

Consolidated Financial Statements

Consolidated Balance Sheets

DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2016	2015 [NOTE 16]
ASSETS		
Cash and cash equivalents [Note 4]	4,396	4,188
Investments [Note 5]		
Bonds	117,072	115,379
Mortgage loans	29,634	29,413
Shares	8,231	7,289
Investment properties	4,340	5,237
Loans to policyholders	8,467	8,694
	167,744	166,012
Funds held by ceding insurers [Note 6]	10,781	15,512
Reinsurance assets [Note 12]	5,627	5,131
Investments in jointly controlled corporations and associates [Note 7]	3,103	2,905
Owner-occupied properties and capital assets [Note 8]	1,128	1,106
Derivative financial instruments [Note 25]	572	520
Other assets [Note 9]	7,685	6,908
Deferred tax assets [Note 16]	1,907	1,961
Intangible assets [Note 10]	5,966	5,983
Goodwill [Note 10]	9,274	9,210
Investments on account of segregated fund policyholders [Note 11]	200,403	198,194
Total assets	418,586	417,630
LIABILITIES		
Insurance contract liabilities [Note 12]	155,940	158,492
Investment contract liabilities [Note 12]	2,009	2,253
Obligations to securitization entities [Note 13]	7,721	7,092
Debentures and other debt instruments [Note 14]	7,513	6,927
Derivative financial instruments [Note 25]	2,050	2,682
Other liabilities [Note 15]	8,636	7,686
Deferred tax liabilities [Note 16]	2,098	2,024
Insurance and investment contracts on account of segregated fund policyholders [Note 11]	200,403	198,194
Total liabilities	386,370	385,350
EQUITY		
Stated capital [Note 17]		
Perpetual preferred shares	2,580	2,580
Common shares	805	804
Retained earnings	14,849	14,206
Reserves	1,247	1,883
Total shareholders' equity	19,481	19,473
Non-controlling interests [Note 19]	12,735	12,807
Total equity	32,216	32,280
Total liabilities and equity	418,586	417,630

Approved by the Board of Directors

Signed,

Raymond Royer
Director

Signed,

R. Jeffrey Orr
Director

Consolidated Statements of Earnings

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS]	2016	2015
REVENUES		
Premium income		
Gross premiums written	35,050	28,129
Ceded premiums	(3,925)	(3,628)
Premium income, net	31,125	24,501
Net investment income [Note 5]		
Regular net investment income	6,297	6,332
Change in fair value through profit or loss	3,906	(2,013)
Net investment income	10,203	4,319
Fee income	7,794	7,692
Total revenues	49,122	36,512
EXPENSES		
Policyholder benefits		
Insurance and investment contracts		
Gross	28,315	22,553
Ceded	(2,103)	(2,000)
Total net policyholder benefits	26,212	20,553
Policyholder dividends and experience refunds	1,502	1,477
Change in insurance and investment contract liabilities	6,961	812
Total paid or credited to policyholders	34,675	22,842
Commissions	3,590	3,133
Operating and administrative expenses [Note 22]	6,380	5,883
Financing charges [Note 23]	412	413
Total expenses	45,057	32,271
Earnings before investments in jointly controlled corporations and associates, and income taxes	4,065	4,241
Share of earnings (losses) of investments in jointly controlled corporations and associates [Note 7]	(98)	224
Earnings before income taxes	3,967	4,465
Income taxes [Note 16]	581	679
Net earnings	3,386	3,786
ATTRIBUTABLE TO		
Non-controlling interests [Note 19]	1,343	1,337
Perpetual preferred shareholders	124	130
Common shareholders	1,919	2,319
	3,386	3,786
EARNINGS PER COMMON SHARE [Note 28]		
Net earnings attributable to common shareholders		
– Basic	2.69	3.25
– Diluted	2.68	3.24

Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2016	2015
Net earnings	3,386	3,786
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings		
Net unrealized gains (losses) on available-for-sale assets		
Unrealized gains (losses)	117	(15)
Income tax (expense) benefit	(11)	6
Realized (gains) losses transferred to net earnings	(81)	(106)
Income tax expense (benefit)	12	18
	37	(97)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	107	(253)
Income tax (expense) benefit	(40)	95
Realized (gains) losses transferred to net earnings	2	2
Income tax expense (benefit)	(1)	(1)
	68	(157)
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation	(1,471)	2,038
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	42	(50)
Income tax (expense) benefit	(6)	9
	(1,435)	1,997
Share of other comprehensive income of jointly controlled corporations and associates	367	45
Total – items that may be reclassified	(963)	1,788
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit plans [Note 24]	(237)	194
Income tax (expense) benefit	60	(36)
Share of other comprehensive income of jointly controlled corporations and associates	1	1
Total – items that will not be reclassified	(176)	159
Other comprehensive income (loss)	(1,139)	1,947
Comprehensive income	2,247	5,733
ATTRIBUTABLE TO		
Non-controlling interests	855	1,953
Perpetual preferred shareholders	124	130
Common shareholders	1,268	3,650
	2,247	5,733

Consolidated Statements of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2016 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES				TOTAL EQUITY
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	OTHER COMPREHENSIVE INCOME [NOTE 27]	TOTAL	NON-CONTROLLING INTERESTS	
Balance, beginning of year	2,580	804	14,206	142	1,741	1,883	12,807	32,280
Net earnings	–	–	2,043	–	–	–	1,343	3,386
Other comprehensive income (loss)	–	–	–	–	(651)	(651)	(488)	(1,139)
Comprehensive income (loss)	–	–	2,043	–	(651)	(651)	855	2,247
Dividends to shareholders								
Perpetual preferred shares	–	–	(124)	–	–	–	–	(124)
Common shares	–	–	(1,120)	–	–	–	–	(1,120)
Dividends to non-controlling interests	–	–	–	–	–	–	(708)	(708)
Share-based compensation [Note 18]	–	–	–	59	–	59	22	81
Stock options exercised	–	1	–	(44)	–	(44)	44	1
Effects of changes in ownership of subsidiaries, capital and other	–	–	(156)	–	–	–	(285)	(441)
Balance, end of year	2,580	805	14,849	157	1,090	1,247	12,735	32,216

FOR THE YEAR ENDED DECEMBER 31, 2015 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES				TOTAL EQUITY
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	OTHER COMPREHENSIVE INCOME [NOTE 27]	TOTAL	NON-CONTROLLING INTERESTS	
Balance, beginning of year								
As previously reported	2,580	743	13,164	142	390	532	11,883	28,902
Adjustment [Note 16]	–	–	(77)	–	–	–	(45)	(122)
Restated balance	2,580	743	13,087	142	390	532	11,838	28,780
Net earnings	–	–	2,449	–	–	–	1,337	3,786
Other comprehensive income	–	–	–	–	1,331	1,331	616	1,947
Comprehensive income	–	–	2,449	–	1,331	1,331	1,953	5,733
Dividends to shareholders								
Perpetual preferred shares	–	–	(130)	–	–	–	–	(130)
Common shares	–	–	(1,063)	–	–	–	–	(1,063)
Dividends to non-controlling interests	–	–	–	–	–	–	(711)	(711)
Share-based compensation [Note 18]	–	–	–	48	–	48	19	67
Stock options exercised	–	61	–	(48)	–	(48)	36	49
Effects of changes in ownership of subsidiaries, capital and other	–	–	(137)	–	20	20	(328)	(445)
Balance, end of year	2,580	804	14,206	142	1,741	1,883	12,807	32,280

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2016	2015
OPERATING ACTIVITIES		
Earnings before income taxes	3,967	4,465
Income tax paid, net of refunds received	(442)	(543)
Adjusting items		
Change in insurance and investment contract liabilities	7,128	(1,088)
Change in funds held by ceding insurers	505	821
Change in funds held under reinsurance contracts	18	28
Change in reinsurance assets	(567)	367
Change in fair value through profit or loss	(3,906)	2,013
Other	197	(280)
	6,900	5,783
FINANCING ACTIVITIES		
Dividends paid		
By subsidiaries to non-controlling interests	(710)	(715)
Perpetual preferred shares	(125)	(130)
Common shares	(1,106)	(1,046)
	(1,941)	(1,891)
Issue of common shares by the Corporation [Note 17]	1	49
Issue of common shares by subsidiaries	34	113
Repurchase of common shares by subsidiaries	(423)	(509)
Issue of euro-denominated debt [Note 14]	706	–
Changes in other debt instruments	(23)	(137)
Change in obligations to securitization entities	631	336
	(1,015)	(2,039)
INVESTMENT ACTIVITIES		
Bond sales and maturities	30,406	29,591
Mortgage loan repayments	2,616	2,926
Sale of shares	2,797	2,274
Investment property sales	427	206
Change in loans to policyholders	48	8
Business acquisitions, net of cash and cash equivalents acquired	(33)	(4)
Investment in bonds	(34,506)	(32,491)
Investment in mortgage loans	(3,847)	(3,394)
Investment in shares	(2,969)	(2,551)
Deposit for investment in China AMC [Note 9]	(193)	–
Investment in investment properties and other	(225)	(409)
	(5,479)	(3,844)
Effect of changes in exchange rates on cash and cash equivalents	(198)	299
Increase in cash and cash equivalents	208	199
Cash and cash equivalents, beginning of year	4,188	3,989
Cash and cash equivalents, end of year	4,396	4,188
NET CASH FROM OPERATING ACTIVITIES INCLUDES		
Interest and dividends received	5,817	5,881
Interest paid	521	533

Notes to the Consolidated Financial Statements

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

Note 1 Corporate Information

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

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

The Consolidated Financial Statements (financial statements) of Power Financial as at and for the year ended December 31, 2016 were approved by its Board of Directors on March 24, 2017. The Corporation is controlled by Power Corporation of Canada.

Note 2 Basis of Presentation and Summary of Significant Accounting Policies

The financial statements of Power Financial as at December 31, 2016 have been prepared in accordance with International Financial Reporting Standards.

BASIS OF PRESENTATION

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

The operating subsidiaries of the Corporation are:

- Lifeco, a public company in which the Corporation and IGM Financial hold 67.9% and 4.0% of the common shares, respectively (67.4% and 4.0%, respectively at December 31, 2015). Lifeco's major operating subsidiary companies are Great-West Life, Great-West Life & Annuity, London Life, Canada Life, Irish Life and Putnam.
- IGM Financial, a public company in which the Corporation and Great-West Life hold 61.5% and 3.8% of the common shares, respectively (60.4% and 3.8%, respectively at December 31, 2015). IGM's major operating subsidiary companies are Investors Group and Mackenzie.

These financial statements of Power Financial include the results of Lifeco and IGM Financial on a consolidated basis; the amounts shown in the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are derived from the publicly disclosed consolidated financial statements of Lifeco and IGM Financial, all as at and for the year ended December 31, 2016. The notes to Power Financial's financial statements are derived from the notes to the financial statements of Lifeco and IGM Financial.

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

The Corporation holds a 50% (50% at December 31, 2015) interest in Parjointco, a jointly controlled corporation that is considered to be a joint venture. Parjointco holds a 55.5% (55.5% at December 31, 2015) equity interest in Pargesa. Accordingly, the Corporation accounts for its investment in Parjointco using the equity method.

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

- Management consolidates all subsidiaries and entities in which it has determined that the Corporation has control. Control is evaluated according to the ability of the Corporation to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Management of the Corporation and each of its subsidiaries exercise judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Corporation or its subsidiaries have the ability to exercise their power to affect variable returns.
- The actuarial assumptions made by management of Lifeco, such as interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders, used in the valuation of insurance and certain investment contract liabilities in accordance with the Canadian Asset Liability Method (CALM), require significant judgment and estimation (Note 12).
- Management of Lifeco uses judgment to evaluate the classification of insurance and reinsurance contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.
- In the determination of the fair value of financial instruments, management of the Corporation and of its subsidiaries exercise judgment in the determination of fair value inputs, particularly those items categorized within Level 3 of the fair value hierarchy (Note 26).
- Management of the Corporation and of its subsidiaries evaluate the synergies and future benefits for initial recognition and measurement of goodwill and intangible assets, as well as testing for impairment. The determination of the recoverable amount of the cash generating units (to which goodwill and intangible assets are assigned) relies upon valuation methodologies that require the use of estimates (Note 10).

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

- Cash generating units for which goodwill and indefinite life intangible assets have been determined by management of the Corporation and of its subsidiaries as the lowest level at which the assets are monitored for internal reporting purposes. Management of the Corporation and of its subsidiaries use judgment in determining the lowest level of monitoring (Note 10).
- The actuarial assumptions used in determining the expense and defined benefit obligation for the Corporation and its subsidiaries' pension plans and other post-employment benefits require significant judgment and estimation. Management of the Corporation and of its subsidiaries review the previous experience of its plan members and market conditions, including interest rates and inflation rates, in evaluating the assumptions used in determining the expense for the current year (Note 24).
- The Corporation and its subsidiaries operate within various tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Corporation and of its subsidiaries' tax provisions and the carrying amounts of its tax assets and liabilities (Note 16).
- Management of the Corporation and of its subsidiaries assess the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections and believe the carrying values of the deferred income tax assets as of December 31, 2016 are recoverable (Note 16).
- Legal and other provisions are recognized resulting from a past event which, in the judgment of management of the Corporation and of its subsidiaries, has resulted in a probable outflow of economic resources which would be passed onto a third party to settle the obligation. Management of the Corporation and of its subsidiaries use judgment to evaluate the possible outcomes and risks to determine the best estimate of the provision at the balance sheet date (Note 30).
- Management of Lifeco uses independent qualified appraisal services to determine the fair value of investment properties, which include judgments and estimates. These appraisals are adjusted by applying management judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions (Note 5).
- The determination by IGM's management as to whether securitized mortgages are derecognized is based on the extent to which the risks and rewards of ownership are transferred (Note 13).
- In the consolidated statements of cash flows, purchases and sales of portfolio investments are recorded within investment activities due to Lifeco management's judgment that these investing activities are long term in nature.
- Management of Lifeco uses judgments to determine whether Lifeco retains the primary obligation with a client in sub-advisor arrangements. Where Lifeco retains the risks and benefits, revenues and expenses are recorded on a gross basis.
- The provision for future credit losses within Lifeco's insurance contract liabilities is based on investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Lifeco management's judgment is required when setting credit ratings for instruments that do not have a third-party rating.

REVENUE RECOGNITION

Interest income is accounted for on an accrual basis using the effective interest method for bonds and mortgage loans. Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed shares and usually the notification date or date when the shareholders have approved the dividend for private equity instruments. Interest income and dividend income are recorded in net investment income in the Consolidated Statements of Earnings (statements of earnings).

Lifeco

Premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk are generally recognized as revenue when due and collection is reasonably assured.

Investment property income includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Rental income leases with contractual rent increases and rent-free periods are recognized on a straight-line basis over the term of the lease. Investment property income is included in net investment income in the statement of earnings.

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

Lifeco has sub-advisor arrangements where Lifeco retains the primary obligation with the client. As a result, fee income earned is reported on a gross basis, with the corresponding sub-advisor expense recorded in operating and administrative expenses.

IGM Financial

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

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

A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

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

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

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

MORTGAGE LOANS AND BONDS CLASSIFIED AS LOANS AND RECEIVABLES

The fair values disclosed for 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.

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.

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

Securities lending

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

TRANSACTION COSTS

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

REINSURANCE CONTRACTS

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

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

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

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

FUNDS HELD BY CEDING INSURERS/ FUNDS HELD UNDER REINSURANCE CONTRACTS

On the asset side, funds held by ceding insurers are assets that would normally be paid to Lifeco but are retained by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds-withheld basis supporting the insurance or investment contract liabilities ceded. For the funds-withheld assets where the underlying asset portfolio is managed by Lifeco, the credit risk is retained by Lifeco. The funds-withheld balance where Lifeco assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See Note 6 for funds held by ceding insurers that are managed by Lifeco. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds-withheld

assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

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

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

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

- Owner-occupied properties 10–50 years
- Capital assets 3–17 years

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

OTHER ASSETS

Other assets include premiums in course of collection, accounts receivable, prepaid expenses, deferred acquisition costs and miscellaneous other assets which are measured at amortized cost. Deferred acquisition costs relating to investment contracts are recognized as assets if the costs are incremental and incurred due to the contract being issued. Deferred acquisition costs are amortized on a straight-line basis over the term of the policy, not exceeding 20 years.

BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

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

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

Commissions paid by IGM on the sale of certain investment funds are deferred and amortized over their estimated useful lives, not exceeding a period of 7 years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of 5 years. When a client redeems units or shares in investment funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by IGM. Any unamortized deferred selling commission asset recognized on the initial sale of these investment fund units or shares is recorded as a disposal. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

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

Indefinite life intangible assets include brands, trademarks and trade names, certain customer contracts, mutual fund management contracts and the shareholders' portion of acquired future participating account profit. Amounts are classified as indefinite life intangible assets based on an analysis of all the relevant factors, and when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position. Following initial recognition, indefinite life intangible assets are measured at cost less accumulated impairment losses.

Impairment testing

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

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

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

SEGREGATED FUNDS

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Contract classification

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

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

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

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

Measurement

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

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

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

DERECOGNITION OF SECURITIZED MORTGAGES

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

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

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

OTHER FINANCIAL LIABILITIES

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

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

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

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) and is included in other assets (other liabilities).

Payments to the defined contribution plans are expensed as incurred.

INCOME TAXES

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

Current income tax

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

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 deferred tax assets is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred 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.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information

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

in the market. The Corporation and its subsidiaries generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

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

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

Fair value hedges

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

Cash flow hedges

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

Net investment hedges

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

EMBEDDED DERIVATIVES

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

EQUITY

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

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

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

SHARE-BASED PAYMENTS

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

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

FOREIGN CURRENCY TRANSLATION

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

Assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at exchange rates prevailing at the balance sheet dates for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses denominated in foreign currencies are translated into each entity's functional currency at an average of daily rates. Realized and unrealized exchange gains and losses are included in net investment income.

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

Translation of net investment in foreign operations

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

POLICYHOLDER BENEFITS

Policyholder benefits include benefits and claims on life insurance contracts, maturity payments, annuity payments and surrenders. Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

LEASES

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

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

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

EARNINGS PER COMMON SHARE

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

FUTURE ACCOUNTING CHANGES

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

IFRS 4 – Insurance Contracts

In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts*. The amendment "Applying IFRS 9, *Financial Instruments* (IFRS 9) 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 qualifies 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 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 yet possible 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.

Note 3 Business Acquisitions

LIFECO

On August 1, 2016, Lifeco, through its indirect wholly owned Irish subsidiary, Irish Life, completed the acquisition of Aviva Health Insurance Ireland Limited (Aviva Health), an Irish health insurance company, and assumed control of GloHealth Financial Services Limited (GloHealth), where Irish Life previously held 49%. The fair value of the 49% equity interest in GloHealth at acquisition was \$32 million, which includes a fair value increase of \$24 million recorded in net investment income for the period ended December 31, 2016. Lifeco now holds 100% of the equity interest of GloHealth.

During the fourth quarter of 2016, Lifeco completed its comprehensive evaluation of the fair value of the net assets acquired from both Aviva Health and GloHealth and the purchase price allocation. As a result, initial goodwill presented in the September 30, 2016 unaudited interim financial statements in the amount of \$126 million has been adjusted in the fourth quarter of 2016.

The amounts assigned to the assets acquired, goodwill, liabilities assumed and contingent consideration for both Aviva Health and GloHealth are as follows:

Assets acquired and goodwill	
Cash and cash equivalents	85
Investments	123
Reinsurance assets	242
Other assets	292
Intangible assets	35
Goodwill	95
	872
Liabilities assumed and contingent consideration	
Insurance contract liabilities	360
Other liabilities	318
Contingent consideration	37
	715

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

Aviva Health was rebranded as Irish Life Health; the combined operations of Aviva Health and GloHealth contributed \$117 million in revenues and incurred net losses of \$8 million, which included acquisition and restructuring expenses of \$13 million, from the date of acquisition to December 31, 2016. These amounts are included in the statements of earnings and comprehensive income.

Note 4 Cash and Cash Equivalents

DECEMBER 31	2016	2015
Cash	1,658	1,900
Cash equivalents	2,738	2,288
Cash and cash equivalents	4,396	4,188

At December 31, 2016, cash amounting to \$185 million was restricted for use by subsidiaries (\$159 million at December 31, 2015).

Note 5 Investments

CARRYING VALUES AND FAIR VALUES

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

DECEMBER 31	2016		2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Bonds				
Designated as fair value through profit or loss ^[1]	85,697	85,697	83,645	83,645
Classified as fair value through profit or loss ^[1]	2,586	2,586	2,815	2,815
Available for sale	11,819	11,819	12,014	12,014
Loans and receivables	16,970	18,484	16,905	18,253
	117,072	118,586	115,379	116,727
Mortgage loans				
Loans and receivables	29,295	30,418	29,029	30,712
Classified as fair value through profit or loss ^[1]	339	339	384	384
	29,634	30,757	29,413	31,096
Shares				
Designated as fair value through profit or loss ^[1]	7,673	7,673	6,692	6,692
Available for sale ^[2]	558	558	597	597
	8,231	8,231	7,289	7,289
Investment properties	4,340	4,340	5,237	5,237
Loans to policyholders	8,467	8,467	8,694	8,694
	167,744	170,381	166,012	169,043

[1] A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

A financial asset is classified as fair value through profit or loss on initial recognition if it is part of a portfolio that is actively traded for the purpose of earning investment income.

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

BONDS AND MORTGAGES

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

DECEMBER 31, 2016	CARRYING VALUE			
	TERM TO MATURITY			TOTAL
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	
Bonds	12,021	26,762	77,974	116,757
Mortgage loans	2,836	13,162	13,576	29,574
	14,857	39,924	91,550	146,331

DECEMBER 31, 2015	CARRYING VALUE			
	TERM TO MATURITY			TOTAL
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	
Bonds	12,041	25,901	77,070	115,012
Mortgage loans	2,906	11,875	14,600	29,381
	14,947	37,776	91,670	144,393

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

Note 5 Investments (continued)

IMPAIRED INVESTMENTS AND ALLOWANCE FOR CREDIT LOSSES

Carrying amount of impaired investments is as follows:

DECEMBER 31	2016	2015
Impaired amounts by classification		
Fair value through profit or loss	283	355
Available for sale	10	11
Loans and receivables	82	33
Total	375	399

The carrying amount of impaired investments includes bonds and mortgages loans. The above carrying values for loans and receivables are net of allowances for credit losses of \$44 million as at December 31, 2016 (\$21 million as at December 31, 2015). The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

NET INVESTMENT INCOME

YEAR ENDED DECEMBER 31, 2016	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income						
Investment income earned	4,236	985	267	325	543	6,356
Net realized gains	110	67	5	–	–	182
Net allowances for credit losses on loans and receivables	(7)	(28)	–	–	–	(35)
Other income (expenses)	–	(9)	–	(84)	(113)	(206)
	4,339	1,015	272	241	430	6,297
Changes in fair value through profit or loss	3,182	(2)	959	61	(294)	3,906
Net investment income	7,521	1,013	1,231	302	136	10,203

YEAR ENDED DECEMBER 31, 2015	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income						
Investment income earned	4,259	1,021	280	356	398	6,314
Net realized gains	114	118	10	–	–	242
Other income (expenses)	–	(11)	–	(100)	(113)	(224)
	4,373	1,128	290	256	285	6,332
Changes in fair value through profit or loss	(1,987)	4	(412)	249	133	(2,013)
Net investment income	2,386	1,132	(122)	505	418	4,319

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

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

INVESTMENT PROPERTIES

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

DECEMBER 31	2016	2015
Balance, beginning of year	5,237	4,613
Additions	102	278
Changes in fair value through profit or loss	61	249
Disposals	(427)	(282)
Foreign exchange rate changes and other	(633)	379
Balance, end of year	4,340	5,237

Note 5 Investments (continued)

TRANSFERRED FINANCIAL ASSETS

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

cash collateral included in the collateral deposited with Lifeco's lending agent as at December 31, 2016 and December 31, 2015. In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2016, Lifeco had loaned securities (which are included in investments) with a fair value of \$7,520 million (\$6,593 million at December 31, 2015).

Note 6 Funds Held by Ceding Insurers

At December 31, 2016, Lifeco had amounts on deposit of \$10,781 million (\$15,512 million at December 31, 2015) for funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreements are included in net investment income on the statements of earnings.

In 2016, Lifeco completed the transfer of approximately \$1,600 million of annuity policies from The Equitable Life Assurance Company (Equitable Life) acquired during 2015. As a result, the related assets presented as funds held by ceding insurers at December 31, 2015 are recorded in investments at December 31, 2016.

In 2016, a subsidiary of Lifeco completed a portfolio transfer of approximately \$1,300 million whereby investment contract liabilities and supporting bonds and cash were acquired. The portfolio of investment contract liabilities had been previously reinsured by Lifeco on a funds-withheld basis. As a result, the related assets presented in funds held by ceding insurers at December 31, 2015 are recorded in investments at December 31, 2016.

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

CARRYING VALUES AND ESTIMATED FAIR VALUES

DECEMBER 31	2016		2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash and cash equivalents	214	214	180	180
Bonds	8,391	8,391	13,472	13,472
Other assets	118	118	178	178
	8,723	8,723	13,830	13,830
Supporting:				
Reinsurance liabilities	8,218	8,218	13,222	13,222
Surplus	505	505	608	608
	8,723	8,723	13,830	13,830

ASSET QUALITY

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

BOND PORTFOLIO BY CREDIT RATING DECEMBER 31	2016	2015
AAA	618	3,697
AA	3,792	3,405
A	3,300	5,186
BBB	476	798
BB and lower	205	386
Total bonds	8,391	13,472

Note 7 Investments in Jointly Controlled Corporations and Associates

Investments in jointly controlled corporations and associates are composed principally of the Corporation's 50% interest in Parjointco. As at December 31, 2016, Parjointco held a 55.5% equity interest in Pargesa (same as December 31, 2015), representing 75.4% of the voting rights.

Investments in jointly controlled corporations and associates also include Lifeco's 30.4% investment in Allianz Ireland, an unlisted general insurance company operating in Ireland (same as December 31, 2015), held through its wholly owned subsidiary Irish Life.

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

DECEMBER 31	2016			2015		
	PARJOINTCO	OTHER	TOTAL	PARJOINTCO	OTHER	TOTAL
Carrying value, beginning of year	2,610	295	2,905	2,440	237	2,677
Investments	–	36	36	–	18	18
Share of earnings (losses)	(88)	(10)	(98)	205	19	224
Share of other comprehensive income (loss)	379	(11)	368	24	22	46
Dividends	(75)	(18)	(93)	(69)	(4)	(73)
Other	(15)	–	(15)	10	3	13
Carrying value, end of year	2,811	292	3,103	2,610	295	2,905

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

The net asset value of the Corporation's indirect interest in Pargesa is approximately \$3,260 million as at December 31, 2016. The carrying value of the investment in Pargesa is \$2,811 million, or \$1,981 million excluding the unrealized net gains of its underlying investments. Pargesa's financial information as at and for the year ended December 31, 2016 can be obtained from its publicly available information.

Note 8 Owner-Occupied Properties and Capital Assets

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

DECEMBER 31	2016			2015		
	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS	TOTAL	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS	TOTAL
Cost, beginning of year	776	1,240	2,016	732	1,062	1,794
Additions	26	137	163	11	159	170
Disposal/retirements	(2)	(49)	(51)	(2)	(13)	(15)
Changes in foreign exchange rates	(13)	1	(12)	35	32	67
Cost, end of year	787	1,329	2,116	776	1,240	2,016
Accumulated amortization, beginning of year	(72)	(838)	(910)	(61)	(747)	(808)
Amortization	(12)	(97)	(109)	(12)	(88)	(100)
Disposal/retirements	–	46	46	1	8	9
Changes in foreign exchange rates	–	(15)	(15)	–	(11)	(11)
Accumulated amortization, end of year	(84)	(904)	(988)	(72)	(838)	(910)
Carrying value, end of year	703	425	1,128	704	402	1,106

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

DECEMBER 31	2016	2015
Canada	717	680
United States	270	277
Europe	141	149
	1,128	1,106

Note 9 Other Assets

DECEMBER 31	2016	2015
Premiums in course of collection, accounts receivable and interest receivable	5,056	4,120
Deferred acquisition costs	597	704
Pension benefits [Note 24]	214	250
Income taxes receivable	111	79
Trading account assets	516	590
Finance leases receivable	273	293
Prepaid expenses	155	146
Deposit for investment in China AMC ^[1]	193	–
Other	570	726
	7,685	6,908

[1] 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 AMC, a fund management company in China for an aggregate consideration of approximately \$647 million. In accordance with the terms of these agreements, Mackenzie Investments made a deposit of \$193 million. The transactions are expected to close in the first half of 2017 and are subject to customary closing conditions, including Chinese regulatory approvals.

Total other assets of \$6,390 million as at December 31, 2016 (\$5,636 million as at December 31, 2015) are to be realized within 12 months.

Note 10 Goodwill and Intangible Assets

GOODWILL

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

DECEMBER 31	2016			2015		
	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE
Balance, beginning of year	10,451	(1,241)	9,210	10,192	(1,043)	9,149
Business acquisitions [Note 3]	95	–	95	3	–	3
Changes in foreign exchange rates	(67)	36	(31)	256	(198)	58
Balance, end of year	10,479	(1,205)	9,274	10,451	(1,241)	9,210

INTANGIBLE ASSETS

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

Indefinite life intangible assets

DECEMBER 31, 2016	BRANDS, TRADEMARKS AND TRADE NAMES	CUSTOMER CONTRACT-RELATED	MUTUAL FUND MANAGEMENT CONTRACTS	SHAREHOLDERS' PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	TOTAL
Cost, beginning of year	1,305	3,019	741	354	5,419
Changes in foreign exchange rates	(41)	(81)	–	–	(122)
Cost, end of year	1,264	2,938	741	354	5,297
Accumulated impairment, beginning of year	(162)	(1,116)	–	–	(1,278)
Changes in foreign exchange rates	5	32	–	–	37
Accumulated impairment, end of year	(157)	(1,084)	–	–	(1,241)
Carrying value, end of year	1,107	1,854	741	354	4,056

Note 10 Goodwill and Intangible Assets (continued)

DECEMBER 31, 2015	BRANDS, TRADEMARKS AND TRADE NAMES	CUSTOMER CONTRACT- RELATED	MUTUAL FUND MANAGEMENT CONTRACTS	SHAREHOLDERS' PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFIT	TOTAL
Cost, beginning of year	1,206	2,592	741	354	4,893
Additions	–	3	–	–	3
Changes in foreign exchange rates	99	424	–	–	523
Cost, end of year	1,305	3,019	741	354	5,419
Accumulated impairment, beginning of year	(140)	(939)	–	–	(1,079)
Changes in foreign exchange rates	(22)	(177)	–	–	(199)
Accumulated impairment, end of year	(162)	(1,116)	–	–	(1,278)
Carrying value, end of year	1,143	1,903	741	354	4,141

Finite life intangible assets

DECEMBER 31, 2016	TECHNOLOGY AND SOFTWARE	CUSTOMER CONTRACT- RELATED	DEFERRED SELLING COMMISSIONS	OTHER	TOTAL
Cost, beginning of year	1,331	810	1,356	231	3,728
Additions	247	42	235	1	525
Disposal/redemption	–	–	(68)	(4)	(72)
Changes in foreign exchange rates	(25)	(21)	–	(12)	(58)
Other, including write-off of assets fully amortized	–	–	(149)	–	(149)
Cost, end of year	1,553	831	1,374	216	3,974
Accumulated amortization, beginning of year	(727)	(418)	(629)	(112)	(1,886)
Amortization	(132)	(50)	(205)	(11)	(398)
Disposal/redemption	–	–	37	3	40
Changes in foreign exchange rates	18	8	–	5	31
Other, including write-off of assets fully amortized	–	–	149	–	149
Accumulated amortization, end of year	(841)	(460)	(648)	(115)	(2,064)
Carrying value, end of year	712	371	726	101	1,910

DECEMBER 31, 2015	TECHNOLOGY AND SOFTWARE	CUSTOMER CONTRACT- RELATED	DEFERRED SELLING COMMISSIONS	OTHER	TOTAL
Cost, beginning of year	1,017	745	1,347	221	3,330
Additions	233	–	250	2	485
Disposal/redemption	–	–	(64)	(1)	(65)
Changes in foreign exchange rates	81	65	–	9	155
Other, including write-off of assets fully amortized	–	–	(177)	–	(177)
Cost, end of year	1,331	810	1,356	231	3,728
Accumulated amortization, beginning of year	(574)	(338)	(637)	(98)	(1,647)
Amortization	(101)	(49)	(203)	(11)	(364)
Impairment	(2)	–	–	–	(2)
Disposal/redemption	–	–	34	–	34
Changes in foreign exchange rates	(50)	(31)	–	(3)	(84)
Other, including write-off of assets fully amortized	–	–	177	–	177
Accumulated amortization, end of year	(727)	(418)	(629)	(112)	(1,886)
Carrying value, end of year	604	392	727	119	1,842

Note 10 Goodwill and Intangible Assets (continued)

ALLOCATION TO CASH GENERATING UNITS

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

DECEMBER 31	2016			2015		
	GOODWILL	INTANGIBLE ASSETS	TOTAL	GOODWILL	INTANGIBLE ASSETS	TOTAL
LIFECO						
Canada						
Group	1,156	–	1,156	1,156	–	1,156
Individual insurance / wealth management	3,028	973	4,001	3,028	973	4,001
Europe						
Insurance and annuities	2,047	216	2,263	1,978	246	2,224
Reinsurance	1	–	1	1	–	1
United States						
Financial services	205	–	205	210	–	210
Asset management	–	1,841	1,841	–	1,896	1,896
IGM						
Investors Group	1,443	–	1,443	1,443	–	1,443
Mackenzie	1,251	1,003	2,254	1,251	1,003	2,254
Other and corporate	143	23	166	143	23	166
	9,274	4,056	13,330	9,210	4,141	13,351

RECOVERABLE AMOUNT

Lifeco

For purposes of annual impairment testing, Lifeco allocates goodwill and indefinite life intangible assets to its CGUs. Any potential impairment of goodwill or indefinite life intangible assets is identified by comparing the recoverable amount to its carrying value. Recoverable amount is based on fair value less cost of disposal.

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

In the fourth quarter of 2016, Lifeco conducted its annual impairment testing of goodwill and indefinite life intangible assets based on September 30, 2016 asset balances. It was determined that the recoverable amounts of cash generating unit groupings were in excess of their carrying values and there was no evidence of impairment.

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

IGM Financial

IGM tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of IGM's CGUs is based on the best available evidence of fair value less cost of disposal. Fair value is initially assessed with reference to valuation multiples of comparable publicly traded financial institutions and previous business acquisition transactions. These valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 fair value inputs.

The fair value less cost of disposal of IGM's CGUs was compared with the carrying amount and it was determined there was no impairment. Any reasonable changes in assumptions and estimates used in determining the recoverable amounts of the CGUs are unlikely to cause the carrying values to exceed their recoverable amounts.

Note 11 Segregated Funds and Other Structured Entities

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

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

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are \$1,547 million at December 31, 2016 (\$1,390 million at December 31, 2015).

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

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

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

DECEMBER 31	2016	2015
Cash and cash equivalents	12,487	11,656
Bonds	41,619	42,160
Mortgage loans	2,622	2,596
Shares and units in unit trusts	81,033	80,829
Mutual funds	51,726	50,101
Investment properties	11,019	10,839
	200,506	198,181
Accrued income	359	382
Other liabilities	(2,009)	(1,759)
Non-controlling mutual fund interest	1,547	1,390
	200,403	198,194

SEGREGATED FUNDS AND GUARANTEE EXPOSURE

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

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

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

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

Lifeco also offers guaranteed minimum withdrawal benefits products in Canada, the U.S., Ireland and Germany. Certain guaranteed minimum withdrawal benefits products offered by Lifeco offer levels of death and maturity guarantees. At December 31, 2016, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was \$3,917 million (\$3,488 million at December 31, 2015).

For further details on Lifeco's risk and guarantee exposure and the management of these risks, refer to the "Risk Management and Control Practices" section of Lifeco's 2016 annual report.

Note 11 Segregated Funds and Other Structured Entities (continued)

INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

YEARS ENDED DECEMBER 31	2016	2015
Balance, beginning of year	198,194	174,966
Additions (deductions):		
Policyholder deposits	21,358	21,592
Net investment income	2,379	2,855
Net realized capital gains on investments	4,275	4,780
Net unrealized capital gains (losses) on investments	6,311	(2,938)
Unrealized gains (losses) due to changes in foreign exchange rates	(10,584)	12,933
Policyholder withdrawals	(21,895)	(21,934)
Business and other acquisition	193	5,465
Segregated fund investment in General Fund	8	43
General Fund investment in segregated fund	(13)	(11)
Net transfer from General Fund	20	65
Non-controlling mutual fund interest	157	378
	2,209	23,228
Balance, end of year	200,403	198,194

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

YEARS ENDED DECEMBER 31	2016	2015
Net investment income	2,379	2,855
Net realized capital gains on investments	4,275	4,780
Net unrealized capital gains (losses) on investments	6,311	(2,938)
Unrealized gains (losses) due to changes in foreign exchange rates	(10,584)	12,933
Total	2,381	17,630
Change in insurance and investment contract liabilities on account of segregated fund policyholders	2,381	17,630
Net	—	—

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

DECEMBER 31, 2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments on account of segregated fund policyholders ^[1]	125,829	63,804	12,045	201,678

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

DECEMBER 31, 2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments on account of segregated fund policyholders ^[1]	120,283	67,333	11,765	199,381

[1] Excludes other liabilities, net of other assets, of \$1,187 million.

In 2016 certain foreign equity holdings valued at \$18 million have been transferred from Level 2 to Level 1 (\$412 million were transferred from Level 1 to Level 2 at December 31, 2015), based on Lifeco's ability to utilize observable, quoted prices in active markets. Level 2 assets include those assets where fair value is not available from normal market pricing sources and where Lifeco does not have visibility through to the underlying assets.

As at December 31, 2016, \$6,726 million (\$5,925 million at December 31, 2015) of the segregated funds were invested in funds managed by related parties Investors Group and Mackenzie Investments, subsidiaries of IGM.

Note 11 Segregated Funds and Other Structured Entities (continued)

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

DECEMBER 31	2016	2015
Balance, beginning of year	11,765	10,390
Total gains (losses) included in segregated fund investment income	(109)	1,039
Purchases	584	944
Sales	(370)	(607)
Transfers into Level 3	175	–
Transfers out of Level 3	–	(1)
Balance, end of year	12,045	11,765

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

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

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

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

Fee and other income earned by Lifeco resulting from Lifeco's interests in these structured entities was \$4,323 million for the year ended December 31, 2016 (\$4,399 million in 2015).

Included within other assets (Note 9) at December 31, 2016 is \$435 million (\$501 million at December 31, 2015) of investments by Lifeco in bonds and shares of Putnam-sponsored funds and \$81 million (\$89 million at December 31, 2015) of investments in shares of sponsored unit trusts in Europe.

Note 12 Insurance and Investment Contract Liabilities

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

DECEMBER 31	2016			2015		
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET
Insurance contract liabilities	155,940	5,627	150,313	158,492	5,131	153,361
Investment contract liabilities ^[1]	2,009	–	2,009	2,253	–	2,253
	157,949	5,627	152,322	160,745	5,131	155,614

[1] Lifeco corrected the classification of \$73 million of deferred tax liabilities to investment contract liabilities at December 31, 2015, to conform to the current period presentation. The reclassification had no impact on the net earnings of the Corporation (refer to Note 16).

Note 12 Insurance and Investment Contract Liabilities (continued)

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

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

DECEMBER 31	2016			2015		
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET
Participating						
Canada	34,019	(443)	34,462	32,072	(419)	32,491
United States	11,790	14	11,776	12,278	16	12,262
Europe	1,385	–	1,385	1,519	–	1,519
Non-participating						
Canada	29,125	923	28,202	28,162	794	27,368
United States	29,081	309	28,772	27,625	339	27,286
Europe	52,549	4,824	47,725	59,089	4,401	54,688
	157,949	5,627	152,322	160,745	5,131	155,614

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

DECEMBER 31, 2016	BONDS	MORTGAGE LOANS	SHARES ^[1]	INVESTMENT PROPERTIES	OTHER	TOTAL
Participating liabilities						
Canada	16,311	8,327	4,828	1,354	3,199	34,019
United States	5,597	451	–	–	5,742	11,790
Europe	988	32	123	56	186	1,385
Non-participating liabilities						
Canada	17,464	3,699	1,979	13	5,970	29,125
United States	23,820	4,005	–	–	1,256	29,081
Europe	31,550	3,557	236	2,679	14,527	52,549
Other, including segregated funds	14,996	952	–	59	200,948	216,955
Total equity	6,047	628	1,499	179	16,655	25,008
Total carrying value	116,773	21,651	8,665	4,340	248,483	399,912
Fair value	118,287	22,550	8,655	4,340	248,483	402,315

DECEMBER 31, 2015	BONDS	MORTGAGE LOANS	SHARES ^[1]	INVESTMENT PROPERTIES	OTHER	TOTAL
Participating liabilities						
Canada	15,332	7,816	4,112	1,341	3,471	32,072
United States	5,887	485	–	–	5,906	12,278
Europe	1,087	40	154	71	167	1,519
Non-participating liabilities						
Canada	18,848	3,839	1,732	7	3,736	28,162
United States	23,023	3,813	–	–	789	27,625
Europe	31,982	4,358	226	3,342	19,181	59,089
Other, including segregated funds	13,048	941	–	65	199,876	213,930
Total equity	5,736	729	1,649	411	16,735	25,260
Total carrying value	114,943	22,021	7,873	5,237	249,861	399,935
Fair value	116,291	23,446	7,839	5,237	249,861	402,674

[1] Includes Lifeco's investments in jointly controlled corporations and associates.

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

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

Note 12 Insurance and Investment Contract Liabilities (continued)

CHANGE IN INSURANCE CONTRACT LIABILITIES

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

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

DECEMBER 31, 2015	PARTICIPATING			NON-PARTICIPATING			TOTAL NET
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	
Balance, beginning of year	42,893	(144)	43,037	102,305	5,295	97,010	140,047
Impact of new business	23	–	23	4,380	126	4,254	4,277
Normal change in in-force business	1,046	(70)	1,116	(5,711)	(178)	(5,533)	(4,417)
Management actions and changes in assumptions	(276)	(192)	(84)	(489)	(78)	(411)	(495)
Business movement from/to external parties	–	–	–	1,588	(2)	1,590	1,590
Impact of foreign exchange rate changes	2,158	3	2,155	10,575	371	10,204	12,359
Balance, end of year	45,844	(403)	46,247	112,648	5,534	107,114	153,361

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

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

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

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

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

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

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

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

In 2015, the major contributors to the increase in net insurance contract liabilities were the impact of foreign exchange rate changes of \$12,359 million, the impact of new business of \$4,277 million, and business movement from/to external parties of \$1,590 million, which was primarily due to the acquisition of Equitable Life's annuity business during the first quarter of 2015, partially offset by decreases due to the normal changes in the in-force business of \$4,417 million, which were primarily due to the change in fair value, and management actions and assumption changes of \$495 million.

Net non-participating insurance contract liabilities decreased by \$411 million in 2015 due to Lifeco's management actions and assumption changes including a \$50 million decrease in Canada, a \$331 million decrease in Europe and a \$30 million decrease in the United States.

The decrease in Canada was primarily due to updated mortality assumptions of \$159 million, updated economic assumptions of \$15 million and updated expense and tax assumptions of \$12 million, partially offset by increases due to updated policyholder behaviour assumptions of \$85 million, and modelling refinements of \$49 million.

The decrease in Europe was primarily due to updated longevity assumptions of \$292 million, updated economic assumptions of \$184 million, updated morbidity assumptions of \$12 million and updates to other provisions of \$10 million, partially offset by increases due to updated mortality assumptions

Note 12 Insurance and Investment Contract Liabilities (continued)

of \$64 million, updated expense and tax assumptions of \$55 million, modelling refinements of \$37 million and updated policyholder behaviour assumptions of \$11 million.

The decrease in the United States was primarily due to updated economic assumptions of \$30 million and updated mortality assumptions of \$8 million, partially offset by increases due to updated policyholder behaviour assumptions of \$6 million.

Net participating insurance contract liabilities decreased by \$84 million in 2015 due to Lifeco's management actions and assumption changes. The decrease was primarily due to provisions for future policyholder dividends of \$4,991 million, updated expense and tax assumptions of \$545 million and updated mortality assumptions of \$412 million, partially offset by increases due to lower investment returns of \$5,527 million, updated policyholder behaviour assumptions of \$188 million, and modelling refinements of \$149 million.

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

DECEMBER 31	2016	2015
Balance, beginning of year	2,253	922
Normal change in in-force business	(220)	(89)
Investment experience	93	18
Management actions and changes in assumptions	(46)	7
Business movement from/to external parties	–	1,330
Impact of foreign exchange rate changes	(71)	65
Balance, end of year	2,009	2,253

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

In 2015, business movement from/to external parties was primarily due to a retrocession agreement to assume a block of investment contract liabilities in the form of structured settlements with fixed terms and amount.

PREMIUM INCOME

DECEMBER 31	2016	2015
Direct premiums	23,772	22,120
Assumed reinsurance premiums	11,278	6,009
Total	35,050	28,129

POLICYHOLDER BENEFITS

DECEMBER 31	2016	2015
Direct	16,721	15,880
Assumed reinsurance	11,594	6,673
Total	28,315	22,553

ACTUARIAL ASSUMPTIONS

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

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Mortality improvement has been projected to occur for the next 25 years. In addition, appropriate provisions have been made for future mortality deterioration on term insurance.

Annuitant mortality is also studied regularly and the results are used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity

Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Property and casualty reinsurance

Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities have been established using cash flow valuation techniques, including discounting. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience

Note 12 Insurance and Investment Contract Liabilities (continued)

against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 21).

Expenses

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

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates

RISK MANAGEMENT

Insurance risk

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

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

	INCREASE (DECREASE) IN NET EARNINGS	
	2016	2015
Mortality—2% increase	(281)	(282)
Annuitant mortality—2% decrease	(384)	(314)
Morbidity—5% adverse change	(242)	(225)
Investment returns		
Parallel shift in yield curve		
1% increase	—	—
1% decrease	—	—
Change in range of interest rates		
1% increase	149	109
1% decrease	(491)	(430)
Change in equity markets		
10% increase	43	45
10% decrease	(50)	(108)
Change in best estimate returns for equities		
1% increase	407	433
1% decrease	(438)	(457)
Expenses—5% increase	(117)	(108)
Policy termination and renewal—10% adverse change	(608)	(602)

at the end of term for renewable term policies in Canada and Reinsurance. Industry experience has guided Lifeco's assumptions for these products as Lifeco's own experience is very limited.

Utilization of elective policy options

There are a wide range of elective options embedded in the policies issued by Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco or industry experience when it exists and, when not, on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

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

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

Note 12 Insurance and Investment Contract Liabilities (continued)

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

DECEMBER 31	2016			2015		
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET
Canada	63,144	480	62,664	60,234	375	59,859
United States	40,871	323	40,548	39,903	355	39,548
Europe	53,934	4,824	49,110	60,608	4,401	56,207
	157,949	5,627	152,322	160,745	5,131	155,614

Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds-withheld basis where Lifeco retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

Note 13 Obligations to Securitization Entities

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

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

coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$23 million at December 31, 2016 (a negative fair value of \$47 million in 2015).

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

DECEMBER 31	2016			2015		
	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value						
NHA MBS and CMB Programs	4,942	4,987	(45)	4,612	4,670	(58)
Bank-sponsored ABCP	2,673	2,734	(61)	2,369	2,422	(53)
Total	7,615	7,721	(106)	6,981	7,092	(111)
Fair value	7,838	7,873	(35)	7,238	7,272	(34)

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

Note 14 Debentures and Other Debt Instruments

DECEMBER 31	2016		2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
DEBENTURES				
POWER FINANCIAL				
6.90% debentures, due March 11, 2033, unsecured	250	328	250	328
LIFECO				
5.25% subordinated debentures callable February 8, 2017 (€200 million), including associated fixed to floating swap, unsecured	285	277	311	324
6.14% debentures due March 21, 2018, unsecured	200	211	200	220
4.65% debentures due August 13, 2020, unsecured	499	549	499	561
2.50% debentures due April 18, 2023 (€500 million), unsecured	706	778	745	798
1.75% debentures due December 7, 2026 (€500 million), unsecured	704	718	–	–
6.40% subordinated debentures due December 11, 2028, unsecured	100	128	100	127
6.74% debentures due November 24, 2031, unsecured	193	261	192	264
6.67% debentures due March 21, 2033, unsecured	392	523	391	527
6.625% deferrable debentures due November 15, 2034 (US\$175 million), unsecured	231	240	238	282
5.998% debentures due November 16, 2039, unsecured	342	441	342	438
Subordinated debentures due May 16, 2046, bearing an interest rate of 2.538% plus the 3-month LIBOR rate (US\$300 million), with an interest rate swap to pay fixed interest of 4.68%, unsecured	402	345	414	412
Subordinated debentures due June 21, 2067, bearing an interest rate of 5.691% until first call par date of June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 1.49%, unsecured	999	994	998	1,052
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until first call par date of June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured	499	536	498	560
IGM FINANCIAL				
6.58% debentures 2003 Series, due March 7, 2018, unsecured	150	159	150	166
7.35% debentures 2009 Series, due April 8, 2019, unsecured	375	421	375	439
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	156	125	160
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	203	150	207
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	229	175	234
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	199	150	202
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	244	200	253
Debentures held by Lifeco as investments	(42)	(55)	(43)	(57)
Total debentures	7,085	7,885	6,460	7,497
OTHER DEBT INSTRUMENTS				
LIFECO				
Commercial paper and other short-term debt instruments with interest rates from 0.670% to 0.792% (0.213% to 0.223% at December 31, 2015), unsecured	133	133	129	129
Revolving credit facility with interest equal to LIBOR rate plus 0.70% or U.S. prime rate loan (US\$220 million; US\$245 million at December 31, 2015), unsecured	295	295	338	338
Total other debt instruments	428	428	467	467
	7,513	8,313	6,927	7,964

Note 14 Debentures and Other Debt Instruments (continued)

LIFECO

In 2016, Great-West Life & Annuity Insurance Capital, LP II, a subsidiary of Lifeco, elected to not call its US\$300 million 7.153% junior subordinated debentures with a first par call date of May 16, 2016 and a final maturity date of May 16, 2046. Beginning May 16, 2016, the debentures pay a floating rate of interest set at 3-month LIBOR plus 2.538%. Great-West Financial also entered into an external 30-year interest rate swap transaction to 2046 whereby it will pay a fixed 4.68% rate of interest and will receive a floating 3-month LIBOR plus 2.538% rate of interest on the notional principal amount.

On December 7, 2016, Lifeco issued €500 million of 10-year senior bonds with an annual coupon rate of 1.75%. The bonds are listed on the Irish Stock Exchange. The euro-denominated debt has been designated as a hedge against Lifeco's net investment in euro-denominated foreign operations with changes in foreign exchange on the debt instrument recorded in other comprehensive income.

Subsequent event

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.

IGM FINANCIAL

Subsequent event

On December 29, 2016 and January 5, 2017, Mackenzie Investments entered into agreements to acquire, in two separate transactions, a 13.9% interest in China AMC for an aggregate consideration of approximately \$647 million. On January 26, 2017, IGM issued \$400 million of 10-year 3.44% debentures priced to provide a yield to maturity of 3.448% and \$200 million of 30-year 4.56% debentures priced to provide a yield to maturity of 4.56%. The net proceeds will be used by IGM to assist its subsidiary, Mackenzie Investments, in financing a substantial portion of these acquisitions and for general corporate purposes.

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

2017	712
2018	350
2019	375
2020	500
2021	–
Thereafter	5,609

Note 15 Other Liabilities

DECEMBER 31	2016	2015
Bank overdraft	447	479
Accounts payable	2,412	2,072
Dividends and interest payable	435	420
Income taxes payable	553	545
Deferred income reserve	309	437
Capital trust debentures	161	161
Deposits and certificates	471	310
Funds held under reinsurance contracts	320	356
Pension and other post-employment benefits [Note 24]	1,802	1,607
Other	1,726	1,299
	8,636	7,686

Total other liabilities of \$6,001 million as at December 31, 2016 (\$5,067 million as at December 31, 2015) are expected to be settled within 12 months.

Note 15 Other Liabilities (continued)

CAPITAL TRUST DEBENTURES

DECEMBER 31	2016		2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
CANADA LIFE CAPITAL TRUST (CLCT)				
7.529% capital trust debentures due June 30, 2052, unsecured	150	212	150	215
Acquisition-related fair value adjustment	11	–	11	–
	161	212	161	215

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

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

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

Note 16 Income Taxes

EFFECTIVE INCOME TAX RATE

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

YEARS ENDED DECEMBER 31 PERCENTAGE [%]	2016	2015
Combined statutory Canadian federal and provincial tax rates	26.8	26.7
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(5.0)	(4.9)
Lower effective tax rates on income not subject to tax in Canada	(5.4)	(5.1)
Share of (earnings) losses of investments in jointly controlled corporations and associates	0.7	(1.3)
Other	(2.5)	(0.2)
Effective income tax rate	14.6	15.2

INCOME TAXES

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

YEARS ENDED DECEMBER 31	2016	2015
Current taxes		
In respect of the current year	521	513
Recognition of previously unrecognized tax losses, tax credits or temporary differences	(32)	–
Adjustments in respect of prior years	(37)	(4)
	452	509
Deferred taxes		
Origination and reversal of temporary differences	122	160
Effect of change in tax rates or imposition of new taxes	4	7
Recognition of previously unrecognized tax losses, tax credits or temporary differences	(7)	(4)
Other	10	7
	129	170
	581	679

Note 16 Income Taxes (continued)

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

DECEMBER 31	2016		2015	
	OTHER COMPREHENSIVE INCOME	EQUITY	OTHER COMPREHENSIVE INCOME	EQUITY
Current taxes (recovery)	(9)	–	(2)	–
Deferred taxes (recovery)	(5)	(1)	(89)	(2)
	(14)	(1)	(91)	(2)

DEFERRED TAXES

Deferred taxes are attributable to the following items:

DECEMBER 31	2016	2015
Loss carry forwards	1,889	1,794
Investments	(647)	(674)
Insurance and investment contract liabilities	(1,210)	(1,097)
Intangible assets ^[1]	(895)	(770)
Other	672	684
	(191)	(63)
Presented on the balance sheets as follows:		
Deferred tax assets	1,907	1,961
Deferred tax liabilities ^[1, 2]	(2,098)	(2,024)
	(191)	(63)

[1] In 2016, IGM Financial retrospectively adjusted the rate of tax used for deferred tax measurement of indefinite life intangible assets to reflect the expected manner of recovery of such assets acquired through business combinations that occurred prior to the conversion to IFRS. As a result, the deferred tax liabilities have increased by \$122 million and the equity decreased by \$122 million at January 1, 2015 (decrease of \$77 million in retained earnings and \$45 million in non-controlling interests). This adjustment had no impact on net earnings or earnings per share for the periods presented within these financial statements.

[2] Lifeco corrected the classification of \$73 million of deferred tax liabilities to investment contract liabilities at December 31, 2015, to conform to the current period presentation. The reclassification had no impact on the net earnings of the Corporation (refer to Note 11).

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2016 are recoverable.

At December 31, 2016, Lifeco has recognized a deferred tax asset of \$1,885 million (\$1,784 million at December 31, 2015) on tax loss carry forwards totalling \$6,874 million (\$4,951 million in 2015). Of this amount, \$6,748 million expires between 2017 and 2036, while \$126 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

One of Lifeco's subsidiaries has had a history of recent losses. The subsidiary has a net deferred tax asset balance of \$1,262 million (US\$942 million) as at December 31, 2016 composed principally of net operating losses and future deductions related to goodwill which has been previously impaired for accounting purposes. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income against which the unused United States losses and deductions will be utilized.

As at December 31, 2016, the Corporation and its subsidiaries have non-capital losses of \$99 million (\$150 million in 2015) available to reduce future taxable income for which the benefits have not been recognized. These losses expire from 2028 to 2036. In addition, the Corporation and its subsidiaries have capital loss carry forwards of \$185 million (\$167 million in 2015) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

As at December 31, 2016, a deferred tax liability of \$12 million (\$7 million in 2015) has been recognized with respect to a portion of the temporary difference associated with the investment in a subsidiary. No other deferred tax liability has been recognized in respect of the remaining temporary differences associated with investments in subsidiaries and jointly controlled corporations as the Corporation and its subsidiaries are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Note 17 Stated Capital

AUTHORIZED

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

ISSUED AND OUTSTANDING

DECEMBER 31	2016		2015	
	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
		\$		\$
FIRST PREFERRED SHARES (PERPETUAL)				
Series A ^[i]	4,000,000	100	4,000,000	100
Series D ^[ii]	6,000,000	150	6,000,000	150
Series E ^[ii]	8,000,000	200	8,000,000	200
Series F ^[ii]	6,000,000	150	6,000,000	150
Series H ^[ii]	6,000,000	150	6,000,000	150
Series I ^[ii]	8,000,000	200	8,000,000	200
Series K ^[ii]	10,000,000	250	10,000,000	250
Series L ^[ii]	8,000,000	200	8,000,000	200
Series O ^[ii]	6,000,000	150	6,000,000	150
Series P ^{[ii][iii]}	8,965,485	224	11,200,000	280
Series Q ^{[ii][iv]}	2,234,515	56	—	—
Series R ^[ii]	10,000,000	250	10,000,000	250
Series S ^[ii]	12,000,000	300	12,000,000	300
Series T ^[ii]	8,000,000	200	8,000,000	200
		2,580		2,580
COMMON SHARES				
Balance, beginning of year	713,238,680	804	711,723,680	743
Issued under Stock Option Plan	30,980	1	1,515,000	61
Balance, end of year	713,269,660	805	713,238,680	804

First Preferred Shares

- [i] The Series A First Preferred Shares are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks and are redeemable, at the Corporation's option, at \$25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [ii] The following First Preferred Shares series are entitled to fixed non-cumulative preferential cash dividends payable quarterly. The Corporation may redeem for cash the First Preferred Shares in whole or in part, at the Corporation's option, with all declared and unpaid dividends to, but excluding, the date of redemption.

The dividends and redemption terms are as follows:

FIRST PREFERRED SHARES	CASH DIVIDENDS PAYABLE QUARTERLY	EARLIEST ISSUER REDEMPTION DATE	REDEMPTION PRICE
	[\$/SHARE]		[\$/SHARE]
Non-cumulative, fixed rate			
Series D, 5.50%	0.343750	Currently redeemable	25.00
Series E, 5.25%	0.328125	Currently redeemable	25.00
Series F, 5.90%	0.368750	Currently redeemable	25.00
Series H, 5.75%	0.359375	Currently redeemable	25.00
Series I, 6.00%	0.375000	Currently redeemable	25.00
Series K, 4.95%	0.309375	Currently redeemable	25.00
Series L, 5.10%	0.318750	Currently redeemable	25.00
Series O, 5.80%	0.362500	Currently redeemable	25.50
Series R, 5.50%	0.343750	April 30, 2017	26.00
Series S, 4.80%	0.300000	April 30, 2018	26.00
Non-cumulative, 5-year rate reset ^[1]			
Series P, 2.31% ^[iii]	0.144125	Currently redeemable	25.00
Series T, 4.20%	0.262500	January 31, 2019	25.00

[1] The dividend rate will reset on the earliest issuer redemption date and every fifth year thereafter at a rate equal to the 5-year Government of Canada bond yield plus a reset spread (1.60% for Series P and 2.37% for Series T). The holders have the option to convert their shares into non-cumulative floating rate First Preferred Shares subject to certain conditions on the earliest redemption date and every fifth year thereafter at a rate equal to the 3-month Government of Canada Treasury Bill rate plus the reset spread indicated.

Note 17 Stated Capital (continued)

[iii] 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 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.

[iv] The Series Q First Preferred Shares are entitled to a quarterly non-cumulative dividend at an annual floating rate equal to the 3-month Government of Canada Treasury Bill rate plus 1.60% and are redeemable: (i) for \$25.00 per share plus declared and unpaid dividends to the date fixed for redemption on January 31, 2021 and on January 31 every five years thereafter or (ii) for \$25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after January 31, 2016 that is not a date on which Series Q First Preferred Shares can be converted. Subject to the Corporation's right to redeem all the Series Q First Preferred Shares, the holders of Series Q First Preferred Shares will have the right, at their option, to convert their Series Q First Preferred Shares into Series P First Preferred Shares, subject to certain conditions, on January 31, 2021 and on January 31 every five years thereafter.

Common Shares

During the year 2016, 30,980 common shares (1,515,000 in 2015) were issued under the Corporation's Employee Stock Option Plan for a consideration of \$1 million (\$49 million in 2015).

Dividends declared on the Corporation's common shares in 2016 amounted to \$1.57 per share (\$1.49 per share in 2015).

Note 18 Share-Based Compensation

STOCK OPTION PLAN

Under Power Financial's Employee Stock Option Plan, 12,325,620 common shares are reserved for issuance. The plan requires that the exercise price of the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on a delayed basis over periods beginning no earlier than one year from the date of grant and no later than five years from the date of grant. Outstanding options, which are not fully vested, have the following vesting conditions:

YEAR OF GRANT	OPTIONS	VESTING CONDITIONS
2012	119,665	Vest equally over a period of five years
2013	281,085	Vest equally over a period of five years
2013	26,737	Vest 50% after three years and 50% after four years
2014	338,327	Vest equally over a period of five years
2014	1,092,062	Vest 50% after three years and 50% after four years
2015	588,449	Vest equally over a period of five years
2015	925,044	Vest 50% after three years and 50% after four years
2016	577,526	Vest equally over a period of five years
2016	1,089,170	Vest 50% after three years and 50% after four years

A summary of the status of Power Financial's Employee Stock Option Plan as at December 31, 2016 and 2015, and changes during the years ended on those dates is as follows:

	2016		2015	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	8,773,932	\$ 32.06	8,630,477	\$ 31.18
Granted	1,666,696	31.85	1,662,585	36.83
Exercised	(30,980)	29.05	(1,515,000)	32.24
Forfeited	—	—	(4,130)	36.09
Outstanding at end of year	10,409,648	32.04	8,773,932	32.06
Options exercisable at end of year	5,371,583	30.28	4,671,985	30.23

Note 18 Share-Based Compensation (continued)

The following table summarizes information about stock options outstanding at December 31, 2016:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
\$		[YRS]	\$		\$
25.07–26.37	1,525,467	4.8	25.84	1,405,802	25.90
28.13–29.95	1,501,899	2.5	28.95	1,501,899	28.95
30.18–31.59	1,517,259	6.4	31.44	575,646	31.46
32.32–32.58	1,492,826	7.8	32.44	459,921	32.57
33.37–34.42	2,088,390	7.7	33.99	312,042	34.13
34.46	914,236	1.2	34.46	914,236	34.46
37.12	303,112	8.2	37.12	60,622	37.12
37.13	141,415	1.1	37.13	141,415	37.13
38.35	925,044	8.2	38.35	–	–
	10,409,648	5.8	32.04	5,371,583	30.28

Compensation expense

During the year ended December 31, 2016, Power Financial granted 1,666,696 options (1,662,585 options in 2015) under its Employee Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2016	2015
Dividend yield	4.2%	4.5%
Expected volatility	20.2%	19.8%
Risk-free interest rate	1.1%	1.2%
Expected life [years]	9	9
Fair value per stock option [\$ / option]	3.12	3.30
Weighted-average exercise price [\$ / option]	31.85	36.83

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

Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity investments at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$81 million in 2016 (\$67 million in 2015) and is recorded in operating and administrative expenses in the statements of earnings.

PERFORMANCE SHARE UNIT PLAN

Power Financial established a Performance Share Unit (PSU) Plan for selected employees and officers (participants) to assist in retaining and further aligning the interests of participants with those of the shareholders. Under the terms of the Plan, PSUs may be awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Corporation's common shares. The PSUs are cash settled and vest over a three-year period. Participants can elect at the time of grant to receive a portion of their PSUs in the form of performance deferred share units (PDSU) which also vest over a three-year period. PDSUs are redeemable when a participant is no longer an employee of the Corporation or any of its affiliates, or in the event of the death of the participant, by a lump-sum payment based on the value of the PDSU at that time. Additional PSUs and PDSUs are issued in respect of dividends payable on common shares based on the value of the PSU or PDSU at the dividend payment date. The carrying value of the PSU liability is \$10 million (\$7 million in 2015) recorded within other liabilities.

DEFERRED SHARE UNIT PLAN

Power Financial established a Deferred Share Unit Plan for its Directors to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this Plan, each Director participating in the Plan will receive half of his annual retainer in the form of deferred share units and may elect to receive the remainder of his annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day average closing price on the Toronto Stock Exchange of the common shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director will receive additional deferred share units in respect of dividends payable on the common shares, based on the value of a deferred share unit on the date on which the dividends were paid on the common shares. A deferred share unit is payable, at the time a Director's membership on the Board is terminated (provided the Director is not then a director, officer or employee of an affiliate of the Corporation), or in the event of the death of a Director, by a lump-sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2016, the value of the deferred share units outstanding was \$18 million (\$17 million in 2015) and is recorded within other liabilities. Alternatively, Directors may participate in the Share Purchase Plan for Directors.

Note 18 Share-Based Compensation (continued)

EMPLOYEE SHARE PURCHASE PROGRAM

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

OTHER SHARE-BASED AWARDS OF SUBSIDIARIES

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

Note 19 Non-Controlling Interests

The Corporation has controlling equity interests in Lifeco and IGM as at December 31, 2016 and December 31, 2015. The non-controlling interests of Lifeco and IGM and their subsidiaries reflected in the balance sheets are as follows:

DECEMBER 31	2016			2015		
	LIFECO	IGM	TOTAL	LIFECO	IGM	TOTAL
Non-controlling interests, beginning of year	11,011	1,796	12,807	9,973	1,910	11,883
Adjustment [Note 16]	–	–	–	–	(45)	(45)
Restated balance	11,011	1,796	12,807	9,973	1,865	11,838
Net earnings attributable to non-controlling interests	1,060	283	1,343	1,039	298	1,337
Other comprehensive income (loss) attributable to non-controlling interests	(486)	(2)	(488)	611	5	616
Dividends	(510)	(198)	(708)	(500)	(211)	(711)
Change in ownership interest and other ^[1]	(91)	(128)	(219)	(112)	(161)	(273)
Non-controlling interests, end of year	10,984	1,751	12,735	11,011	1,796	12,807

[1] Change in ownership interest and other includes mainly the repurchase and issuance of common shares by subsidiaries.

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

DECEMBER 31	2016			2015		
	LIFECO	IGM	TOTAL	LIFECO	IGM	TOTAL
Common shareholders	5,688	1,601	7,289	5,886	1,646	7,532
Preferred shareholders	2,514	150	2,664	2,514	150	2,664
Participating account surplus	2,782	–	2,782	2,611	–	2,611
	10,984	1,751	12,735	11,011	1,796	12,807

As at December 31, 2016, Power Financial and IGM held 67.9% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65.0% of the voting rights attached to the outstanding Lifeco voting shares.

Lifeco and IGM's financial information as at and for the year ended December 31, 2016 can be obtained from their publicly available financial statements. Summarized financial information for Lifeco and IGM is as follows:

	2016		2015	
	LIFECO	IGM	LIFECO	IGM
BALANCE SHEET				
Assets	399,912	15,625	399,935	14,831
Liabilities	374,904	10,878	374,675	10,105
Equity	25,008	4,747	25,260	4,726
COMPREHENSIVE INCOME				
Net earnings	2,956	779	3,011	781
Other comprehensive income (loss)	(1,515)	(50)	1,897	78
CASH FLOWS				
Operating activities	6,254	737	5,123	710
Financing activities	(1,045)	(75)	(1,683)	(508)
Investing activities	(4,565)	(1,034)	(3,424)	(434)

Note 20 Capital Management

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

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

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

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

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

The Corporation itself is not subject to externally imposed regulatory capital requirements. However, Lifeco and certain of its main subsidiaries and IGM's subsidiaries are subject to regulatory capital requirements and they manage their capital as described below.

LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of Lifeco ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

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

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

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

IGM FINANCIAL

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

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). As at December 31, 2016, the MCCSR ratio for Great-West Life was 240% (238% at December 31, 2015).
- At December 31, 2016, the Risk-Based Capital ratio (RBC) of Great-West Life & Annuity, Lifeco's regulated U.S. operating company, was estimated to be 455% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Life & Annuity reports its RBC ratio annually to U.S. insurance regulators.
- For entities based in Europe, the local solvency capital regime has changed to the Solvency II basis, effective January 1, 2016. During 2016, Lifeco's regulated European insurance and reinsurance businesses were developing internal risk models and undertook steps to manage the potential capital volatility under the new regulations in co-operation with the European regulators. At the end of 2016 all European-regulated entities met all capital and solvency requirements as prescribed under Solvency II.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2016 and 2015, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

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

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

Note 21 Risk Management

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

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

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

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

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

POWER FINANCIAL

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

LIQUIDITY RISK

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

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

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

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

CREDIT RISK

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

Fixed income securities, which are included in investments and in cash and cash equivalents, consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks and

banks in jurisdictions where Power Financial operates as well as bonds and short-term securities of, or guaranteed by, the Canadian or U.S. governments. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

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

Power Financial's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 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 as well as fixed income securities Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2016, approximately 90% of Power Financial's cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Note 21 Risk Management (continued)

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

Interest rate risk

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

Equity price risk

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

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

LIFECO

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

LIQUIDITY RISK

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

- Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 67% (approximately 69% in 2015) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair value adjustments.

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

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

DECEMBER 31, 2016	PAYMENTS DUE BY PERIOD						TOTAL
	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	AFTER 5 YEARS	
Debentures and other debt instruments	712	200	—	500	—	4,601	6,013
Capital trust debentures ^[1]	—	—	—	—	—	150	150
Purchase obligations	108	53	62	42	15	3	283
Pension contributions	273	—	—	—	—	—	273
	1,093	253	62	542	15	4,754	6,719

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of \$37 million principal amount (\$50 million carrying value).

CREDIT RISK

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

- Investment policies are in place that require only the purchase of investment-grade assets and minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the risk committee and the investment committee of the board of directors of Lifeco.

- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators. Lifeco seeks to mitigate derivative credit risk by setting rating-based counterparty limits in investment policies and through collateral arrangements where possible.
- Counterparties providing reinsurance to Lifeco are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in Lifeco's Corporate Reinsurance Ceded Risk Management Policy. Lifeco seeks to minimize reinsurance credit risk by setting rating-based limits on net ceded exposure by counterparty as well as seeking protection in the form of collateral or funds-withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

Note 21 Risk Management (continued)

Maximum exposure to credit risk for Lifeco

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

DECEMBER 31	2016	2015
Cash and cash equivalents	3,259	2,813
Bonds		
Fair value through profit or loss	88,325	86,503
Available for sale	11,478	11,535
Loans and receivables	16,970	16,905
Mortgage loans	21,651	22,021
Loans to policyholders	8,467	8,694
Funds held by ceding insurers ^[1]	10,781	15,512
Reinsurance assets	5,627	5,131
Interest due and accrued	1,310	1,430
Accounts receivable	1,835	1,420
Premiums in course of collection	1,166	703
Trading account assets	516	590
Finance leases receivable	273	293
Other financial assets ^[2]	648	772
Derivative assets	528	461
Total balance sheet maximum credit exposure	172,834	174,783

[1] Includes \$8,723 million as at December 31, 2016 (\$13,830 million as at December 31, 2015) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 6).

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

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has \$149 million of collateral received from counterparties as at December 31, 2016 (\$107 million as at December 31, 2015) relating to derivative assets.

Concentration of credit risk for Lifeco

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

Note 21 Risk Management (continued)

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

DECEMBER 31, 2016	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Treasuries	1,422	786	10,880	13,088
Government-related	18,379	3,903	6,765	29,047
Agency securitized	100	3,685	158	3,943
Non-agency securitized	2,392	4,293	1,875	8,560
Financials	3,167	3,268	5,245	11,680
Communications	634	1,336	970	2,940
Consumer products	2,799	3,305	3,224	9,328
Energy	1,618	2,102	986	4,706
Industrials	1,358	3,951	1,634	6,943
Technology	506	1,054	471	2,031
Transportation	2,246	826	1,095	4,167
Utilities	6,226	4,454	4,259	14,939
Short-term bonds	3,871	10	1,520	5,401
	44,718	32,973	39,082	116,773
DECEMBER 31, 2015				
	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Treasuries	1,376	1,064	10,974	13,414
Government-related	17,171	3,972	7,095	28,238
Agency securitized	105	4,161	218	4,484
Non-agency securitized	2,851	3,790	2,131	8,772
Financials	3,467	2,970	5,916	12,353
Communications	652	1,204	1,028	2,884
Consumer products	2,689	2,935	3,075	8,699
Energy	1,565	2,047	928	4,540
Industrials	1,432	3,706	1,635	6,773
Technology	513	877	247	1,637
Transportation	2,160	802	912	3,874
Utilities	5,898	4,307	4,277	14,482
Short-term bonds	3,241	216	1,336	4,793
	43,120	32,051	39,772	114,943

Note 21 Risk Management (continued)

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

DECEMBER 31, 2016	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	2,075	3,709	7,108	12,892
United States	–	1,895	3,274	5,169
Europe	–	383	3,207	3,590
	2,075	5,987	13,589	21,651

DECEMBER 31, 2015	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,962	3,674	7,055	12,691
United States	–	1,770	3,162	4,932
Europe	–	377	4,021	4,398
	1,962	5,821	14,238	22,021

Asset quality

BOND PORTFOLIO QUALITY DECEMBER 31	2016	2015
AAA	27,762	36,434
AA	29,816	20,364
A	37,787	35,623
BBB	20,116	20,984
BB and lower	1,292	1,538
Total bonds	116,773	114,943

DERIVATIVE PORTFOLIO QUALITY DECEMBER 31	2016	2015
Over-the-counter contracts (counterparty credit ratings):		
AA	221	209
A	288	248
BBB	16	–
Exchange-traded	3	4
Total	528	461

Loans of Lifeco past due, but not impaired

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

DECEMBER 31	2016	2015
Less than 30 days	54	33
30–90 days	–	2
Greater than 90 days	2	3
Total	56	38

Future asset credit losses

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

DECEMBER 31	2016	2015
Participating	1,155	1,395
Non-participating	1,791	2,163
	2,946	3,558

Note 21 Risk Management (continued)

MARKET RISK

Currency risk

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

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

Interest rate risk

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

- Lifeco uses a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

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

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

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.14% (0.18% in 2015). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

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

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

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

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

Note 21 Risk Management (continued)

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

The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

DECEMBER 31	2016		2015	
	1% INCREASE	1% DECREASE	1% INCREASE	1% DECREASE
Change in interest rates				
Increase (decrease) in insurance and investment contract liabilities	(202)	677	(163)	614
Increase (decrease) in net earnings	149	(491)	109	(430)

Equity price risk

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

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

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

DECEMBER 31	2016		2015	
	10% INCREASE	10% DECREASE	10% INCREASE	10% DECREASE
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	(51)	61	(53)	139
Increase (decrease) in net earnings	43	(50)	45	(108)

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

DECEMBER 31	2016		2015	
	1% INCREASE	1% DECREASE	1% INCREASE	1% DECREASE
Change in best estimate return assumptions				
Increase (decrease) in non-participating insurance contract liabilities	(504)	552	(534)	573
Increase (decrease) in net earnings	407	(438)	433	(457)

IGM FINANCIAL

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

LIQUIDITY RISK

IGM's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near-term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and IGM's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by committees of the board of directors of IGM.

A key liquidity requirement for IGM is the funding of commissions paid on the sale of investment funds. Commissions on the sale of investment funds continue to be paid from operating cash flows.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS), including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

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

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

Note 21 Risk Management (continued)

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

DECEMBER 31, 2016	PAYMENTS DUE BY PERIOD				TOTAL
	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	
Derivative financial instruments	–	18	20	–	38
Deposits and certificates	453	8	8	2	471
Obligations to securitization entities	–	1,340	6,310	71	7,721
Debentures	–	–	525	800	1,325
Pension contributions	–	38	–	–	38
Total contractual maturities	453	1,404	6,863	873	9,593

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's lines of credit. IGM's lines of credit with various Schedule I Canadian chartered banks totalled \$825 million as at December 31, 2016, compared to \$525 million at December 31, 2015. The lines of credit as at December 31, 2016 consisted of committed lines of \$650 million (\$350 million in 2015) and uncommitted lines of \$175 million (\$175 million in 2015). IGM has accessed its uncommitted lines of credit in the past; however, any advances made by the banks under the uncommitted lines are at the banks' sole discretion. As at December 31, 2016 and 2015, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2015.

CREDIT RISK

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

At December 31, 2016, IGM's cash and cash equivalents of \$611 million (\$983 million in 2015) consisted of cash balances of \$85 million (\$105 million in 2015) on deposit with Canadian chartered banks and cash equivalents of \$526 million (\$878 million in 2015). Cash equivalents are composed of Government of Canada treasury bills totalling \$44 million (\$132 million in 2015), provincial government treasury bills and promissory notes of \$197 million (\$447 million in 2015), bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$247 million (\$299 million in 2015), and highly rated corporate commercial paper of \$39 million (nil in 2015). IGM manages credit risk related to cash and cash equivalents by adhering to its investment policy that outlines credit risk parameters and concentration limits. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2016, residential mortgages, recorded on IGM's balance sheet, of \$8.0 billion (\$7.4 billion in 2015) consisted of \$7.6 billion sold to securitization programs (\$7.0 billion in 2015), \$340 million held pending sale or securitization (\$384 million in 2015) and \$29 million related to IGM's intermediary operations (\$28 million in 2015).

IGM manages credit risk related to residential mortgages through:

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

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

- Under the NHA MBS program totalling \$4.9 billion (\$4.6 billion in 2015), IGM is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$2.7 billion (\$2.4 billion in 2015) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$55 million (\$48 million in 2015) and \$45 million (\$39 million in 2015), respectively, at December 31, 2016. Cash reserve accounts are reflected on the balance sheets, whereas rights to future net interest income are not reflected on the balance sheets and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 29.1% of mortgages held in ABCP Trusts insured at December 31, 2016 (36.6% in 2015).

At December 31, 2016, residential mortgages recorded on the balance sheet were 73.9% insured (76.8% in 2015). At December 31, 2016, impaired mortgages on these portfolios were \$3 million (\$3 million in 2015). Uninsured non-performing mortgages over 90 days on these portfolios were \$1 million at December 31, 2016 (\$1 million in 2015).

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

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

IGM's collective allowance for credit losses was \$1 million at December 31, 2016 (\$1 million in 2015), and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

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

IGM is exposed to credit risk through the derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions, to hedge market risk related to certain share-based compensation arrangements and to hedge foreign exchange risk on payments due on the closing of the China AMC transaction (Note 9). These derivatives are discussed more fully under the market risk section below.

Note 21 Risk Management (continued)

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

IGM's derivative activities are managed in accordance with its investment policy, which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$43 million (\$58 million in 2015) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$3 million at December 31, 2016 (\$1 million in 2015). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that IGM's overall credit risk related to derivatives was not significant at December 31, 2016. Management of credit risk related to derivatives has not changed materially since December 31, 2015.

MARKET RISK

Currency risk

IGM is exposed to foreign exchange risk on its investments in Personal Capital and China AMC. IGM has hedged its exposure to the final payments due on the closing of the China AMC transaction through the use of forward currency contracts.

Interest rate risk

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

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

- IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, IGM is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$23 million (negative

\$47 million in 2015) and an outstanding notional value of \$1.0 billion at December 31, 2016 (\$740 million in 2015). IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled \$30 million (\$54 million in 2015), on an outstanding notional amount of \$2.1 billion at December 31, 2016 (\$1.8 billion in 2015). The net fair value of these swaps of \$7 million at December 31, 2016 (\$7 million in 2015) is recorded on the balance sheet and has an outstanding notional amount of \$3.1 billion at December 31, 2016 (\$2.6 billion in 2015).

- IGM is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. IGM enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by IGM pending sale or securitization. The fair value of these swaps was nil (nil in 2015) on an outstanding notional amount of \$123 million at December 31, 2016 (\$88 million in 2015).

As at December 31, 2016, the impact to annual net earnings of a 100-basis-point increase in interest rates would have been an increase of approximately \$0.2 million (a decrease of \$0.7 million in 2015). IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2015.

Equity price risk

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

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

RISKS RELATED TO ASSETS UNDER MANAGEMENT

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

Note 22 Operating and Administrative Expenses

YEARS ENDED DECEMBER 31	2016	2015
Salaries and other employee benefits	3,581	3,352
General and administrative expenses	2,023	1,863
Amortization, depreciation and impairment	302	263
Premium taxes	411	339
Restructuring and acquisition expenses	63	66
	6,380	5,883

Note 23 Financing Charges

YEARS ENDED DECEMBER 31	2016	2015
Interest on debentures and other debt instruments	68	370
Interest on capital trust debentures	11	11
Other	33	32
	412	413

Note 24 Pension Plans and Other Post-Employment Benefits

CHARACTERISTICS, FUNDING AND RISK

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for certain employees. The Corporation's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. For most plans, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits, in accordance with the terms of the plans, and assuming the plans are not terminated. The assets supporting the funded pension plans are held in separate trustee pension funds. The obligations for the wholly unfunded plans are supported by assets of the Corporation and its subsidiaries.

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

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

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

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

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

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

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

PLAN ASSETS, BENEFIT OBLIGATION AND FUNDED STATUS

DECEMBER 31	2016		2015	
	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets, beginning of year	6,452	–	5,960	–
Interest income	237	–	214	–
Employee contributions	23	–	25	–
Employer contributions	153	21	130	21
Actual return on assets greater than interest income	248	–	86	–
Benefits paid	(258)	(21)	(231)	(21)
Settlement	(19)	–	–	–
Administrative expenses	(13)	–	(7)	–
Foreign exchange and other	(220)	–	275	–
Fair value of plan assets, end of year	6,603	–	6,452	–
CHANGE IN DEFINED BENEFIT OBLIGATION				
Defined benefit obligation, beginning of year	7,272	454	6,866	457
Current service cost	158	3	167	3
Employee contributions	23	–	25	–
Interest cost	267	19	246	18
Actuarial (gains) losses on:				
Financial assumption changes	520	12	(150)	(5)
Demographic assumption changes	(13)	(8)	(5)	(9)
Arising from member experience	(30)	(1)	1	4
Benefits paid	(258)	(21)	(231)	(21)
Past service cost and plan amendments	3	–	15	2
Settlement	(19)	–	–	–
Curtailment	(14)	(7)	–	–
Foreign exchange and other	(259)	(1)	338	5
Defined benefit obligation, end of year	7,650	450	7,272	454
FUNDED STATUS				
Fund deficit	(1,047)	(450)	(820)	(454)
Unrecognized amount due to asset ceiling (see below)	(91)	–	(83)	–
Accrued benefit liability	(1,138)	(450)	(903)	(454)

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

YEARS ENDED DECEMBER 31	2016	2015
Wholly or partly funded plans	7,147	6,803
Wholly unfunded plans	503	469

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

DECEMBER 31	2016			2015		
	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	TOTAL	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	TOTAL
Pension benefit assets [Note 9]	214	–	214	250	–	250
Pension and other post-employment benefit liabilities [Note 15]	(1,352)	(450)	(1,802)	(1,153)	(454)	(1,607)
Accrued benefit asset (liability)	(1,138)	(450)	(1,588)	(903)	(454)	(1,357)

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

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Corporation and its subsidiaries must assess whether the pension asset has economic benefit to the Corporation and its subsidiaries

through future contribution reductions, the present value of future expenses to be paid from the plan, or surplus refunds; in the event the Corporation and its subsidiaries are not entitled to a benefit, a limit or "asset ceiling" is required on the balance sheet. The following provides a breakdown of the changes in the asset ceiling.

DECEMBER 31	2016	2015
Asset ceiling, beginning of year	83	23
Interest on beginning-of-period asset ceiling	3	4
Change in asset ceiling	5	56
Asset ceiling, end of year	91	83

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

DECEMBER 31	2016		2015	
	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Defined benefit current service cost	158	3	167	3
Net interest cost	33	19	36	18
Past service cost, plan amendments and curtailments	(11)	(7)	15	2
Administration fees	13	–	7	–
Defined contribution current service cost	68	–	54	–
Expense recognized in net earnings	261	15	279	23
Actuarial (gains) losses recognized	477	3	(154)	(10)
Return on assets greater than interest income	(248)	–	(86)	–
Change in asset ceiling	5	–	56	–
Expense (income) recognized in other comprehensive income	234	3	(184)	(10)
Total expense	495	18	95	13

In 2016, the Corporation and its subsidiaries incurred \$1 million of actuarial gains (\$1 million of actuarial gains in 2015) for pension plan remeasurements not included in the table shown above. This relates to the share of actuarial gains (losses) for investments in jointly controlled corporations and associates.

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

DECEMBER 31 PERCENTAGE [%]	DEFINED BENEFIT PENSION PLANS	
	2016	2015
Equity securities	48	52
Debt securities	41	36
All other assets	11	12
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated and other funds managed by subsidiaries of Lifeco of \$5,241 million at December 31, 2016 (\$5,207 million at December 31, 2015) of which \$5,176 million (\$5,143 million

at December 31, 2015) are included in the balance sheets. Plan assets do not include any property occupied or other assets used by Lifeco. IGM's plan assets are invested in IGM's mutual funds. A portion of Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

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

DETAILS OF DEFINED BENEFIT OBLIGATION

Portion of defined benefit obligation subject to future salary increases

DECEMBER 31	2016		2015	
	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Benefit obligation without future salary increases	6,901	450	6,530	454
Effect of assumed future salary increases	749	–	742	–
Defined benefit obligation	7,650	450	7,272	454

Allocation of defined benefit obligation by membership

DECEMBER 31 PERCENTAGE [%]	2016		2015	
	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Actives	46	25	47	27
Deferred vesteds	18	–	16	–
Retirees	36	75	37	73
Total	100	100	100	100
Weighted average duration of defined benefit obligation [in years]	18.9	12.9	18.7	12.5

CASH FLOW INFORMATION

The expected employer contributions for the year 2017 are as follows:

	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Funded (wholly or partly) defined benefit plans	203	–
Unfunded defined benefit plans	22	21
Defined contribution plans	78	–
Total	303	21

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

Actuarial assumptions

DECEMBER 31 PERCENTAGE [%]	2016		2015	
	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
RANGE OF DISCOUNT RATES				
To determine benefit cost	3.8–4.3	3.9–4.3	3.1–4.1	3.9–4.1
To determine accrued benefit obligation at year-end	3.2–4.1	3.7–4.1	3.8–4.3	3.9–4.3
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT COST^[1]				
Discount rate	3.8	4.1	3.5	3.9
Rate of compensation increase	3.3	–	3.3	–
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE ACCRUED BENEFIT OBLIGATION AT YEAR-END^[1]				
Discount rate	3.3	3.8	3.8	4.1
Rate of compensation increase	3.3	–	3.3	–
WEIGHTED AVERAGE HEALTHCARE TREND RATES^[1]				
Initial healthcare trend rate		5.2		5.3
Ultimate healthcare trend rate		4.5		4.5
Year ultimate trend rate is reached		2029		2029

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

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

Sample life expectancies based on mortality assumptions

DECEMBER 31	2016		2015	
	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Weighted average life expectancies based on mortality assumptions ^[1] :				
Male				
Age 65 in fiscal year	22.8	22.3	22.8	22.2
Age 65 for those age 35 in the fiscal year	25.0	23.9	25.1	23.9
Female				
Age 65 in fiscal year	24.7	24.6	24.7	24.7
Age 65 for those age 35 in the fiscal year	26.7	26.1	26.8	26.2

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

Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption. The mortality assumptions applied by the Corporation and

its subsidiaries take into consideration average life expectancy, including allowances for future longevity improvements as appropriate, and reflect variations in such factors as age, gender and geographic location.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

Impact of changes to assumptions on defined benefit obligation

DECEMBER 31, 2016	1% INCREASE	1% DECREASE
DEFINED BENEFIT PENSION PLANS:		
Impact of a change to the discount rate	(1,245)	1,574
Impact of a change to the rate of compensation increase	337	(298)
Impact of a change to the rate of inflation	620	(557)
OTHER POST-EMPLOYMENT BENEFITS:		
Impact of a change to the discount rate	(53)	63
Impact of a change to assumed medical cost trend rates	43	(37)

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions and therefore the sensitivity analysis presented may not be representative of the actual change.

Note 25 Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end-users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter with counterparties that are credit-worthy financial intermediaries.

The following table summarizes the portfolio of derivative financial instruments of the Corporation and its subsidiaries at December 31:

DECEMBER 31, 2016	NOTIONAL AMOUNT				MAXIMUM CREDIT RISK	TOTAL FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Swaps	2,151	2,256	1,737	6,144	211	133
Options purchased	39	194	85	318	49	49
Futures – long	2	9	–	11	–	–
Futures – short	70	28	–	98	–	–
	2,262	2,487	1,822	6,571	260	182
Foreign exchange contracts						
Forward contracts	1,089	–	–	1,089	3	(7)
Cross-currency swaps	428	1,987	7,199	9,614	228	(1,265)
Options purchased	467	–	–	467	–	–
	1,984	1,987	7,199	11,170	231	(1,272)
Other derivative contracts						
Equity contracts	81	–	–	81	2	2
Futures – long	11	–	–	11	–	–
Futures – short	609	–	–	609	2	1
Other forward contracts	103	–	–	103	–	–
	804	–	–	804	4	3
	5,050	4,474	9,021	18,545	495	(1,087)
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	–	432	432	42	42
Foreign exchange contracts						
Forward contracts	318	–	–	318	–	(4)
Cross-currency swaps	1,000	500	–	1,500	–	(436)
Other derivative contracts						
Forward contracts and total return swaps	13	30	–	43	3	1
	1,331	530	432	2,293	45	(397)
NET INVESTMENT HEDGES						
Foreign exchange contracts						
Forward contracts	450	49	–	499	32	6
	6,831	5,053	9,453	21,337	572	(1,478)

Note 25 Derivative Financial Instruments (continued)

DECEMBER 31, 2015	NOTIONAL AMOUNT				MAXIMUM CREDIT RISK	TOTAL FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Swaps	1,362	2,776	1,592	5,730	225	135
Options purchased	49	190	103	342	49	49
Futures—long	2	—	—	2	—	—
Futures—short	79	80	—	159	—	—
	1,492	3,046	1,695	6,233	274	184
Foreign exchange contracts						
Forward contracts	948	—	—	948	4	(28)
Cross-currency swaps	426	2,138	6,740	9,304	143	(1,885)
	1,374	2,138	6,740	10,252	147	(1,913)
Other derivative contracts						
Equity contracts	68	—	—	68	2	2
Futures—long	13	—	—	13	—	—
Futures—short	606	—	—	606	4	1
Other forward contracts	131	—	—	131	—	—
	818	—	—	818	6	3
	3,684	5,184	8,435	17,303	427	(1,726)
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	—	—	31	31	12	12
Foreign exchange contracts						
Cross-currency swaps	—	1,500	—	1,500	—	(524)
Other derivative contracts						
Forward contracts and total return swaps	10	28	—	38	1	(4)
	10	1,528	31	1,569	13	(516)
NET INVESTMENT HEDGES						
Foreign exchange contracts						
Forward contracts	—	553	—	553	80	80
	3,694	7,265	8,466	19,425	520	(2,162)

The amount subject to maximum credit risk is limited to the current fair value of the instruments which are in a gain position. The maximum credit risk represents the total cost of all derivative contracts with positive values and does not reflect actual or expected losses. The total fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

As at December 31, 2016, Lifeco received assets of \$159 million (\$107 million in 2015) as collateral for derivative contracts from counterparties.

INTEREST RATE CONTRACTS

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations and intermediary operations. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based.

Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

FOREIGN EXCHANGE CONTRACTS

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities, and insurance and investment contract liabilities. Under these swaps, principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Corporation and its subsidiaries may also enter into certain foreign exchange forward contracts to hedge certain product liabilities, cash and cash equivalents and cash flows.

Note 25 Derivative Financial Instruments (continued)

OTHER DERIVATIVE CONTRACTS

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets.

Forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges. Changes in fair value are recorded in operating and administrative expenses in the statements of earnings for those instruments not designated as hedges.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

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

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

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

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

	RELATED AMOUNTS NOT SET OFF IN THE BALANCE SHEET			
	GROSS AMOUNT OF FINANCIAL INSTRUMENTS PRESENTED IN THE BALANCE SHEET	OFFSETTING COUNTERPARTY POSITION ^[1]	FINANCIAL COLLATERAL RECEIVED/PLEGGED ^[2]	NET EXPOSURE
DECEMBER 31, 2016				
FINANCIAL INSTRUMENTS (ASSETS)				
Derivative financial instruments	572	(379)	(131)	62
	572	(379)	(131)	62
FINANCIAL INSTRUMENTS (LIABILITIES)				
Derivative financial instruments	2,050	(379)	(403)	1,268
	2,050	(379)	(403)	1,268

	RELATED AMOUNTS NOT SET OFF IN THE BALANCE SHEET			
	GROSS AMOUNT OF FINANCIAL INSTRUMENTS PRESENTED IN THE BALANCE SHEET	OFFSETTING COUNTERPARTY POSITION ^[1]	FINANCIAL COLLATERAL RECEIVED/PLEGGED ^[2]	NET EXPOSURE
DECEMBER 31, 2015				
FINANCIAL INSTRUMENTS (ASSETS)				
Derivative financial instruments	520	(358)	(104)	58
Reverse repurchase agreements ^[3]	43	–	(43)	–
	563	(358)	(147)	58
FINANCIAL INSTRUMENTS (LIABILITIES)				
Derivative financial instruments	2,682	(358)	(586)	1,738
	2,682	(358)	(586)	1,738

[1] Includes counterparty amounts recognized on the balance sheets where the Corporation and its subsidiaries have a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheets, excluding collateral.

[2] Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$159 million (\$107 million at December 31, 2015), received on reverse repurchase agreements was nil (\$44 million at December 31, 2015), and pledged on derivative liabilities was \$475 million (\$671 million at December 31, 2015).

[3] Assets related to reverse repurchase agreements are included in bonds in the balance sheets.

Note 26 Fair Value Measurement

The following table presents the carrying amounts and fair value of the Corporation's assets and liabilities recorded or disclosed at fair value, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies and below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment. The table distinguishes between assets and liabilities recorded at fair value on a recurring basis of those for which fair value is disclosed.

The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

DECEMBER 31, 2016	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL FAIR VALUE
ASSETS					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	88,283	–	88,282	1	88,283
Available for sale	11,819	–	11,819	–	11,819
Mortgage loans					
Fair value through profit or loss	339	–	339	–	339
Shares					
Fair value through profit or loss	7,673	7,583	9	81	7,673
Available for sale	182	53	–	129	182
Investment properties	4,340	–	–	4,340	4,340
Funds held by ceding insurers	8,605	214	8,391	–	8,605
Derivative instruments	572	3	566	3	572
Other assets	516	302	213	1	516
	122,329	8,155	109,619	4,555	122,329
Assets disclosed at fair value					
Bonds					
Loans and receivables	16,970	–	18,355	129	18,484
Mortgage loans					
Loans and receivables	29,295	–	22,580	7,838	30,418
Shares					
Available for sale ^[1]	376	–	–	376	376
	46,641	–	40,935	8,343	49,278
Total	168,970	8,155	150,554	12,898	171,607
LIABILITIES					
Liabilities recorded at fair value					
Investment contract liabilities	2,009	–	1,989	20	2,009
Derivative instruments	2,050	1	2,023	26	2,050
Other liabilities	10	10	–	–	10
	4,069	11	4,012	46	4,069
Liabilities disclosed at fair value					
Obligations to securitization entities	7,721	–	–	7,873	7,873
Debentures and other debt instruments	7,513	428	7,885	–	8,313
Capital trust debentures	161	–	212	–	212
Deposits and certificates	471	–	472	–	472
	15,866	428	8,569	7,873	16,870
Total	19,935	439	12,581	7,919	20,939

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

Note 26 Fair Value Measurement (continued)

DECEMBER 31, 2015	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL FAIR VALUE
ASSETS					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	86,460	–	86,450	10	86,460
Available for sale	12,014	–	12,013	1	12,014
Mortgage loans					
Fair value through profit or loss	384	–	384	–	384
Shares					
Fair value through profit or loss	6,692	6,615	10	67	6,692
Available for sale	63	62	–	1	63
Investment properties	5,237	–	–	5,237	5,237
Funds held by ceding insurers	13,652	180	13,472	–	13,652
Derivative instruments	520	4	516	–	520
Other assets	599	381	204	14	599
	125,621	7,242	113,049	5,330	125,621
Assets disclosed at fair value					
Bonds					
Loans and receivables	16,905	–	18,145	108	18,253
Mortgage loans					
Loans and receivables	29,029	–	23,474	7,238	30,712
Shares					
Available for sale ^[1]	534	–	–	534	534
	46,468	–	41,619	7,880	49,499
Total	172,089	7,242	154,668	13,210	175,120
LIABILITIES					
Liabilities recorded at fair value					
Investment contract liabilities	2,253	–	2,226	27	2,253
Derivative instruments	2,682	3	2,632	47	2,682
Other liabilities	4	4	–	–	4
	4,939	7	4,858	74	4,939
Liabilities disclosed at fair value					
Obligations to securitization entities	7,092	–	–	7,272	7,272
Debentures and other debt instruments	6,927	467	7,497	–	7,964
Capital trust debentures	161	–	215	–	215
Deposits and certificates	310	–	312	–	312
	14,490	467	8,024	7,272	15,763
Total	19,429	474	12,882	7,346	20,702

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

There were no significant transfers between Level 1 and Level 2 in 2016 and 2015.

Note 26 Fair Value Measurement (continued)

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

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions. Level 1 assets also include open-end investment fund units and other liabilities in instances where there are quoted prices available from active markets.
- Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other-than-quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, mortgage loans, deposits and certificates, and most debentures and other debt instruments. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.
- Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single-broker quotes, internal pricing models, external appraisers or by discounting projected cash flows. Assets and liabilities utilizing Level 3 inputs include certain bonds, certain asset-backed securities, some private equities, some mortgage loans, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties, obligations to securitization entities, and certain other debt instruments.

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the year ended December 31, 2016.

DECEMBER 31, 2016	BONDS		SHARES		INVESTMENT PROPERTIES	DERIVATIVES, NET	OTHER ASSETS (LIABILITIES)	INVESTMENT CONTRACT LIABILITIES	TOTAL
	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE					
Balance, beginning of year	10	1	67	1	5,237	(47)	14	(27)	5,256
Total gains (losses)									
In net earnings	–	–	2	–	61	11	–	–	74
In other comprehensive income ^[1]	–	–	–	3	(633)	–	–	–	(630)
Purchases	–	–	50	116	102	(4)	–	–	264
Sales	–	–	(38)	–	(427)	–	(5)	–	(470)
Settlements	–	–	–	–	–	17	–	–	17
Other	–	–	–	9	–	–	(8)	7	8
Transfers out of Level 3	(9)	(1)	–	–	–	–	–	–	(10)
Balance, end of year	1	–	81	129	4,340	(23)	1	(20)	4,509

[1] Amount of other comprehensive income for investment properties represents the unrealized gains on foreign exchange.

Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual funds and segregated funds.

Note 26 Fair Value Measurement (continued)

The following table sets out information about significant unobservable inputs used at year-end in measuring assets and liabilities categorized as Level 3 in the fair value hierarchy.

TYPE OF ASSET	VALUATION APPROACH	SIGNIFICANT UNOBSERVABLE INPUT	INPUT VALUE	INTER-RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.9%–10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 5.0%–8.3%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 3.1%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.

Note 27 Other Comprehensive Income

YEAR ENDED DECEMBER 31, 2016	ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS			ITEMS THAT WILL NOT BE RECLASSIFIED TO NET EARNINGS		TOTAL
	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES	ACTUARIAL GAINS (LOSSES) ON DEFINED BENEFIT PENSION PLANS	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES	
Balance, beginning of year	(172)	2,036	278	(374)	(27)	1,741
Other comprehensive income (loss)	93	(988)	370	(127)	1	(651)
Balance, end of year	(79)	1,048	648	(501)	(26)	1,090

YEAR ENDED DECEMBER 31, 2015	ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS			ITEMS THAT WILL NOT BE RECLASSIFIED TO NET EARNINGS		TOTAL
	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES	ACTUARIAL GAINS (LOSSES) ON DEFINED BENEFIT PENSION PLANS	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES	
Balance, beginning of year	12	666	241	(479)	(50)	390
Other comprehensive income (loss)	(184)	1,370	37	105	3	1,331
Other	–	–	–	–	20	20
Balance, end of year	(172)	2,036	278	(374)	(27)	1,741

Note 28 Earnings per Share

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

YEARS ENDED DECEMBER 31	2016	2015
EARNINGS		
Net earnings attributable to shareholders	2,043	2,449
Dividends on perpetual preferred shares	(124)	(130)
Net earnings attributable to common shareholders	1,919	2,319
Dilutive effect of subsidiaries	(4)	(4)
Net earnings adjusted for dilutive effect	1,915	2,315
NUMBER OF COMMON SHARES [millions]		
Weighted average number of common shares outstanding – Basic	713.2	713.0
Potential exercise of outstanding stock options	0.4	0.7
Weighted average number of common shares outstanding – Diluted	713.6	713.7
NET EARNINGS PER COMMON SHARE		
Basic	2.69	3.25
Diluted	2.68	3.24

For 2016, 7,294,383 stock options (3,457,961 in 2015) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

Note 29 Related Parties

PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED CORPORATIONS

The financial statements of Power Financial include the operations of the following subsidiaries, indirect subsidiaries and jointly controlled corporations:

CORPORATIONS	INCORPORATED IN	PRIMARY BUSINESS OPERATION	% EQUITY INTEREST	
			2016	2015
Great-West Lifeco Inc.	Canada	Financial services holding company	67.9	67.4
The Great-West Life Assurance Company ^[1]	Canada	Insurance and wealth management	100	100
London Life Insurance Company	Canada	Insurance and wealth management	100	100
The Canada Life Assurance Company	Canada	Insurance and wealth management	100	100
Irish Life Group Limited	Ireland	Insurance and wealth management	100	100
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100	100
Putnam Investments, LLC ^[2]	United States	Financial services	96.2	95.7
IGM Financial Inc. ^[3]	Canada	Financial services	61.5	60.4
Investors Group Inc.	Canada	Financial services	100	100
Mackenzie Financial Corporation	Canada	Financial services	100	100
Parjointco N.V.	Netherlands	Holding company	50	50
Pargesa Holding SA	Switzerland	Holding company	55.5	55.5
Wealthsimple Financial Corp. ^[4]	Canada	Financial services	46.5	33.2

[1] Great-West Life Assurance Company holds a 3.8% equity interest in IGM Financial.

[2] Lifeco holds 100% of the voting shares and 96.2% of the total outstanding shares.

[3] IGM Financial holds a 4.0% equity interest in Lifeco and a 22.7% equity interest in Wealthsimple Financial Corp.

[4] Together with IGM Financial, Power Financial holds a 69.2% equity interest.

Note 29 Related Parties (continued)

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Power Financial and its subsidiaries enter into various transactions; subsidiaries provide insurance benefits, sub-advisory services, distribution of insurance products and/or other administrative services to other subsidiaries of the group and to the Corporation. In all cases, these transactions are in the normal course of operations and have been recorded at fair value. Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of other transactions between the Corporation and related parties are disclosed below.

In 2016, IGM sold residential mortgage loans to Great-West Life, London Life and segregated funds maintained by London Life for \$184 million (\$206 million in 2015).

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

In 2014 and 2015, the Corporation entered into tax loss consolidation transactions with IGM. A wholly owned subsidiary of Power Financial issued \$2.0 billion of 4.51% preferred shares to Power Financial. Power Financial then sold these preferred shares to IGM for \$2.0 billion of IGM's 4.50% secured debentures. The Corporation has legally enforceable rights to settle these financial instruments on a net basis and the Corporation intends to exercise these rights.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Corporation, Power Financial and Lifeco and its subsidiaries.

KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and its subsidiaries.

The following table describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Corporation and its subsidiaries:

YEARS ENDED DECEMBER 31	2016	2015
Compensation and employee benefits	21	18
Post-employment benefits	10	6
Share-based payments	17	14
	48	38

Note 30 Contingent Liabilities

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

LIFECO

During the year, a subsidiary of Lifeco, Canada Life, received the required regulatory approvals and is now in the final stages of implementing the settlement of the class action related to the four partial declared wind-ups in respect of an Ontario defined benefit pension plan.

A subsidiary of Lifeco, Putnam Advisory Company, LLC, is a defendant in an action in relation to its role as collateral manager of a collateralized debt obligation brought by an institution involved in the collateralized debt obligation. On April 28, 2014, the matter was dismissed. On July 2, 2014, the complainant filed an appeal of the dismissal and on April 15, 2015 the United States Court of Appeals for the Second Circuit issued its decision overturning the dismissal of the action and remanding the matter for further proceedings, which are ongoing.

Subsidiaries of Lifeco in the United States are defendants in proposed class actions relating to the administration of their staff retirement plans, or to the costs and features of certain of their retirement or fund products. Management of Lifeco believes the claims are without merit and will be aggressively defending these actions.

IGM FINANCIAL

IGM is currently in discussions with the Ontario Securities Commission regarding potential distributions to Investment Planning Counsel clients, related to clients who may have been eligible for lower fees in certain circumstances. At December 31, 2016, no reliable estimate of a possible payment was determinable.

Note 31 Commitments and Guarantees

GUARANTEES

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No provisions have been recognized related to these agreements.

LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities at Lifeco is US\$2.9 billion, of which US\$2.7 billion were issued as of December 31, 2016.

The Reinsurance operation also periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities.

COMMITMENTS

The Corporation and its subsidiaries enter into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2017	2018	2019	2020	2021	2022 AND THEREAFTER	TOTAL
Future lease payments	147	133	102	82	66	317	847

INVESTMENT COMMITMENTS

With respect to Lifeco, commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were \$1,172 million as at December 31, 2016, with \$1,084 million maturing within one year and \$88 million maturing within two years.

PLEDGING OF ASSETS FOR REINSURANCE AGREEMENTS

In addition to the assets pledged by Lifeco disclosed elsewhere in the financial statements:

[i] The amount of assets included in the Corporation's balance sheet which have a security interest by way of pledging is \$1,709 million (\$645 million at December 31, 2015) in respect to reinsurance agreements.

In addition, under certain reinsurance contracts, bonds presented in portfolio investments are held in trust and escrow accounts. Assets are placed in these accounts pursuant to the requirements of certain legal and contractual obligations to support contract liabilities assumed.

[ii] Lifeco has pledged, in the normal course of business, \$62 million (\$70 million at December 31, 2015) of its assets for the purpose of providing collateral for the counterparty.

Note 32 Segmented Information

The Corporation's reportable operating segments are Lifeco, IGM Financial and Pargesa. These reportable segments reflect Power Financial's management structure and internal financial reporting. The Corporation evaluates the performance based on the operating segment's contribution to earnings. The following provides a brief description of the three reportable operating segments:

- Lifeco is a financial services holding company with interests in life insurance, health insurance, retirement and investment management services, asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- IGM Financial is a financial services company operating in Canada primarily within the advice segment of the financial services market. IGM earns revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenues from fees charged to its mutual funds for administrative services.

- Pargesa is held through Parjointco. Pargesa is a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialty solutions for industry; cement, aggregates and concrete; testing, inspection and certification; design and distribution of sportswear; wines and spirits; materials technology and recycling; and oil, gas and alternative energies.

The column entitled "Corporate" is comprised of corporate activities of Power Financial and also includes consolidation elimination entries.

Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets. The contribution to earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other.

Note 32 Segmented Information (continued)

CONSOLIDATED NET EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2016	LIFECO	IGM	PARGESA	CORPORATE	TOTAL
REVENUES					
Premium income, net	31,125	–	–	–	31,125
Net investment income	10,145	188	–	(130)	10,203
Fee income	5,101	2,857	–	(164)	7,794
Total revenues	46,371	3,045	–	(294)	49,122
EXPENSES					
Total paid or credited to policyholders	34,675	–	–	–	34,675
Commissions	2,602	1,090	–	(102)	3,590
Operating and administrative expenses	5,450	916	–	14	6,380
Financing charges	302	92	–	18	412
Total expenses	43,029	2,098	–	(70)	45,057
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,342	947	–	(224)	4,065
Share of earnings (losses) of investments in jointly controlled corporations and associates	10	–	(88)	(20)	(98)
Earnings before income taxes	3,352	947	(88)	(244)	3,967
Income taxes	396	168	–	17	581
Net earnings	2,956	779	(88)	(261)	3,386
ATTRIBUTABLE TO					
Non-controlling interests	1,166	306	–	(129)	1,343
Perpetual preferred shareholders	–	–	–	124	124
Common shareholders	1,790	473	(88)	(256)	1,919
	2,956	779	(88)	(261)	3,386

TOTAL ASSETS AND LIABILITIES

DECEMBER 31, 2016	LIFECO	IGM	PARGESA	CORPORATE	TOTAL
Invested assets (including cash and cash equivalents)	162,535	8,819	–	786	172,140
Investments in jointly controlled corporations and associates	259	–	2,811	33	3,103
Other assets	26,405	1,263	–	32	27,700
Goodwill and intangible assets	10,409	4,831	–	–	15,240
Investments on account of segregated fund policyholders	200,403	–	–	–	200,403
Total assets ^[1]	400,011	14,913	2,811	851	418,586
Total liabilities	374,904	10,878	–	588	386,370

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

DECEMBER 31, 2016	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	79,317	44,904	47,919	172,140
Investments in jointly controlled corporations and associates	33	–	3,070	3,103
Other assets	4,459	4,537	18,704	27,700
Goodwill and intangible assets	10,361	2,388	2,491	15,240
Investments on account of segregated fund policyholders	74,909	35,414	90,080	200,403
Total assets	169,079	87,243	162,264	418,586
Total revenues	20,078	9,448	19,596	49,122

Note 32 Segmented Information (continued)

CONSOLIDATED NET EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2015	LIFECO	IGM	PARGESA	CORPORATE	TOTAL
REVENUES					
Premium income, net	24,501	–	–	–	24,501
Net investment income	4,240	195	–	(116)	4,319
Fee income	5,058	2,833	–	(199)	7,692
Total revenues	33,799	3,028	–	(315)	36,512
EXPENSES					
Total paid or credited to policyholders	22,842	–	–	–	22,842
Commissions	2,218	1,062	–	(147)	3,133
Operating and administrative expenses	4,986	883	–	14	5,883
Financing charges	303	92	–	18	413
Total expenses	30,349	2,037	–	(115)	32,271
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,450	991	–	(200)	4,241
Share of earnings (losses) of investments in jointly controlled corporations and associates	21	–	205	(2)	224
Earnings before income taxes	3,471	991	205	(202)	4,465
Income taxes	460	210	–	9	679
Net earnings	3,011	781	205	(211)	3,786
ATTRIBUTABLE TO					
Non-controlling interests	1,149	322	–	(134)	1,337
Perpetual preferred shareholders	–	–	–	130	130
Common shareholders	1,862	459	205	(207)	2,319
	3,011	781	205	(211)	3,786

TOTAL ASSETS AND LIABILITIES

DECEMBER 31, 2015	LIFECO	IGM	PARGESA	CORPORATE	TOTAL
Invested assets (including cash and cash equivalents)	160,903	8,426	–	871	170,200
Investments in jointly controlled corporations and associates	277	–	2,610	18	2,905
Other assets	30,211	894	–	33	31,138
Goodwill and intangible assets	10,409	4,784	–	–	15,193
Investments on account of segregated fund policyholders	198,194	–	–	–	198,194
Total assets ^[1]	399,994	14,104	2,610	922	417,630
Total liabilities	374,675	10,105	–	570	385,350

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

DECEMBER 31, 2015	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	76,300	43,809	50,091	170,200
Investments in jointly controlled corporations and associates	18	–	2,887	2,905
Other assets	3,713	4,535	22,890	31,138
Goodwill and intangible assets	10,313	2,465	2,415	15,193
Investments on account of segregated fund policyholders	70,269	35,966	91,959	198,194
Total assets	160,613	86,775	170,242	417,630
Total revenues	17,631	7,380	11,501	36,512

Independent Auditor's Report

To the Shareholders of Power Financial Corporation

We have audited the accompanying consolidated financial statements of Power Financial Corporation, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, and the consolidated statements of earnings, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Power Financial Corporation as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed,
Deloitte LLP¹
March 24, 2017
Montréal, Québec

¹ CPA auditor, CA, public accountancy permit No. A104630

Power Financial Corporation

Five-Year Financial Summary

DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	2016	2015 ^[1]	2014 ^[1]	2013 ^[1]	2012 ^[1]
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	4,396	4,188	3,989	4,344	3,313
Total assets	418,586	417,630	373,843	341,682	268,428
Shareholders' equity	19,481	19,473	16,942	15,916	13,374
CONSOLIDATED STATEMENTS OF EARNINGS					
REVENUES					
Premium income, net	31,125	24,501	21,222	20,236	19,257
Net investment income	10,203	4,319	13,563	2,661	8,375
Fee income	7,794	7,692	6,990	5,933	5,302
Total revenues	49,122	36,512	41,775	28,830	32,934
EXPENSES					
Total paid or credited to policyholders	34,675	22,842	29,160	17,811	22,875
Commissions	3,590	3,133	2,901	2,590	2,487
Operating and administrative expenses	6,380	5,883	5,162	4,474	3,806
Financing charges	412	413	413	400	409
Total expenses	45,057	32,271	37,636	25,275	29,577
Earnings before investments in jointly controlled corporations and associates, and income taxes	4,065	4,241	4,139	3,555	3,357
Share of earnings (losses) of investments in jointly controlled corporations and associates	(98)	224	211	134	130
Earnings before income taxes	3,967	4,465	4,350	3,689	3,487
Income taxes	581	679	834	678	559
Net earnings	3,386	3,786	3,516	3,011	2,928
ATTRIBUTABLE TO					
Non-controlling interests	1,343	1,337	1,248	984	1,193
Perpetual preferred shareholders	124	130	132	131	117
Common shareholders	1,919	2,319	2,136	1,896	1,618
	3,386	3,786	3,516	3,011	2,928
PER SHARE					
Net earnings attributable to common shareholders	2.69	3.25	3.00	2.67	2.29
Adjusted net earnings attributable to common shareholders	2.95	3.14	2.96	2.40	2.37
Dividends declared on common shares	1.57	1.49	1.40	1.40	1.40
Book value per common share	23.69	23.69	20.18	18.51	15.68
MARKET PRICE (Common shares)					
High	34.70	38.78	36.70	36.79	30.15
Low	29.02	30.28	30.14	27.02	24.06
Year-end	33.56	31.81	36.18	36.00	27.24

[1] Restated – refer to Note 16 of the 2016 Consolidated Financial Statements.

Quarterly Financial Information

[IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	TOTAL REVENUES	NET EARNINGS	NET EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS	EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS – BASIC	EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS – DILUTED
2016					
First quarter	12,970	564	259	0.36	0.36
Second quarter	13,470	834	505	0.71	0.71
Third quarter	14,106	860	539	0.76	0.76
Fourth quarter	8,576	1,128	616	0.86	0.86
2015					
First quarter	13,369	956	573	0.80	0.80
Second quarter	4,901	963	616	0.87	0.86
Third quarter	9,281	975	602	0.84	0.84
Fourth quarter	8,961	892	528	0.74	0.74