ended December 31	2017	2016	2015
Total revenues	51,253	50,750	38,265
Assets under administration [in billions]	1,527	1,408	1,366
Net earnings (attributable to participating shareholders)	1,286	1,082	1,786
per share – basic	2.77	2.33	3.86
per share – diluted	2.76	2.32	3.84
Adjusted net earnings (attributable to participating shareholders) ^[1]	1,560	1,223	1,573
per share – basic	3.36	2.64	3.40
Consolidated assets ^[2]	445,521	422,724	422,859
Total financial liabilities ^[2]	24,946	24,146	23,776
Debentures and other debt instruments	9,351	8,418	8,035
Shareholders' equity	14,615	13,864	13,978
Book value per participating share	29.40	27.84	28.08
Number of participating shares outstanding [millions]			
Participating preferred shares	48.9	48.9	48.9
Subordinate voting shares	415.4	414.5	414.4
Dividends per share [declared]			
Participating shares	1.4105	1.3163	1.2238
First preferred shares			
1986 Series ^[3]	0.9994	0.9452	0.9862
Series A	1.4000	1.4000	1.4000
Series B	1.3375	1.3375	1.3375
Series C	1.4500	1.4500	1.4500
Series D	1.2500	1.2500	1.2500
Series G	1.4000	1.4000	1.4000

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

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

[3] The 1986 Series First Preferred Shares are entitled to a quarterly cumulative dividend at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks.

Consolidated Financial Statements

Consolidated Balance Sheets

December 31 [in millions of Canadian dollars]	2017	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,

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		Retained earnings	Share-based compensation	Other comprehensive income [Note 27]	Reserves		Total equity
	Non-participating shares	Participating shares				Total	Non-controlling interests	
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		Retained earnings	Share-based compensation	Other comprehensive income [Note 27]	Reserves		Total equity
	Non-participating shares	Participating shares				Total	Non-controlling interests	
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.)

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.

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.

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

- 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.

Fair value through profit or loss investments are recorded at fair value on the Consolidated Balance Sheets (balance sheets) with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recorded at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses are reclassified from other comprehensive income and recorded in net investment income in the statements of earnings when the available-for-sale investment is sold or impaired.

Investments in mortgage loans and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Impairments and realized gains and losses on the sale of investments classified as loans and receivables are recorded in net investment income in the statements of earnings.

Investment properties consist of real estate held to earn rental income or for capital appreciation that have an insignificant portion that is owner-occupied or where there is no intent to occupy on a long-term basis. Properties that do not meet these criteria are classified as owner-occupied properties. Investment properties are initially measured at cost and subsequently carried at fair value on the balance sheets. Change in fair value is recorded as net investment income in the statements of earnings.

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

FAIR VALUE MEASUREMENT

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

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

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

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

Fair values for bonds recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

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

The Corporation and its subsidiaries estimate the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodologies, discounted cash flow analyses and/or internal valuation models. These methodologies consider such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

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

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are typically based upon alternative valuation techniques such as discounted cash flow analysis, review of price movements relative to the market and utilization of information provided by the underlying investment manager. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure shares at fair value in its fair value through profit or loss and available-for-sale portfolios.

Mortgage loans and bonds classified as loans and receivables

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

Investment properties

Fair values for investment properties are determined using independent qualified appraisal services and include adjustments by Lifeco management for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment properties requires the use of estimates including future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

IMPAIRMENT

Investments are reviewed regularly on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired mortgage loans and bonds classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale bonds, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed to net investment income.

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

SECURITIES LENDING

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

TRANSACTION COSTS

Transaction costs are expensed as incurred for financial instruments classified or designated as fair value through profit or loss. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition, and recorded in net earnings using the effective interest method. Transaction costs for financial liabilities classified as other than fair value through profit or loss are deducted from the value of the instrument issued and recorded in net earnings using the effective interest method.

REINSURANCE CONTRACTS

Lifeco, in the normal course of business, is a user of reinsurance in order to limit the potential for losses arising from certain exposures and a provider of reinsurance. Assumed reinsurance refers to the acceptance of certain insurance risks by Lifeco underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers are unable to meet their obligations, Lifeco remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Reinsurance contracts are insurance contracts and undergo the classification as described within the Insurance and Investment Contract Liabilities section of this note. Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Lifeco considers various factors in the impairment evaluation process, including, but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the statements of earnings.

Any gains or losses on buying reinsurance are recognized in the statement of earnings immediately at the date of purchase in accordance with the CALM.

Assets and liabilities related to reinsurance are reported on a gross basis in the balance sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

Note 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**FUNDS HELD BY CEDING INSURERS/
FUNDS HELD UNDER REINSURANCE CONTRACTS**

On the asset side, funds held by ceding insurers are assets that would normally be paid to Lifeco but are retained by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds-withheld basis supporting the insurance or investment contract liabilities ceded. For the funds-withheld assets where the underlying asset portfolio is managed by Lifeco, the credit risk is retained by Lifeco. The funds-withheld balance where Lifeco assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See Note 6 for funds held by ceding insurers that are managed by Lifeco. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds-withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by Lifeco from ceded business written on a funds-withheld basis. Lifeco withholds assets related to ceded insurance contract liabilities in order to reduce credit risk.

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

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

Note 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**SEGREGATED FUNDS**

Segregated fund assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately in the balance sheets. The assets and liabilities are set equal to the fair value of the underlying asset portfolio. Investment income and change in fair value of the segregated fund assets are offset by corresponding changes in the segregated fund liabilities.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES**CONTRACT CLASSIFICATION**

When significant insurance risk exists, Lifeco's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when Lifeco agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to Note 12 for a discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Lifeco has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 21 for a discussion on risk management.

MEASUREMENT

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the liabilities in order to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the CALM. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and for future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

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

DERECOGNITION OF SECURITIZED MORTGAGES

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

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

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

OTHER FINANCIAL LIABILITIES

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

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

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.

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

The Corporation and its subsidiaries' accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined by reference to market yields on high-quality corporate bonds.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Net interest costs, current service costs, past service costs and curtailment gains or losses are included in operating and administrative expenses.

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

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

Payments to the defined contribution plans are expensed as incurred.

INCOME TAXES

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or recovery in the statements of earnings, except to the extent that it relates to items that are not recognized in the statements of earnings (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized in other comprehensive income or directly in equity.

CURRENT INCOME TAX

Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

DEFERRED INCOME TAX

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

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

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives are recorded at fair value on the balance sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income in the statements of earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

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.

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

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently, as if there was no hedging relationship.

Where a hedging relationship exists, the Corporation and its subsidiaries document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheets or to specific firm commitments or forecasted transactions. The Corporation and its subsidiaries also assess, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting change in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedge no longer qualifies for hedge accounting.

FAIR VALUE HEDGES

Fair value hedges are used to manage the exposure to change in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, change in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

CASH FLOW HEDGES

Cash flow hedges are used to manage the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. For cash flow hedges, the effective portion of the change in fair value of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recognized immediately in net investment income. Gains and losses on cash flow hedges that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

NET INVESTMENT HEDGES

Net investment hedges are used to manage the exposure to changes in the reporting entity's share in the net share of a foreign operation. For net investment hedges, the effective portion of changes in the fair value of the hedging instrument is recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. The unrealized foreign exchange gains (losses) on the instruments are recorded within other comprehensive income and will be reclassified into net earnings when the instruments are derecognized.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the statement of earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

EQUITY

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

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

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

SHARE-BASED PAYMENTS

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

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

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.

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

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

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

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

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

New standard	Summary of future changes
IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)	In June 2017, the IASB issued IFRIC 23, <i>Uncertainty over Income Tax Treatments</i> . The interpretation clarifies the application of the recognition and measurement requirements in IAS 12, <i>Income Taxes</i> , when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries do not anticipate a significant impact from the adoption of this interpretation.

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	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:

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
December 31				
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:

December 31, 2017	Term to maturity			Carrying value
	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

December 31, 2016	Term to maturity			Carrying value
	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	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.

INVESTMENT PROPERTIES

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

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

Note 5 Investments (continued)**TRANSFERRED FINANCIAL ASSETS**

Lifeco engages in securities lending to generate additional income. Lifeco's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with Lifeco's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent, who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. There was no

cash collateral included in the collateral deposited with Lifeco's lending agent as at December 31, 2017 and December 31, 2016. In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2017, Lifeco had loaned securities (which are included in investments) with a fair value of \$7,427 million (\$7,520 million at December 31, 2016).

Note 6 Funds Held by Ceding Insurers

At December 31, 2017, Lifeco had amounts on deposit of \$9,893 million (\$10,781 million at December 31, 2016) for funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreements are included in net investment income on the statements of earnings.

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

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

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

CARRYING VALUES AND ESTIMATED FAIR VALUES

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

ASSET QUALITY

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

Bond portfolio by credit rating December 31	2017	2016
AAA	714	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		Total
	Parjointco	Other	China AMC	Other	
December 31, 2017					
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		Total
	Parjointco	Other	China AMC	Other	
December 31, 2016					
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.

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.

Note 7 Investments in Jointly Controlled Corporations and Associates (continued)

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:

	2017			2016		
	Owner-occupied properties	Capital assets	Total	Owner-occupied properties	Capital assets	Total
December 31						
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	2016
Canada	1,210	1,174
United States	318	352
Europe	206	141
	1,734	1,667

Note 9 Other Assets

December 31	2017	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			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

Note 10 Goodwill and Intangible Assets (continued)**INTANGIBLE ASSETS**

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

INDEFINITE LIFE INTANGIBLE ASSETS

	Brands, trademarks and trade names	Customer contract- related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
December 31, 2017					
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.

	Brands, trademarks and trade names	Customer contract- related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
December 31, 2016					
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

	Technology and software	Customer contract-related	Power purchase agreements	Deferred selling commissions	Other	Total
December 31, 2017						
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).

	Technology and software	Customer contract-related	Power purchase agreements	Deferred selling commissions	Other	Total
December 31, 2016						
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			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.

IGM FINANCIAL

IGM tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of IGM's CGUs is based on the best available evidence of fair value less cost of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and previous business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs. The fair value less cost of disposal of IGM's CGUs was compared with the carrying amount and it was determined there was no impairment. Any reasonable changes in assumptions and estimates used in determining the recoverable amounts of the CGUs are unlikely to cause the carrying values to exceed their recoverable amounts.

Note 11 Segregated Funds and Other Structured Entities

Lifeco offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective markets. These funds are contracts issued by insurers to segregated fund policyholders where the benefit is directly linked to the performance of the investments, the risks or rewards of the fair value movements and net investment income is realized by the segregated fund policyholders. The segregated fund policyholders are required to select the segregated funds that hold a range of underlying investments. While Lifeco has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and Lifeco segregates these investments from those of the corporation itself.

In Canada and the U.S., the segregated fund and separate account assets are legally separated from the general assets of Lifeco under the terms of the policyholder agreement and cannot be used to settle obligations of Lifeco. In Europe, the assets of the funds are functionally and constructively segregated from those of Lifeco. As a result of the legal and constructive arrangements of these funds, the assets and liabilities of these funds are presented as investments on account of segregated fund policyholders and with an equal liability titled insurance and investment contracts on account of segregated fund policyholders in the balance sheets.

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are \$1,602 million at December 31, 2017 (\$1,547 million at December 31, 2016).

Within the statements of earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the balance sheets. As these amounts do not directly impact the revenues and expenses of Lifeco, these amounts are not included separately in the statements of earnings.

SEGREGATED FUNDS AND GUARANTEE EXPOSURE

Lifeco offers retail segregated fund products, variable annuity products and unitized with profits products that provide for certain guarantees that are tied to the fair values of the investment funds. While these products are similar to mutual funds, there is a key difference from mutual funds as the segregated funds have certain guarantee features that protect the segregated fund policyholder from market declines in the underlying investments. These guarantees are Lifeco's primary exposure on these funds. Lifeco accounts for these guarantees within insurance and investment contract liabilities in the financial statements. In addition to Lifeco's exposure on the guarantees, the fees earned by Lifeco on these products are impacted by the fair value of these funds.

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

In the U.S., Lifeco offers variable annuities with guaranteed minimum death benefits through Great-West Financial. For the standalone guaranteed minimum death benefits business, most are a return of premium on death with the guarantee expiring at age 70. Great-West Financial in the U.S. also offers a guaranteed minimum death benefits feature that does not expire with age.

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

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

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

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

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

December 31	2017	2016
Cash and cash equivalents	13,300	12,487
Bonds	42,270	41,619
Mortgage loans	2,610	2,622
Shares and units in unit trusts	93,465	81,033
Mutual funds	54,658	51,726
Investment properties	11,520	11,019
	217,823	200,506
Accrued income	373	359
Other liabilities	(2,441)	(2,009)
Non-controlling mutual fund interest	1,602	1,547
	217,357	200,403

Note 11 Segregated Funds and Other Structured Entities (continued)**INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS**

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

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

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

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

December 31, 2017	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ^[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.

Note 11 Segregated Funds and Other Structured Entities (continued)

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

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

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

In addition to the segregated funds, Lifeco has interests in a number of structured unconsolidated entities including mutual funds, open-ended investment companies, and unit trusts. These entities are created as investment strategies for its unit holders based on the directive of each individual fund.

Some of these funds are managed by related parties of Lifeco and Lifeco receives management fees related to these services. Management fees can be variable due to the performance of factors, such as markets or industries, in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management, which is affected by prevailing market conditions, and the inflow and outflow of client assets.

Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

Fee and other income earned by Lifeco resulting from Lifeco's interests in these structured entities was \$4,557 million for the year ended December 31, 2017 (\$4,323 million in 2016).

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

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

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

Note 12 Insurance and Investment Contract Liabilities (continued)**COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS**

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

December 31	2017			2016		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Participating						
Canada	36,430	(356)	36,786	34,019	(443)	34,462
United States	11,155	15	11,140	11,790	14	11,776
Europe	1,286	-	1,286	1,385	-	1,385
Non-participating						
Canada	30,031	475	29,556	29,125	923	28,202
United States	28,814	272	28,542	29,081	309	28,772
Europe	53,649	4,639	49,010	52,549	4,824	47,725
	161,365	5,045	156,320	157,949	5,627	152,322

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

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

Under fair value accounting, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in the in-force business above.

2017

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

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

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

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

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

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

2016

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

Note 12 Insurance and Investment Contract Liabilities (continued)

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.

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

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

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

GROSS PREMIUM INCOME

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

GROSS POLICYHOLDER BENEFITS

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

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).

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.

Note 12 Insurance and Investment Contract Liabilities (continued)**RISK MANAGEMENT****INSURANCE RISK**

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

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

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

	2017			2016		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
December 31						
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

Note 12 Insurance and Investment Contract Liabilities (continued)**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.

	2017			2016		
	Securitized mortgages	Obligations to securitization entities	Net	Securitized mortgages	Obligations to securitization entities	Net
December 31						
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

	2017		2016	
December 31	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	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.

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

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

CLCT, a trust established by Canada Life, had issued \$150 million of Canada Life Capital Securities – Series B (CLiCS – Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of \$150 million.

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

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

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

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

Years ended December 31 Percentage [%]	2017	2016
Combined statutory Canadian federal and provincial tax rates	26.8	26.8
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(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

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.

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

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

Years ended December 31	2017	2016
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:

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

DEFERRED TAXES

Deferred taxes are attributable to the following items:

December 31	2017	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.

Note 16 **Income Taxes** (continued)

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2017 are recoverable.

At December 31, 2017, Lifeco has recognized a deferred tax asset of \$1,132 million (\$1,775 million at December 31, 2016) on tax loss carry forwards totalling \$7,670 million (\$7,285 million in 2016). Of this amount, \$7,572 million expires between 2018 and 2037, while \$98 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

One of Lifeco's subsidiaries has had a history of recent losses. The subsidiary has a net deferred tax asset balance of \$691 million (US\$549 million) as at December 31, 2017 composed principally of net operating losses and future deductions related to goodwill which has been previously impaired for accounting purposes. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income against which the unused United States losses and deductions will be utilized.

As at December 31, 2017, the Corporation and its subsidiaries have non-capital losses of \$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		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

Note 18 Share-Based Compensation (continued)

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

Range of exercise prices	Options outstanding			Options exercisable	
	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
\$		[yrs]	\$		\$
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.

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

Note 18 Share-Based Compensation (continued)

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			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	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.

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

IGM FINANCIAL

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

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

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). As at December 31, 2017, the MCCSR ratio for Great-West Life was 241% (240% at December 31, 2016). Lifeco has been preparing for the implementation of the new regulatory capital framework for the Canadian insurance industry. OSFI will replace the current MCCSR guideline with the Life Insurance Capital Adequacy Test (LICAT) guideline, effective January 1, 2018. The first reporting period will be the first quarter of 2018.
- At December 31, 2017, the Risk-Based Capital ratio (RBC) of Great-West Life & Annuity, Lifeco's regulated U.S. operating company, was estimated to be 487% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Life & Annuity reports its RBC ratio annually to U.S. insurance regulators.
- For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2017 and 2016, all Lifeco's European regulated entities met the capital and solvency requirements as prescribed under Solvency II.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2017 and 2016, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

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

Note 21 Risk Management

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

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

This note to the financial statements includes estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons, including:

- assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;
- changes in actuarial, investment return and future investment activity assumptions;
- actual experience differing from the assumptions;
- changes in business mix, effective tax rates and other market factors;
- interactions among these factors and assumptions when more than one changes; and
- the general limitations of internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Corporation cannot provide assurance that the actual impact on net earnings will be as indicated.

POWER 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 unused.

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			
	Less than 1 year	1-5 years	After 5 years	Total
December 31, 2017				
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.

Note 21 Risk Management (continued)**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.

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.

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.

INTEREST RATE RISK

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

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.

Note 21 Risk Management (continued)

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

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

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.

MAXIMUM EXPOSURE TO CREDIT RISK

The following table summarizes Lifeco's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

December 31	2017	2016
Cash and cash equivalents	3,551	3,259
Bonds		
Fair value through profit or loss	89,898	88,325
Available for sale	12,347	11,478
Loans and receivables	17,959	16,970
Mortgage loans	22,185	21,651
Loans to policyholders	8,280	8,467
Funds held by ceding insurers ⁽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.

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

ASSET QUALITY

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

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

LOANS PAST DUE, BUT NOT IMPAIRED

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management of Lifeco has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

December 31	2017	2016
Less than 30 days	1	54
30-90 days	-	-
Greater than 90 days	1	2
Total	2	56

Note 21 Risk Management (continued)**FUTURE ASSET CREDIT LOSSES**

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

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

MARKET RISK**FOREIGN EXCHANGE RISK**

If the assets backing insurance and investment contract liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. Lifeco's debt obligations are denominated in Canadian dollars, euros and U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts Lifeco's total equity. Correspondingly, Lifeco's book value per share and capital ratios monitored by rating agencies are also impacted.

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

- Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented investment guidelines include maximum tolerances for unhedged currency mismatch exposures.
- For assets backing liabilities not matched by currency, Lifeco normally converts the assets back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.
- A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change in net earnings.

INTEREST RATE RISK

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

- Lifeco uses a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.

- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.
- The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.13% (0.14% in 2016). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries-prescribed scenarios.

Note 21 Risk Management (continued)

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

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

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

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' net earnings of a 1% change in Lifeco's view of the range of interest rates to be covered by these provisions. The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

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

EQUITY RISK

Lifeco has investment policy guidelines in place that provide for prudent investment in equity markets with clearly defined limits to mitigate price risk. The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level. In other words, Lifeco determines insurance contract liabilities at a level that covers the average loss in the worst 25% part of the loss distribution.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity values. There will be additional impacts on these liabilities as equity values fluctuate. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

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

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

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

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				Total
	Demand	Less than 1 year	1-5 years	After 5 years	
December 31, 2017					
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

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.

Note 21 Risk Management (continued)

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

IGM manages credit risk related to residential mortgages through:

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

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

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

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

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

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

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

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2016.

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

To the extent that the fair value of the derivatives is in a gain position, IGM is exposed to the credit risk that its counterparties fail to fulfill their obligations under these arrangements.

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

MARKET RISK**FOREIGN EXCHANGE RISK**

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

INTEREST RATE RISK

IGM is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in IGM's mortgage banking operations.

IGM manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, IGM is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a positive fair value of \$4 million (negative \$23 million in 2016) and an outstanding notional value of \$1.2 billion at December 31, 2017 (\$1.0 billion in 2016). IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The negative fair value of these swaps totalled \$4 million (\$30 million in 2016), on an outstanding notional amount of \$1.9 billion at December 31, 2017 (\$2.1 billion in 2016). The net fair value of these swaps recorded on the balance sheet was nil at December 31, 2017 (\$7 million in 2016) and has an outstanding notional amount of \$3.1 billion at December 31, 2017 (\$3.1 billion in 2016).

Note 21 Risk Management (continued)

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

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

EQUITY RISK

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

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

RISKS RELATED TO ASSETS UNDER MANAGEMENT

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings of IGM.

Note 22 Operating and Administrative Expenses

Years ended December 31	2017	2016
Salaries and other employee benefits	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 trustee pension funds. The obligations for the wholly unfunded plans are supported by assets of the Corporation or its subsidiaries, as applicable.

The significant defined benefit plans of Lifeco's subsidiaries and IGM are closed to new entrants. New hires are only eligible for defined contribution benefits. As a result, defined benefit plan exposure will continue to be reduced in future years.

The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. Contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Corporation and its subsidiaries also provide unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. The obligations for these benefits are supported by assets of the Corporation or its subsidiaries, as applicable.

The Corporation and its subsidiaries have pension and benefit committees or a trustee arrangement that provides oversight for the benefit plans. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements. Significant changes to benefit plans require approval.

The Corporation and its subsidiaries' funding policy for the funded pension plans is to make annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit asset, the Corporation and its subsidiaries determine if an economic benefit exists in the form of potential reductions in future contributions, the present value of future expenses to be paid from the plan and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Corporation and its subsidiaries to the typical risks faced by defined benefit plans, such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Corporation and its subsidiaries.

Note 24 Pension Plans and Other Post-Employment Benefits (continued)**PLAN ASSETS, BENEFIT OBLIGATIONS AND FUNDED STATUS**

	2017		2016	
December 31	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	2016
Wholly or partly funded plans	8,274	7,776
Wholly unfunded plans	671	648

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

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

	2017			2016		
	Defined benefit pension plans	Other post-employment benefits	Total	Defined benefit pension plans	Other post-employment benefits	Total
December 31						
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)

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.

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

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

	2017		2016	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
December 31				
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**

December 31 Percentage [%]	Defined benefit pension plans	
	2017	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		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 Percentage [%]	2017		2016	
	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

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

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES**ACTUARIAL ASSUMPTIONS**

December 31 Percentage [%]	2017		2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Range of discount rates				
To determine benefit cost	3.2-4.1	3.7-4.1	3.8-4.3	3.9-4.3
To determine accrued benefit obligation at year-end	3.1-3.7	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.

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

SAMPLE LIFE EXPECTANCIES BASED ON MORTALITY ASSUMPTIONS

	2017		2016	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
December 31				
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.

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:

December 31, 2017	Notional amount				Maximum credit risk	Total fair value
	1 year or less	1-5 years	Over 5 years	Total		
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)

December 31, 2016	Notional amount				Maximum credit risk	Total fair value
	1 year or less	1-5 years	Over 5 years	Total		
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.

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

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

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.

The following disclosure shows the potential effect on the balance sheets of financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the balance sheets.

	Gross amount of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet		Net exposure
		Offsetting counterparty position ^[1]	Financial collateral received/pledged ^[2]	
December 31, 2017				
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				
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.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

The Corporation and its subsidiaries enter into the International Swaps and Derivative Association's (ISDA's) master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related ISDA's Credit Support Annexes. The ISDA's master agreements do not meet the criteria for offsetting on the balance sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with exchanges and clearing houses, there is no provision for set-off at default. Initial margin is excluded from the table below as it would become part of a pooled settlement process.

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

Note 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.

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		Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
	Fair value through profit or loss	Fair value through profit or loss ^[2]	Available for sale	Investment properties				
December 31, 2017								
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 Reversionary rate Vacancy rate	Range of 2.6% - 10.3% Range of 4.3% - 7.5% Weighted average of 2.7%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value. A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value. A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
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

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Year ended December 31, 2017						
Balance, beginning of year	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

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Year ended December 31, 2016						
Balance, beginning of year	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:

Corporations	Incorporated in	Primary business operation	% equity interest	
			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).

Note 29 **Related Parties** (continued)**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.

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.

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.

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.

- 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	Power Financial					Other	Total
	Lifeco	IGM	Pargesa	Corporate	Sub-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	Power Financial					Other	Total
	Lifeco	IGM	Pargesa	Corporate	Sub-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.

Note 32 **Segmented Information** (continued)**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

CONSOLIDATED NET EARNINGS

	Power Financial						
For the year ended December 31, 2016	Lifeco	IGM	Pargesa	Corporate	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

Note 32 **Segmented Information** (continued)**TOTAL ASSETS AND LIABILITIES**

December 31, 2016 ^[1]	Power Financial					Other	Total
	Lifeco	IGM	Pargesa	Corporate	Sub-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]	Power Financial			Total
	Canada	United States	Europe	
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 LLP¹

March 23, 2018
Montréal, Québec

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

Five-Year Financial Summary

December 31 [in millions of Canadian dollars, except per share amounts] (unaudited)	2017	2016 ^[1]	2015	2014	2013
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	5,903	5,182	5,085	4,431	4,767
Total assets	445,521	422,724	422,859	377,781	344,976
Shareholders' equity	14,615	13,864	13,978	11,931	10,924
CONSOLIDATED STATEMENTS OF EARNINGS					
REVENUES					
Premium income, net	33,925	31,125	24,501	21,222	20,236
Net investment income	8,074	10,335	4,869	13,706	2,752
Fee income	8,356	7,794	7,692	6,990	5,933
Other revenues	898	1,496	1,203	711	721
Total revenues	51,253	50,750	38,265	42,629	29,642
EXPENSES					
Total paid or credited to policyholders	35,643	34,675	22,842	29,160	17,811
Commissions	3,475	3,590	3,133	2,901	2,590
Operating and administrative expenses	8,260	8,023	7,239	6,066	5,448
Financing charges	512	490	480	457	440
Total expenses	47,890	46,778	33,694	38,584	26,289
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,363	3,972	4,571	4,045	3,353
Share of earnings (losses) of investments in jointly controlled corporations and associates	214	(122)	213	215	106
Earnings before income taxes	3,577	3,850	4,784	4,260	3,459
Income taxes	543	587	685	824	670
Net earnings	3,034	3,263	4,099	3,436	2,789
ATTRIBUTABLE TO					
Non-controlling interests	1,696	2,129	2,261	2,109	1,760
Non-participating shareholders	52	52	52	52	52
Participating shareholders	1,286	1,082	1,786	1,275	977
	3,034	3,263	4,099	3,436	2,789
PER SHARE					
Net earnings attributable to participating shareholders	2.77	2.33	3.86	2.77	2.12
Adjusted net earnings attributable to participating shareholders ^[2]	3.36	2.64	3.40	2.69	2.08
Dividends declared on participating shares	1.41	1.32	1.22	1.16	1.16
Book value per participating share	29.40	27.84	28.08	23.74	21.61
MARKET PRICE (Participating shares)					
High	33.68	31.03	34.57	32.87	32.82
Low	28.65	26.77	27.15	27.60	25.02
Year-end	32.37	30.05	28.94	31.76	31.95

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

[2] Please refer to the review of financial performance for non-IFRS financial measure definition.

Quarterly Financial Information

[in millions of Canadian dollars, except per share amounts] (unaudited)	Total revenues	Net earnings	Net earnings attributable to participating shareholders	Earnings per share attributable to participating shareholders – basic	Earnings per share attributable to participating shareholders – diluted
2017					
First quarter	13,777	754	258	0.56	0.55
Second quarter	12,080	819	350	0.75	0.75
Third quarter	11,377	953	470	1.02	1.01
Fourth quarter	14,019	508	208	0.44	0.44
2016					
First quarter	13,280	452	48	0.10	0.10
Second quarter	13,879	790	272	0.59	0.59
Third quarter	14,503	825	303	0.65	0.65
Fourth quarter	9,088	1,196	459	0.99	0.99

Board of Directors

Pierre Beaudoin^[5]

Chairman of the Board,
Bombardier Inc.

Marcel R. Coutu^[2, 3]

Company Director

André Desmarais, O.C., O.Q.^[4]

Deputy Chairman, President and
Co-Chief Executive Officer of the Corporation
and Executive Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C., O.Q.^[4]

Chairman and
Co-Chief Executive Officer
of the Corporation
and Executive Co-Chairman,
Power Financial Corporation

Gary A. Doer, O.M.^[2]

Senior Business Advisor,
Dentons Canada LLP

Anthony R. Graham, LL.D.^[1, 3, 4]

Vice-Chairman,
Wittington Investments, Limited

J. David A. Jackson, LL.B.^[2]

Senior Counsel,
Blake, Cassels & Graydon LLP

Isabelle Marcoux^[3, 4]

Chair of the Board,
Transcontinental Inc.

Christian Noyer^[4, 5]

Company Director

R. Jeffrey Orr

President and Chief Executive Officer,
Power Financial Corporation

T. Timothy Ryan, Jr.^[2]

Company Director

Emőke J.E. Szathmáry, C.M., O.M., Ph.D., FRSC^[2, 5]

President Emeritus,
University of Manitoba

DIRECTOR EMERITUS

James W. Burns, O.C., O.M.

[1] LEAD DIRECTOR OF THE CORPORATION

[2] MEMBER OF THE AUDIT COMMITTEE

[3] MEMBER OF THE COMPENSATION COMMITTEE

[4] MEMBER OF THE GOVERNANCE AND NOMINATING COMMITTEE

[5] MEMBER OF THE RELATED PARTY AND CONDUCT REVIEW COMMITTEE

Officers

Paul Desmarais, Jr., O.C., O.Q.

Chairman and
Co-Chief Executive Officer

André Desmarais, O.C., O.Q.

Deputy Chairman, President
and Co-Chief Executive Officer

Michel Plessis-Bélair, FCPA, FCA

Vice-Chairman

Henri-Paul Rousseau, PH.D.*

Vice-Chairman

Gregory D. Tretiak, FCPA, FCA

Executive Vice-President
and Chief Financial Officer

Claude Gagnéux

Executive Vice-President

Olivier Desmarais

Senior Vice-President

Paul Desmarais III

Senior Vice-President

Paul C. Genest

Senior Vice-President

Arnaud Vial

Senior Vice-President

Arnaud Bellens

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Pierre Larochelle

Vice-President

Denis Le Vasseur, CPA, C.A.

Vice-President and Controller

Stéphane Lemay

Vice-President, General Counsel and Secretary

Yuhong Liu (Henry), CFA

Vice-President

Fabrice Morin

Vice-President

Eoin Ó hÓgáin, CFA

Vice-President

Richard Pan

Vice-President

Pierre Piché

Vice-President

Luc Reny, CFA

Vice-President

Samuel Robinson

Vice-President

Adam D. Vigna

Vice-President

* RETIRED JANUARY 1, 2018

HONORARY DEPUTY CHAIRMAN

Robert Gratton

Corporate Information

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This document is also available on the Corporation's website and on SEDAR at www.sedar.com.

STOCK LISTINGS

Shares of Power Corporation of Canada are listed on the Toronto Stock Exchange:

Subordinate Voting Shares: POW
Participating Preferred Shares: POW.PR.E

First Preferred Shares, 1986 Series: POW.PR.F
First Preferred Shares, Series A: POW.PR.A
First Preferred Shares, Series B: POW.PR.B
First Preferred Shares, Series C: POW.PR.C
First Preferred Shares, Series D: POW.PR.D
First Preferred Shares, Series G: POW.PR.G



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TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

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Vancouver, British Columbia
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SHAREHOLDER SERVICES

Shareholders with questions relating to the payment of dividends, change of address, share certificates, direct registration and estate transfers should contact the Transfer Agent:

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