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

MARCH 24, 2017

This Annual Report is intended to provide interested shareholders and others with selected information concerning Power Financial Corporation. For further information concerning the Corporation, shareholders and other interested persons should consult the Corporation's disclosure documents, such as its Annual Information Form and Management's Discussion and Analysis (MD&A). Copies of the Corporation's continuous disclosure documents can be obtained on the Corporation's website at www.powerfinancial.com, 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, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

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

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

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including its most recent 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 Financial and Notes thereto for the year ended December 31, 2016 (the 2016 Consolidated Financial Statements or the Financial Statements); International Financial Reporting Standards (IFRS).

Overview

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

LIFECO

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

At December 31, 2016, Power Financial and IGM held 67.9% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits ownership in life insurance companies to 65%.

IGM FINANCIAL

IGM 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.

At December 31, 2016, Power Financial and Great-West Life, a subsidiary of Lifeco, held 61.5% and 3.8%, respectively, of IGM's common shares. Power Financial's equity interest in IGM increased by 1.1%, from 60.4% at December 31, 2015 to 61.5% at December 31, 2016, as a result of IGM's repurchases and subsequent cancellation of its common shares.

On December 29, 2016 and January 5, 2017, Mackenzie Investments, a subsidiary of IGM, entered into agreements to acquire, in two separate transactions, a 13.9 % interest in China Asset Management Co., Ltd., a fund management company in China, for an aggregate consideration of approximately $647 million (RMB¥3.3 billion). In accordance with the terms of these agreements, Mackenzie Investments made a deposit of $193 million (RMB¥1.0 billion). On January 5, 2017, Power Financial's parent company, Power Corporation, also entered into an agreement to acquire an additional 3.9 % interest in China AMC for $179 million (RMB¥936 million). Upon closing, Power Corporation and Mackenzie Investments will hold a combined 27.8 % interest in China AMC. The transactions are expected to close in the first half of 2017 and are subject to customary closing conditions, including Chinese regulatory approvals.

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, 2016, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa is a holding company, which, at December 31, 2016, held a 50% interest in GBL, which represents 51.9% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange (EBR: GBLB).

At December 31, 2016, GBL's portfolio was mainly comprised of investments in: Imerys – mineral-based specialty solutions for industry (EPA: NK); LafargeHolcim – cement, aggregates and concrete (SIX: HOLN and EPA: LHN); SGS – testing, inspection and certification (SIX: SGSN); adidas – design and distribution of sportswear (XETR: ADS); Pernod Ricard – wines and spirits (EPA: RI); Umicore – materials technology and recycling (EBR: UMI); and Total – oil, gas and alternative energies (EPA: FP).

In addition to these holdings, representing 88% of its portfolio based on market value, GBL invests in:

- "Incubator" investments, made up of a limited selection of smaller listed and unlisted holdings that have the potential to become strategic assets over time. GBL aims to become a core shareholder and, for mid-sized companies, to possibly hold a majority stake; and
- The "financial pillar", comprising major stakes in private equity funds, debt funds and theme-based funds.

In 2016, GBL sold 43.5 million shares of Total, representing a 1.8% in Total interest and 42.7 million shares of Engie, representing a 1.8% interest in Engie. GBL's net gain resulting from these sales was €721 million.

At December 31, 2016, Pargesa's net asset value was SF8,884 million, compared with SF7,970 million at December 31, 2015.

PORTAG3

In October 2016, Power Financial, together with Lifeco and IGM, announced the formation of a new investment fund, Portag3 Ventures Limited Partnership, dedicated primarily to backing early-stage innovative financial services companies.

In the fourth quarter of 2016, Portag3 invested in Diagram, a launchpad for technology-based ventures in insurance, financial services and healthcare. In 2016, Portag3 also invested in a number of select portfolio investments. At December 31, 2016, the fair value of the Corporation's direct investment in Portag3 was $10 million.

WEALTHSIMPLE

In 2016, Power Financial invested a further $16 million in Wealthsimple, a technology-driven investment manager, bringing its investment to $33 million at year end. In the fourth quarter of 2016, IGM made an initial investment of $20 million in Wealthsimple. At December 31, 2016, Power Financial's and IGM's equity interests in Wealthsimple were 46.5% and 22.7%, respectively. At December 31, 2016, Wealthsimple's assets under administration were $795 million.

In the first quarter of 2017, Power Financial and IGM made advances of $20 million and $15 million, respectively, to Wealthsimple.

Basis of Presentation

The 2016 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 operating subsidiaries. The consolidated financial statements present the financial results of Power Financial (parent) and Lifeco and IGM (operating subsidiaries) after the elimination of intercompany balances and transactions.

Lifeco and IGM are controlled by Power Financial and their financial statements are consolidated with those of 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. Parjointco's only investment is its interest in Pargesa. Power Financial's investment in Parjointco is accounted for using the equity method, in which:

- The investment is initially recognized at cost and adjusted thereafter for changes in Power Financial's share of Pargesa's net assets (shareholders' equity);
- Power Financial's net earnings or loss includes its share of Pargesa's net earnings or loss; and
- Power Financial's other comprehensive income includes its share of Pargesa's other comprehensive income.

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 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, 2016, the Corporation's holdings were as follows:

HOLDINGS	% ECONOMIC INTEREST	NATURE OF INVESTMENT	ACCOUNTING METHOD
Lifeco[1]	67.9	Controlling interest	Consolidation
IGM[2]	61.5	Controlling interest	Consolidation
Pargesa[3]	27.8	Joint control	Equity method
Wealthsimple[4]	46.5	Joint control	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] IGM also holds a 22.7% interest in Wealthsimple.

At December 31, 2016, Pargesa's holdings were as follows:

HOLDINGS	% ECONOMIC INTEREST	NATURE OF INVESTMENT	ACCOUNTING METHOD
GBL	50.0	Controlling interest	Consolidation
Imerys	53.9	Controlling interest	Consolidation
LafargeHolcim	9.4	Portfolio investment	Available for sale
SGS	16.2	Portfolio investment	Available for sale
adidas	7.5	Portfolio investment	Available for sale
Pernod Ricard	7.5	Portfolio investment	Available for sale
Umicore	17.0	Portfolio investment	Available for sale
Total	0.7	Portfolio investment	Available for sale

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2016 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

Net earnings attributable to common shareholders are comprised of:

- **adjusted net earnings** attributable to common shareholders; and
- **other items**, which include the after-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Other items include the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation. Other items are listed and described in a separate section below in this review of financial performance.

Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. 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 measure.

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

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

Results of Power Financial Corporation

EARNINGS SUMMARY – CONDENSED SUPPLEMENTARY NON-CONSOLIDATED STATEMENTS OF EARNINGS

The following table is a reconciliation of non-IFRS financial measures: adjusted net earnings, other items, adjusted net earnings per share and other items per share with financial measures presented in accordance with IFRS: net earnings and net earnings per share. In this section, the contributions from Lifeco and IGM to the net earnings attributable to common shareholders of Power Financial are accounted for using the equity method.

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
Adjusted net earnings [1]		
Lifeco	1,790	1,862
IGM	452	474
Pargesa	119	112
	2,361	2,448
Corporate operations	(132)	(77)
Dividends on perpetual preferred shares	(124)	(130)
Adjusted net earnings [2]	2,105	2,241
Other items [3]		
IGM	21	(15)
Pargesa	(207)	93
	(186)	78
Net earnings [2]	1,919	2,319
Earnings per share – basic [2]		
Adjusted net earnings	2.95	3.14
Other items	(0.26)	0.11
Net earnings	2.69	3.25

[1] Previously described as "Operating earnings". For a reconciliation of each component's non-IFRS adjusted net earnings to their net earnings, refer to the "Contribution to adjusted net earnings" section below.

[2] Attributable to common shareholders.

[3] See "Other items" below.

NET EARNINGS

(attributable to common shareholders)

Net earnings attributable to common shareholders for the twelve-month period ended December 31, 2016 were $1,919 million or $2.69 per share, compared with $2,319 million or $3.25 per share in the corresponding period in 2015, a decrease of 17.2% on a per share basis.

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

ADJUSTED NET EARNINGS

(attributable to common shareholders)

Adjusted net earnings attributable to common shareholders for the twelve-month period ended December 31, 2016 were $2,105 million or $2.95 per share, compared with $2,241 million or $3.14 per share in the corresponding period in 2015, a decrease of 6.1% on a per share basis.

CONTRIBUTION TO ADJUSTED NET EARNINGS — LIFECO, IGM AND PARGESA

Power Financial's share of adjusted net earnings from Lifeco, IGM and Pargesa decreased by 3.6% for the twelve-month period ended December 31, 2016, compared with the same period in 2015, from $2,448 million to $2,361 million.

Lifeco

Lifeco's contribution to Power Financial's adjusted net earnings for the twelve-month period ended December 31, 2016 was $1,790 million, compared with $1,862 million for the corresponding period in 2015.

- Lifeco's net earnings attributable to Lifeco common shareholders were $2,641 million or $2.668 per share for the twelve-month period ended December 31, 2016, compared with $2,762 million or $2.774 per share in the corresponding period in 2015, a decrease of 3.8% on a per share basis. While net earnings in Canada and Europe operations finished the year up from 2015, earnings were negatively impacted by currency movement, particularly the weakening of the British pound, and lower earnings in the U.S. segment.
- Summary of Lifeco's net earnings by segment:

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
CANADA		
Individual Insurance	345	307
Wealth Management	436	479
Group Insurance	400	432
Canada Corporate	37	(23)
	1,218	1,195
UNITED STATES		
Financial Services	333	384
Asset Management	(52)	32
U.S. Corporate	(32)	(7)
	249	409
EUROPE		
Insurance and Annuities	927	886
Reinsurance	277	313
Europe Corporate	(4)	(25)
	1,200	1,174
LIFECO CORPORATE	(26)	(16)
Net earnings [1]	2,641	2,762

[1] Attributable to Lifeco common shareholders.

Lifeco's contribution to Power Financial:

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
Average direct ownership [%]	67.6	67.3
Contribution to Power Financial's adjusted net earnings and net earnings	1,790	1,862

CANADA

Net earnings for the twelve-month period ended December 31, 2016 were $1,218 million, compared with $1,195 million for the corresponding period in 2015. The increase was primarily due to higher contributions from investment experience and lower income taxes, partially offset by lower contributions from insurance contract liability basis changes and less favourable morbidity experience.

UNITED STATES

Net earnings for the twelve-month period ended December 31, 2016 were US$188 million (C$249 million), compared with US$318 million (C$409 million) for the corresponding period in 2015. Included in net earnings in the fourth quarter of 2016 were restructuring costs of US$15 million (C$20 million) relating to the Asset Management business unit. Excluding these restructuring costs, net earnings decreased US$115 million (C$140 million). The decrease was primarily due to lower contributions from investment experience and lower net fee income in Lifeco's Asset Management business unit. These items were partially offset by higher contributions from contract liability basis changes and lower income taxes, driven by a management election to claim foreign tax credits.

EUROPE

Net earnings for the twelve-month period ended December 31, 2016 were $1,200 million, compared with $1,174 million for the corresponding period in 2015. The increase was primarily due to higher contributions from insurance contract liability basis changes and investment experience, partially offset by less favourable morbidity experience and the impact of currency movement.

IGM Financial

IGM's contribution to Power Financial's adjusted net earnings was $452 million for the twelve-month period ended December 31, 2016, compared with $474 million for the corresponding period in 2015.

- IGM's adjusted net earnings available to IGM common shareholders were $737 million or $3.05 per share for the twelve-month period ended December 31, 2016, compared with $796 million or $3.21 per share in the corresponding period in 2015, a decrease of 5.0% on a per share basis due to a decrease in contributions from each of IGM's segments.
- Adjusted net earnings before interest and taxes of IGM's segments and adjusted net earnings (non-IFRS measures described by IGM as "Earnings before interest and taxes" and "Operating earnings", respectively), and net earnings available to IGM common shareholders were as follows:

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
Investors Group	736	761
Mackenzie	171	216
Corporate and other	132	140
Adjusted net earnings (before interest, income taxes, preferred share dividends and other)	1,039	1,117
Interest expense, income taxes, preferred share dividends and other	(302)	(321)
Adjusted net earnings[1]	737	796
Other items	34	(24)
Net earnings[1]	771	772

[1] Available to IGM common shareholders.

IGM's contribution to Power Financial:

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
Average direct ownership [%]	61.3	59.6
Contribution to Power Financial's:		
Adjusted net earnings	452	474
Other items	21	(15)
	473	459

INVESTORS GROUP

Adjusted net earnings decreased in the twelve-month period ended December 31, 2016, compared to the same period in 2015, due to:

- An increase in non-commission expenses, resulting largely from Consultant network support and other business development efforts, and an increase in commission expenses;
- Partially offset by an increase in fee revenue primarily reflecting the increase in average daily mutual fund assets of 1.5% and the increase in fee revenue from insurance products.

MACKENZIE

Adjusted net earnings decreased in the twelve-month period ended December 31, 2016, compared to the same period in 2015, due to:

- A decrease in management fee revenues, primarily resulting from the decrease in average assets under management of 8.3% when compared with the corresponding period in 2015, offset, in part, by an increase in the average management fee rate and an increase in non-commission expenses;
- Partially offset by a decrease in commission expenses, primarily due to the decrease in average mutual fund assets for the period and the lower amount of deferred sales commissions paid in recent years.

Total assets under management were as follows:

DECEMBER 31 [IN BILLIONS OF DOLLARS]	2016	2015
Investors Group	81.2	74.9
Mackenzie	64.0	61.7
Corporate and other[1]	(3.4)	(3.0)
Total	141.8	133.6

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel.

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

	2016				2015			
[IN BILLIONS OF DOLLARS]	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investors Group	79.7	78.1	75.8	73.5	75.3	75.4	76.8	75.5
Mackenzie	50.5	49.6	47.8	46.7	48.5	49.2	50.6	50.5
Corporate and other[1]	4.5	4.5	4.3	4.2	4.0	4.0	4.0	3.9
Total	134.7	132.2	127.9	124.4	127.8	128.6	131.4	129.9

[1] Includes Investment Planning Counsel's assets under management less an adjustment for assets sub-advised by Mackenzie on behalf of Investors Group and Investment Planning Counsel.

Pargesa

Pargesa's contribution to Power Financial's adjusted net earnings was $119 million for the twelve-month period ended December 31, 2016, compared with $112 million in the corresponding period in 2015.

The components of Pargesa's adjusted net earnings (described by Pargesa as "operating earnings") and net earnings were:

TWELVE MONTHS ENDED DECEMBER 31 [IN MILLIONS OF SWISS FRANCS]	2016	2015
Contribution from principal holdings		
Share of earnings of:		
Imerys	112	102
Lafarge[1]	–	13
Dividends from:		
LafargeHolcim[1]	45	–
SGS	41	37
Total	28	85
Engie	26	26
Pernod Ricard	21	20
Umicore	14	8
adidas	11	2
	298	293
Contribution from private equity activities and other investment funds	38	14
Net financing charges	8	34
Other operating income from holding company activities	6	–
General expenses and taxes	(29)	(33)
Adjusted net earnings	321	308
Other items	(353)	330
Net earnings (loss)	(32)	638

[1] Lafarge contributed to Pargesa's earnings until June 30, 2015. LafargeHolcim started contributing to Pargesa's earnings in the second quarter of 2016.

Pargesa's contribution to Power Financial:

TWELVE MONTHS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2016	2015
Average direct ownership [%]	27.8	27.8
Contribution to Power Financial's:		
Adjusted net earnings	119	112
Other items	(207)	93
	(88)	205

The average exchange rates for the twelve-month periods ended December 31, 2016 and 2015 were as follows:

	2016	2015	CHANGE %
Euro/SF	1.09	1.07	1.9
SF/CAD	1.35	1.33	1.5

A significant portion of Pargesa's earnings is composed of dividends from its investments:

- LafargeHolcim (first dividend declared in the second quarter of 2016);
- SGS (declared in the first quarter);
- Total (declared in the second, third and fourth quarters);
- Engie (declared in the second and third quarters);
- Pernod Ricard (declared in the second and fourth quarters);
- Umicore (declared in the second and third quarters); and
- adidas (declared in the second quarter).

The change in Pargesa's adjusted net earnings for the twelve-month period ended December 31, 2016 was primarily due to:

- The LafargeHolcim merger, which became effective on July 10, 2015. Starting on that date, the investment in LafargeHolcim is accounted for as available for sale. In the second quarter of 2016, Pargesa's share of a dividend from LafargeHolcim was SF45 million. In the twelve-month period of 2015, Pargesa recorded a share of earnings from Lafarge of SF13 million.
- A decrease in dividends from Total resulting from disposals of Total.
- Non-cash gains of SF31 million included in net financing charges 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 SF56 million in the corresponding period of 2015.
- An increase of SF24 million in the contribution from private equity activities and other investment funds.

CORPORATE OPERATIONS

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

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
Income (loss) from investments		
Portag3 and Wealthsimple	(21)	(3)
Interest on cash and cash equivalents, foreign exchange gains (losses) and other	3	24
	(18)	21
Operating and other expenses		
Operating expenses	(77)	(70)
Financing charges	(18)	(17)
Depreciation	(2)	(2)
Income taxes[1]	(17)	(9)
	(114)	(98)
Corporate operations	(132)	(77)

[1] Consists mainly of withholding taxes payable on the repatriation of cash held by Power Financial Europe B.V. to Power Financial.

OTHER ITEMS

The following table presents the Corporation's Other items:

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
IGM		
Reduction of income tax estimates	21	–
Restructuring charges	–	(15)
Pargesa		
Total – Gains on partial disposal	175	57
LafargeHolcim – Impairment charges	(360)	–
Lafarge – Reversal of impairment charges	–	88
Lafarge – Impairment and restructuring charges	–	(23)
Imerys – Impairment and restructuring charges	–	(26)
Engie – Impairment charges and loss on partial disposal	(15)	–
Other (charge) income	(7)	(3)
	(186)	78

Other items in 2016 were mainly comprised of the Corporation's share of:

IGM Financial

FOURTH QUARTER

- Reduction of income tax estimates of $21 million: consisting of a reduction in income tax estimates related to certain tax filings.

Pargesa

FIRST QUARTER

- Total – Gain on partial disposal of $101 million: GBL disposed of a 1.1% equity interest in Total.
- LafargeHolcim – Impairment charge of $308 million: a non-cash charge of €1,443 million at GBL due to the significant decrease of the share price of LafargeHolcim.
- Engie – Impairment charge of $9 million: a non-cash charge at GBL.

SECOND QUARTER

- LafargeHolcim – Impairment charge of $52 million: a non-cash charge of €239 million at GBL as a result of a further decline in the share price of LafargeHolcim, from €41.28 at March 31, 2016 to €37.10 at June 30, 2016.

FOURTH QUARTER

- Total – Gain on partial disposal of $74 million: GBL disposed of an additional 0.7% equity interest in Total.
- Engie – Impairment charge and loss on partial disposal of $6 million: net impact recorded by GBL of a non-cash charge and a loss on partial disposal of a 1.8% equity interest in Engie.

Other items in 2015 were mainly comprised of the Corporation's share of:

IGM Financial

FOURTH QUARTER

- Restructuring charges of $15 million: reflecting severance and payments to third parties related to exiting certain investment management activities and third-party back office relationships associated with Mackenzie and Investors Group.

Pargesa

FIRST QUARTER

- Total – Gain on partial disposal of $9 million: GBL disposed of a 0.1% equity interest in Total.

SECOND QUARTER

- Lafarge – Reversal of impairment charges of $80 million: representing the partial reversal of previous impairment charges recorded by GBL on its investment in Lafarge, in connection with the merger with Holcim.
- Lafarge – Impairment and restructuring charges of $23 million: representing other items recorded by Lafarge, comprised of impairment charges and charges recorded in connection with the merger with Holcim.

THIRD QUARTER

- Lafarge – Reversal of impairment charges of $8 million: as described above for the second quarter.

FOURTH QUARTER

- Total – Gain on partial disposal of $48 million: GBL disposed of an additional 0.4% equity interest in Total.
- Imerys – Impairment and restructuring charges of $26 million: a charge representing other items recorded by Imerys, comprised of the impairment charge on its Oilfield Solutions division and restructuring charges relating to the integration of S&B's activities (S&B is a global provider of mineral-based specialties).

Financial Position

CONSOLIDATED BALANCE SHEETS (condensed)

The condensed balance sheet of Lifeco and IGM, and Power Financial's non-consolidated balance sheet are presented below. 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, 2016.

					POWER FINANCIAL CONSOLIDATED BALANCE SHEETS	
	POWER FINANCIAL	LIFECO	IGM	CONSOLIDATION ADJUSTMENTS AND OTHER[1]	DECEMBER 31, 2016	DECEMBER 31, 2015[2]
ASSETS						
Cash and cash equivalents	842	3,259	611	(316)	4,396	4,188
Investments	76	159,276	8,208	184	167,744	166,012
Investment in Lifeco	13,536	–	889	(14,425)	–	–
Investment in IGM	2,866	361	–	(3,227)	–	–
Investment in Parjointco	2,811	–	–	–	2,811	2,610
Investments in jointly controlled corporations and associates	–	259	–	33	292	295
Funds held by ceding insurers	–	10,781	–	–	10,781	15,512
Reinsurance assets	–	5,627	–	–	5,627	5,131
Other assets	122	9,997	1,263	(90)	11,292	10,495
Intangible assets	–	3,972	1,994	–	5,966	5,983
Goodwill	–	5,977	2,660	637	9,274	9,210
Interest on account of segregated fund policyholders	–	200,403	–	–	200,403	198,194
Total assets	20,253	399,912	15,625	(17,204)	418,586	417,630
LIABILITIES						
Insurance and investment contract liabilities	–	157,949	–	–	157,949	160,745
Obligations to securitization entities	–	–	7,721	–	7,721	7,092
Debentures and other debt instruments	250	5,980	1,325	(42)	7,513	6,927
Other liabilities	522	10,572	1,832	(142)	12,784	12,392
Insurance and investment contracts on account of segregated fund policyholders	–	200,403	–	–	200,403	198,194
Total liabilities	772	374,904	10,878	(184)	386,370	385,350
EQUITY						
Perpetual preferred shares	2,580	2,514	150	(2,664)	2,580	2,580
Common shareholders' equity	16,901	19,488	4,597	(24,085)	16,901	16,893
Non-controlling interests[3, 4]	–	3,006	–	9,729	12,735	12,807
Total equity	19,481	25,008	4,747	(17,020)	32,216	32,280
Total liabilities and equity	20,253	399,912	15,625	(17,204)	418,586	417,630

[1] Consolidation adjustments and other include eliminations and reclassifications.

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

[3] Non-controlling interests for Lifeco includes the Participating Account surplus in subsidiaries.

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

Total assets of the Corporation increased to $418.6 billion at December 31, 2016, compared with $417.6 billion at December 31, 2015, mainly due to the impact of positive market movement and new business growth, mostly offset by the impact of currency movement.

Liabilities increased to $386.4 billion at December 31, 2016, compared with $385.4 billion at December 31, 2015, mainly due to the following, as disclosed by Lifeco:

- Debentures and other debt instruments increased by $0.6 billion, to $7,513 million, primarily due to the issuance of a €500 million 10-year senior bond by Lifeco.
- Insurance and investment contract liabilities decreased by $2.8 billion, primarily due to the strengthening of the Canadian dollar against the British pound, euro and U.S. dollar, partially offset by the impact of new business and fair value adjustments.
- Insurance and investment contract liabilities on account of segregated fund policyholders increased by $2.2 billion, primarily due to the combined impact of market value gains and investment income of $13.0 billion, mostly offset by the impact of currency movement of $10.6 billion, and net withdrawals of $0.5 billion.

NON-CONSOLIDATED BALANCE SHEETS

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

DECEMBER 31	2016	2015[1]
ASSETS		
Cash and cash equivalents[2]	842	870
Investment in Lifeco	13,536	13,746
Investment in IGM	2,866	2,808
Investment in Parjointco	2,811	2,610
Investments (including investments in Portag3 and Wealthsimple)	76	55
Other assets	122	123
Total assets	20,253	20,212
LIABILITIES		
Debentures	250	250
Other liabilities	522	489
Total liabilities	772	739
EQUITY		
Perpetual preferred shares	2,580	2,580
Common shareholders' equity	16,901	16,893
Total equity	19,481	19,473
Total liabilities and equity	20,253	20,212

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

[2] In these non-consolidated balance sheets, cash equivalents include $341 million ($478 million at December 31, 2015) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified in investments in the 2016 Consolidated Financial Statements.

Cash and cash equivalents

Cash and cash equivalents held by Power Financial amounted to $842 million at December 31, 2016, compared with $870 million at the end of December 2015. The fourth quarter dividends declared by the Corporation and paid on February 1, 2017 are included in other liabilities and amounted to $311 million.

Dividends declared in the fourth quarter by IGM and received by the Corporation on January 31, 2017 are included in other assets and amounted to $83 million (see "Non-consolidated Statements of Cash Flows" below for details).

Investments in Lifeco, IGM and Parjointco

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, accounted for using the equity method, increased to $19,213 million at December 31, 2016, compared with $19,164 million at December 31, 2015:

	LIFECO	IGM	PARJOINTCO	TOTAL
Carrying value, at the beginning of the year	13,746	2,808	2,610	19,164
Share of adjusted net earnings	1,790	452	119	2,361
Share of other items	–	21	(207)	(186)
Share of other comprehensive income (loss)	(990)	(35)	379	(646)
Dividends	(926)	(333)	(75)	(1,334)
Other, mainly related to effects of changes in ownership	(84)	(47)	(15)	(146)
Carrying value, at December 31, 2016	13,536	2,866	2,811	19,213

EQUITY

Preferred shares

Preferred shares of the Corporation consist of 10 series of Non-Cumulative Fixed Rate First Preferred Shares, two series of Non-Cumulative 5-Year Rate Reset First Preferred Shares, and two series of Non-Cumulative Floating Rate First Preferred Shares, with an aggregate stated capital of $2,580 million at December 31, 2016 (same as at December 31, 2015). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

On February 1, 2016, 2,234,515 of the Corporation's outstanding 11,200,000 Non-Cumulative 5-Year Rate Reset First Preferred Shares, Series P were converted, on a one-for-one basis, into Non-Cumulative Floating Rate First Preferred Shares, Series Q.

The terms and conditions of the outstanding First Preferred Shares are described in Note 17 to the Corporation's 2016 Consolidated Financial Statements.

Common shareholders' equity

Common shareholders' equity was $16,901 million at December 31, 2016, compared with $16,893 million at December 31, 2015:

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
Common shareholders' equity, at the beginning of the year	16,893	14,362
Changes in retained earnings		
Net earnings before dividends on perpetual preferred shares	2,043	2,449
Dividends declared	(1,244)	(1,193)
Effects of changes in ownership in subsidiaries and other	(156)	(137)
	643	1,119
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	(1,004)	1,370
Investment revaluation and cash flow hedges	93	(184)
Actuarial gains (losses) on defined benefit plans	(127)	105
Share of Pargesa's and other associates	387	60
Share-based compensation	15	–
	(636)	1,351
Issuance of common shares (30,980 shares in 2016 and 1,515,000 shares in 2015) under the Corporation's Employee Stock Option Plan[1]	1	61
Common shareholders' equity at December 31	16,901	16,893

[1] Issued for $49 million in 2015 and including an amount of $12 million representing the cumulative expenses related to these options.

The book value per common share of the Corporation was $23.69 at December 31, 2016, same as at December 31, 2015.

Outstanding number of common shares

As of the date hereof, there were 713,288,699 common shares of the Corporation outstanding, compared with 713,238,680 at December 31, 2015. As of the date hereof, options were outstanding to purchase up to an aggregate of 10,390,609 common shares of the Corporation under the Corporation's Employee Stock Option Plan.

The Corporation filed a short-form base shelf prospectus dated December 7, 2016, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of $3 billion of First Preferred Shares, common shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (condensed)

The condensed cash flows of Lifeco and IGM, and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the twelve-month period ended December 31, 2016.

					POWER FINANCIAL CONSOLIDATED CASH FLOWS	
TWELVE MONTHS ENDED DECEMBER 31	POWER FINANCIAL	LIFECO	IGM	CONSOLIDATION ADJUSTMENTS AND OTHER	2016	2015
Cash flows from:						
Operating activities	1,245	6,254	737	(1,336)	6,900	5,783
Financing activities	(1,230)	(1,045)	(75)	1,335	(1,015)	(2,039)
Investing activities	(43)	(4,565)	(1,034)	163	(5,479)	(3,844)
Effect of changes in exchange rates on cash and cash equivalents	–	(198)	–	–	(198)	299
Increase (decrease) in cash and cash equivalents	(28)	446	(372)	162	208	199
Cash and cash equivalents, at the beginning of the year	870	2,813	983	(478)	4,188	3,989
Cash and cash equivalents, at December 31	842	3,259	611	(316)	4,396	4,188

Consolidated cash and cash equivalents increased by $208 million in the twelve-month period ended December 31, 2016, compared with an increase of $199 million in the corresponding period of 2015.

Operating activities produced a net inflow of $6,900 million in the twelve-month period ended December 31, 2016, compared with a net inflow of $5,783 million in the corresponding period of 2015.

Cash flows from financing activities, which include dividends paid on the common and preferred shares of the Corporation and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of $1,015 million in the twelve-month period ended December 31, 2016, compared with a net outflow of $2,039 million in the corresponding period of 2015.

Cash flows from investing activities resulted in a net outflow of $5,479 million in the twelve-month period ended December 31, 2016, compared with a net outflow of $3,844 million in the corresponding period of 2015.

The Corporation decreased its level of fixed income securities with maturities of more than three months, resulting in a net inflow of $137 million in the twelve-month period ended December 31, 2016, compared with a net inflow of $33 million in the corresponding period of 2015.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

TWELVE MONTHS ENDED DECEMBER 31	2016	2015
OPERATING ACTIVITIES		
Net earnings before dividends on perpetual preferred shares	2,043	2,449
Adjusting items		
Earnings from Lifeco, IGM and Parjointco not received in cash	(841)	(1,251)
Loss from investments in Portag3 and Wealthsimple	21	3
Other	22	28
	1,245	1,229
FINANCING ACTIVITIES		
Dividends paid on preferred shares	(125)	(130)
Dividends paid on common shares	(1,106)	(1,046)
Issuance of common shares	1	49
	(1,230)	(1,127)
INVESTING ACTIVITIES		
Investments in Portag3 and Wealthsimple	(27)	(17)
Purchase of other investments and other	(16)	(1)
	(43)	(18)
Increase (decrease) in cash and cash equivalents	(28)	84
Cash and cash equivalents, at the beginning of the year	870	786
Cash and cash equivalents, at December 31	842	870

On a non-consolidated basis, cash and cash equivalents decreased by $28 million in the twelve-month period ended December 31, 2016, compared with an increase of $84 million in the corresponding period in 2015.

Operating activities produced a net inflow of $1,245 million in the twelve-month period ended December 31, 2016, compared with a net inflow of $1,229 million in the corresponding period in 2015.

- Dividends declared by Lifeco on its common shares during the twelve-month period ended December 31, 2016 were $1.3840 per share, compared with $1.3040 in the corresponding period of 2015. In the twelve-month period ended December 31, 2016, the Corporation recorded dividends from Lifeco of $926 million, compared with $873 million in the corresponding period of December 31, 2015. On February 9, 2017, Lifeco announced a 6% increase in the quarterly dividend on its common shares, from $0.3460 to $0.3670 per share, payable March 31, 2017.
- Dividends declared by IGM on its common shares during the twelve-month period ended December 31, 2016 were $2.25 per share, the same as in the corresponding period of 2015. In the twelve-month period ended December 31, 2016, the Corporation received dividends from IGM of $333 million, the same as in the corresponding period of 2015.
- Pargesa declares and pays an annual dividend in the second quarter ending June 30. The dividend paid by Pargesa to Parjointco in 2016 amounted to SF2.38 per bearer share, compared with SF2.27 in 2015. The Corporation received dividends of $75 million (SF56 million) from Parjointco in 2016, compared with $69 million (SF53 million) in the corresponding period of 2015.

The Corporation's financing activities during the twelve-month period ended December 31, 2016 were a net outflow of $1,230 million, compared with a net outflow of $1,127 million in the corresponding period in 2015, and included:

- Dividends paid on preferred and common shares by the Corporation of $1,231 million, compared with $1,176 million in the corresponding period of 2015. In the twelve-month period ended December 31, 2016, dividends declared on the Corporation's common shares were $1.57 per share, compared with $1.49 per share in the corresponding period of 2015.
- Issuance of common shares of the Corporation for $1 million pursuant to the Corporation's Employee Stock Option Plan, compared with an issuance for an amount of $49 million in the corresponding period of 2015.

The Corporation's investing activities during the twelve-month period ended December 31, 2016 represented a net outflow of $43 million, compared with a net outflow of $18 million in the corresponding period of 2015.

Capital Management

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

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present; and
- maintain an appropriate credit rating to ensure stable access to capital markets.

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

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

The Corporation has positions in long-term investments as well as cash and fixed income securities for liquidity purposes. 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 perpetual preferred shares, debentures, common shareholders' equity, and non-controlling interests. The Corporation views perpetual preferred shares as a permanent and cost-effective source of capital consistent with its strategy of maintaining a relatively low level of debt.

In the following table, consolidated capitalization reflects the consolidation of the Corporation's subsidiaries. The Corporation's consolidated capitalization includes the debentures and other debt instruments of its consolidated subsidiaries. Debentures and other debt instruments issued by Lifeco and IGM are non-recourse to the Corporation. Perpetual preferred shares and total equity accounted for 81% of consolidated capitalization at December 31, 2016.

DECEMBER 31	2016	2015
DEBENTURES AND OTHER DEBT INSTRUMENTS		
Power Financial	250	250
Lifeco	5,980	5,395
IGM	1,325	1,325
Consolidation adjustments	(42)	(43)
	7,513	6,927
PREFERRED SHARES		
Power Financial	2,580	2,580
Lifeco	2,514	2,514
IGM	150	150
	5,244	5,244
EQUITY		
Common shareholders' equity	16,901	16,893
Non-controlling interests[1]	10,071	10,143
	26,972	27,036
	39,729	39,207

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

In January 2017, IGM issued $400 million of 10-year 3.44% debentures and $200 million of 30-year 4.56% debentures. The net proceeds will be 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, a fund management company in China, and for general corporate purposes.

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

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.

RATINGS

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

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

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

The "A (High)" rating assigned to the Corporation's debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A (High)" implies that the capacity for 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.

Risk Management

Power Financial is a holding company that holds substantial interests in the financial services sector through its controlling interest in each of Lifeco and IGM. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. The respective boards of directors of Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies. Pargesa, a holding company, is also subject to risks due to the nature of its activities and also those of its direct subsidiary GBL. These risks relate to credit, liquidity and market risk as described in Pargesa's consolidated financial statements for the year ended December 31, 2016.

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

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

- The Audit Committee addresses risks related to financial reporting 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 the risks related to 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.

OWNERSHIP OF COMMON AND PREFERRED SHARES

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

LAWS, RULES AND REGULATIONS

There are many laws, governmental rules and regulations, and stock exchange rules that apply to the Corporation. Changes in these laws, rules and regulations, or their interpretation by governmental agencies or the courts, could have a significant effect on the business and the financial condition of the Corporation. 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.

CYBERSECURITY

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, which are constantly evolving. The Corporation continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage cybersecurity threats. Consequently, the Corporation's IT defences are continuously monitored and adapted to both prevent and detect cyber-attacks, and then recover and remediate. Unavailability or breaches could result in a negative impact on the Corporation's financial results or result in reputational damage.

FINANCIAL INSTRUMENTS RISK

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

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

Liquidity Risk

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

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

Power Financial's management of liquidity risk has not changed materially since December 31, 2015.

Credit Risk

Fixed income securities and derivatives are subject to credit risk. Power Financial mitigates credit risk on its fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating and concentration limits.

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

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

Power Financial's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2015.

Market Risk

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

CURRENCY RISK

In managing its own cash and cash equivalents and fixed income securities, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2016, approximately 90% of Power Financial's cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

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

INTEREST RATE RISK

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

EQUITY PRICE RISK

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

Power Financial's management of financial instruments risk has not changed materially since December 31, 2015. Lifeco's and IGM's management of financial instruments risk has also not changed materially since December 31, 2015. For a further discussion of Power Financial's, Lifeco's and IGM's financial instruments risk management, refer to Note 21 to the Corporation's 2016 Consolidated Financial Statements.

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.

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 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.

	2016		2015	
AT DECEMBER 31	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
ASSETS				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	88,283	88,283	86,460	86,460
Available for sale	11,819	11,819	12,014	12,014
Mortgage loans				
Fair value through profit or loss	339	339	384	384
Shares				
Fair value through profit or loss	7,673	7,673	6,692	6,692
Available for sale	182	182	63	63
Investment properties	4,340	4,340	5,237	5,237
Funds held by ceding insurers	8,605	8,605	13,652	13,652
Derivative instruments	572	572	520	520
Other assets	516	516	599	599
	122,329	122,329	125,621	125,621
Assets disclosed at fair value				
Bonds				
Loans and receivables	16,970	18,484	16,905	18,253
Mortgage loans				
Loans and receivables	29,295	30,418	29,029	30,712
Shares				
Available for sale[1]	376	376	534	534
	46,641	49,278	46,468	49,499
Total assets recorded or disclosed at fair value	168,970	171,607	172,089	175,120
LIABILITIES				
Liabilities recorded at fair value				
Investment contract liabilities	2,009	2,009	2,253	2,253
Derivative instruments	2,050	2,050	2,682	2,682
Other liabilities	10	10	4	4
	4,069	4,069	4,939	4,939
Liabilities disclosed at fair value				
Obligations to securitization entities	7,721	7,873	7,092	7,272
Debentures and other debt instruments	7,513	8,313	6,927	7,964
Capital trust debentures	161	212	161	215
Deposits and certificates	471	472	310	312
	15,866	16,870	14,490	15,763
Total liabilities recorded or disclosed at fair value	19,935	20,939	19,429	20,702

[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 2016 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2016.

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, 2016. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	2016			2015		
DECEMBER 31	NOTIONAL	MAXIMUM CREDIT RISK	TOTAL FAIR VALUE	NOTIONAL	MAXIMUM CREDIT RISK	TOTAL FAIR VALUE
Power Financial	14	1	1	11	1	1
Lifeco	17,229	528	(1,484)	16,712	461	(2,163)
IGM	4,094	43	5	2,702	58	–
	21,337	572	(1,478)	19,425	520	(2,162)

In 2016, there was an increase of $1.9 billion in the notional amount outstanding and an increase in the maximum credit risk (this represents the market value of instruments in a gain position), primarily as a result of regular hedging activities, partially offset by the impact of currency movement for foreign-denominated derivatives as the Canadian dollar strengthened against the British pound, euro and U.S. dollar.

See Note 25 to the Corporation's 2016 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 2016 Consolidated Financial Statements.

Contingent Liabilities

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

Commitments and Contractual Obligations

PAYMENTS DUE BY PERIOD	LESS THAN 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS	TOTAL
Debentures and other debt instruments [1]	712	1,225	5,609	7,546
Obligations to securitization entities	1,340	6,311	70	7,721
Capital trust debentures	–	–	150	150
Deposits and certificates	462	7	2	471
Operating leases [2]	147	383	317	847
Purchase obligations [3]	108	172	3	283
Pension contributions [4]	324	–	–	324
Contractual commitments [5]	1,084	88	–	1,172
Total	4,177	8,186	6,151	18,514
Power Financial [6]	7	6	251	264
Lifeco	2,292	1,252	5,028	8,572
IGM [7]	1,878	6,928	872	9,678
Total	4,177	8,186	6,151	18,514

[1] Please refer to Note 14 to the Corporation's 2016 Consolidated Financial Statements for further information.

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

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

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

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

[6] Includes debentures of the Corporation of $250 million.

[7] Subsequent to year-end, IGM issued $400 million of 10-year 3.44% debentures and $200 million of 30-year 4.56% debentures.

Income Taxes (Non-Consolidated Basis)

The Corporation had, at December 31, 2016, non-capital losses of $99 million available to reduce future taxable income (including capital gains). These losses expire from 2028 to 2036. In addition, the Corporation has capital losses of $84 million that can be used indefinitely. Capital losses can only be used to reduce future capital gains. See also "Transactions with Related Parties" below.

Transactions with Related Parties

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

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

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

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

In 2013, the Board of Directors of the Corporation approved a tax loss consolidation program with IGM. This program allows Power Financial to generate sufficient taxable income to use its non-capital losses which would otherwise expire, while IGM receives tax deductions which are used to reduce its taxable income.

As of December 31, 2016, under this program, the Corporation owned $2 billion of 4.50% secured debentures of IGM. These debentures represent the consideration obtained from the sale to IGM of $2 billion of 4.51% preferred shares issued to Power Financial from a wholly owned subsidiary. The Corporation has legally enforceable rights to settle these financial instruments on a net basis and the Corporation intends to exercise these rights.

See Note 29 to the Corporation's 2016 Consolidated Financial Statements for more information.

Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries – Lifeco and IGM – are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the Notes to the Corporation's 2016 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 2016 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 bonds and mortgage loans, 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.

INVESTMENT IMPAIRMENT

Investments are reviewed regularly on an individual basis at the end of each reporting period to determine whether there is any objective evidence that the investment is impaired. 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 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.

A provision for tax uncertainties which meets the probable threshold for recognition is measured based on the probability-weighted average approach.

Deferred income tax

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

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 income 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, 2016.

Future Accounting Changes

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

IFRS 17 – INSURANCE CONTRACTS (Exposure Draft)

In June 2013, the IASB issued a revised IFRS 4, *Insurance Contracts* exposure draft proposing changes to the accounting standard for insurance contracts. The intent of the revised standard is to eliminate inconsistencies by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance. The new standard will also provide requirements for presentation and disclosure items to enhance comparability between entities. IFRS 17 will replace IFRS 4 in its entirety and is expected to be issued in the first half of 2017 with a proposed effective date of January 1, 2021.

During 2016, at the request of the IASB, Lifeco participated in additional field testing of the exposure draft to address potential interpretation and operational challenges. The proposed standard differs significantly from Lifeco's current accounting and actuarial practices under the Canadian Asset Liability Method (CALM). Lifeco has disclosed that it is actively monitoring developments in this area and that it will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until a new IFRS for insurance contract measurement is issued and effective.

IFRS 4 – INSURANCE CONTRACTS

In September 2016, the IASB issued an amendment to the existing IFRS 4. The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" provides qualifying insurance companies with two options to address the potential volatility associated with implementing IFRS 9 before the new proposed insurance contract standard is effective. The two options are as follows:

- Deferral Approach: provides the option to defer implementation of IFRS 9 until the year 2021 or the effective date of the new insurance contract standard, whichever is earlier; or
- Overlay Approach: provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss.

The Corporation and Lifeco qualify for the amendment and will be applying the deferral approach to adopt both IFRS 9 and the new insurance contract standard simultaneously on January 1, 2021.

IFRS 9 – FINANCIAL INSTRUMENTS

The IASB issued IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

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

As the Corporation will apply the deferral approach as noted above, the standard will be effective for the Corporation on January 1, 2021.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

The standard will be effective January 1, 2018. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard. The Corporation and its subsidiaries do not anticipate the adoption of this standard will have a significant impact; however, it is not possible as yet to provide a reliable estimate of the impact on the Corporation's financial statements.

IFRS 16 – LEASES

The IASB issued IFRS 16, *Leases*, which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements.

The standard will be effective January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.

Disclosure Controls and Procedures

Based on their evaluations as at December 31, 2016, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as at December 31, 2016.

Internal Control Over Financial Reporting

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

The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2016, based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective as at December 31, 2016.

There have been no changes in the Corporation's internal control over financial reporting during the year ended December 31, 2016 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	2016	2015	2014
Total revenues	49,122	36,512	41,775
Adjusted net earnings (attributable to common shareholders)[1]	2,105	2,241	2,105
per share – basic	2.95	3.14	2.96
Net earnings (attributable to common shareholders)	1,919	2,319	2,136
per share – basic	2.69	3.25	3.00
per share – diluted	2.68	3.24	3.00
Consolidated assets	418,586	417,630	373,843
Total financial liabilities	23,229	22,400	18,800
Debentures and other debt instruments	7,513	6,927	6,887
Shareholders' equity[2]	19,481	19,473	16,942
Book value per common share[2]	23.69	23.69	20.19
Number of common shares outstanding [millions]	713.3	713.2	711.7
Dividends per share [declared]			
Common shares	1.5700	1.4900	1.4000
First preferred shares			
Series A[3]	0.4725	0.4887	0.5250
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	1.3125
Series F	1.4750	1.4750	1.4750
Series H	1.4375	1.4375	1.4375
Series I	1.5000	1.5000	1.5000
Series K	1.2375	1.2375	1.2375
Series L	1.2750	1.2750	1.2750
Series O	1.4500	1.4500	1.4500
Series P[4]	0.5765	1.1000	1.1000
Series Q[4]	0.5252	–	–
Series R	1.3750	1.3750	1.3750
Series S	1.2000	1.2000	1.2000
Series T[5]	1.0500	1.0500	1.1902

[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 "Basis of Presentation – Non-IFRS Financial Measures and Presentation" section of this review of financial performance.

[2] 2015 and 2014 figures have been retrospectively adjusted as described in Note 16 to the Corporation's 2016 Consolidated Financial Statements.

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

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

[5] Issued in December 2013. The first dividend payment was made on April 30, 2014 in the amount of $0.4027 per share.