Review of Financial Performance

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

MARCH 23, 2018

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

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

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, fluctuations in interest, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and capital markets, management of market liquidity and funding risks, risks related to investments in private companies and illiquid securities, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), the effect of applying future accounting changes, business competition, operational and reputational risks, technological changes, cybersecurity risks, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

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

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

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

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

Overview

POWER FINANCIAL CORPORATION

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

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

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

Value creation

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

Investment Principles	■ Invest in companies that have a long-term perspective and investment horizon ■ Support operating companies' management to build industry leaders ■ Focus on high-growth and high return on equity products and market segments ■ Perform a disciplined, fact-based analysis
Operating Principles	■ Majority or significant level of ownership ■ Focus on strategy, people and capital allocation ■ Be prudent, risk-aware and focus on creating and maintaining a strong balance sheet

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

Current portfolio

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

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

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

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

LIFECO

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

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

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

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

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

IGM FINANCIAL

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

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

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

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

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

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

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

PARGESA AND GBL

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

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

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

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

- Imerys (EPA: NK) – mineral-based specialty solutions for industry
- SGS (SIX: SGSN) – testing, inspection and certification
- LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete
- Pernod Ricard (EPA: RI) – wines and spirits
- adidas (XETR: ADS) – design and distribution of sportswear
- Umicore (EBR: UMI) – materials technology and recycling of precious metals
- Total (EPA: FP) – oil, gas and chemical industries
- Burberry (LON: BRBY) – a global luxury brand
- Ontex (EBR: ONTEX) – disposable hygiene products
- GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors
- Parques (BME: PQR) – operation of regional leisure parks

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

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

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

PORTAG3 AND WEALTHSIMPLE

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

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

IFRS Basis of Presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

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

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

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

Reconciliation of IFRS and non-IFRS Financial Measures

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

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

[1] Available to common shareholders of Power Financial.

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

[1] Available to common shareholders of Power Financial.

Results of Power Financial

This section presents:

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

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

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

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

Consolidated net earnings – Twelve months ended

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

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

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

NON-CONSOLIDATED STATEMENTS OF EARNINGS

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

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

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

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

[3] Attributable to common shareholders.

[4] See "Other items" section below.

2017 vs. 2016	
Net earnings	$1,717 million or $2.41 per share, compared with $1,919 million or $2.69 per share in 2016, a decrease of 10.4% on a per share basis.
Adjusted net earnings	$2,135 million or $2.99 per share, comparable with the corresponding period in 2016.
Contribution to adjusted net earnings from Lifeco, IGM and Pargesa	Contribution of $2,350 million, compared with $2,392 million in 2016, a decrease of 1.8%.

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

CONTRIBUTION TO ADJUSTED NET EARNINGS

LIFECO

Contribution to Power Financial

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

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

Adjusted and net earnings by segment as reported by Lifeco

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

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

[2] Attributable to Lifeco common shareholders.

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

CANADA

INDIVIDUAL CUSTOMER

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

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

GROUP CUSTOMER

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

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

UNITED STATES

FINANCIAL SERVICES

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

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

ASSET MANAGEMENT

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

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

EUROPE

INSURANCE AND ANNUITIES

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

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

REINSURANCE

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

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

OTHER ITEMS

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

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

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

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

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

IGM FINANCIAL

Contribution to Power Financial

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

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

Adjusted and net earnings by segment as reported by IGM

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

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

[2] Available to IGM common shareholders.

2017 vs. 2016	
Adjusted net earnings	$728 million or $3.02 per share, compared with $737 million or $3.05 per share in 2016, a decrease of 1.0% on a per share basis. Contributions from Investors Group and Mackenzie increased from the corresponding twelve-month period in 2016. The share of earnings from Lifeco includes a charge in the third quarter of $7 million due to estimated claims related to hurricane activity.

INVESTORS GROUP

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

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

MACKENZIE

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

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

ASSETS AND INVESTMENT FUND ASSETS UNDER MANAGEMENT

Total assets under management were as follows:

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

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

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

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

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

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

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

OTHER ITEMS

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

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

    As well, IGM decided to discontinue development of a new investment fund accounting system. As a result of this and other associated technology decisions, restructuring and other charges included a non-cash charge of approximately $74 million after tax reflecting capitalized system development expenditures.
- Pension plan one-time expense reduction of $37 million:
  - A change in policy related to the granting of increases to certain pension benefits paid under IGM's registered pension plan. Although IGM implemented a new policy that limits the possibility of future benefit increases, it may from time to time, at its discretion, increase the benefits paid to retired members of the plan.
- IGM's proportionate share of Lifeco's one-time charges of $19 million.

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

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

PARGESA

Contribution to Power Financial

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

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

Adjusted and net earnings as reported by Pargesa

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

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

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

[3] Attributable to Pargesa shareholders.

2017 vs. 2016	
Adjusted net earnings	SF384 million, compared with SF321 million in 2016, an increase of 19.6%.

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

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

RESULTS

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

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

OTHER ITEMS

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

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

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

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

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

CORPORATE OPERATIONS

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

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

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

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

OTHER ITEMS (not included in adjusted net earnings)

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

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

[1] Amounts in comparative period have been reclassified.

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

Financial Position

CONSOLIDATED BALANCE SHEETS (condensed)

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

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

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

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

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

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

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

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

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

NON-CONSOLIDATED BALANCE SHEETS

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

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

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

[2] Includes investments in Portag3 and Wealthsimple.

Cash and cash equivalents

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

Investments in Lifeco, IGM and Parjointco

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

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

EQUITY

Preferred shares

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

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

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

Common shareholders' equity

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

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

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

Outstanding number of common shares

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

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (condensed)

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

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

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

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

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

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

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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

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

- Dividends paid by Lifeco on its common shares during the twelve-month period ended December 31, 2017 were $1.4680 per share, compared with $1.3840 in the corresponding period in 2016. In the twelve-month period ended December 31, 2017, the Corporation received dividends from Lifeco of $983 million, compared with $926 million in the corresponding period in 2016. On February 8, 2018, Lifeco announced a 6% increase in the quarterly dividend on its common shares, from $0.3670 to $0.3890 per share, payable on March 29, 2018.
- Dividends paid by IGM on its common shares during the twelve-month period ended December 31, 2017 were $2.25 per share, the same as in the corresponding period in 2016. In the twelve-month period ended December 31, 2017, the Corporation received dividends from IGM of $333 million, the same as in the corresponding period in 2016.
- Pargesa declares and pays an annual dividend in the second quarter ending June 30. The dividend paid by Pargesa to Parjointco in 2017 amounted to SF2.44 per bearer share, compared with SF2.38 in 2016. The Corporation received dividends of $78 million (SF57 million) from Parjointco in 2017, compared with $75 million (SF56 million) in the corresponding period in 2016.

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

- Dividends paid on preferred and common shares by the Corporation were $1,293 million, compared with $1,231 million in the corresponding period in 2016. In the twelve-month period ended December 31, 2017, dividends paid on the Corporation's common shares were $1.63 per share, compared with $1.55 per share in the corresponding period in 2016.
- Perpetual preferred share issue of the Corporation of $250 million.
- Common shares issued for employee stock options exercised in the period of $18 million, compared with $1 million in the corresponding period in 2016.

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

Capital Management

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

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

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

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

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

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

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

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

Power Financial

- The Corporation filed a short-form base shelf prospectus dated December 7, 2016, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of $3 billion of First Preferred Shares, common shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.
- On May 26, 2017, the Corporation issued 10,000,000 5.15% Non-Cumulative First Preferred Shares Series V for gross proceeds of $250 million.

Lifeco

- On February 8, 2017, Irish Life Assurance, a subsidiary of Lifeco, redeemed its 5.25% €200 million subordinated debentures at their principal amount together with accrued interest.
- On May 18, 2017, Lifeco issued 8,000,000 5.15% Non-Cumulative First Preferred Shares Series T for gross proceeds of $200 million.
- On May 26, 2017, Great-West Lifeco Finance (Delaware) LP issued US$700 million principal amount of 4.15% senior unsecured notes that are fully and unconditionally guaranteed by Lifeco, maturing in 2047.
- On June 21, 2017, Great-West Lifeco Finance (Delaware) LP redeemed all of the $1 billion principal amount of its 5.691% subordinated debentures due June 21, 2067, at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

SUBSEQUENT EVENT

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

IGM Financial

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

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

RATINGS

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

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

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

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

Risk Management

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

RISK OVERSIGHT APPROACH

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

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

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

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

STRATEGIC RISK

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

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

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

LIQUIDITY RISK

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

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

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

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

CREDIT RISK AND MARKET RISK

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

Credit risk

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

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

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

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

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

Market risk

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

Foreign Exchange Risk

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

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

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

Interest Rate Risk

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

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

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

Equity Risk

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

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

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

OPERATIONAL RISK

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

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

Cybersecurity risk

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

Regulatory compliance risk

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

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

REPUTATION RISK

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

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

EMERGING RISKS

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

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

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

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

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

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

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.
- Level 2 inputs utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

In 2017, there was a decrease of $1.5 billion in the notional amount of derivatives outstanding, primarily due to the expiration and settlement of foreign exchange contracts held by Lifeco that were cash flow hedges for $1.0 billion of Lifeco's subordinated debentures, redeemed on June 21, 2017, as well as the maturity of the hedge related to IGM's acquisition of China AMC, partially offset by regular hedging activities. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) decreased to $422 million at December 31, 2017 from $572 million at December 31, 2016. The decrease is primarily due to the strengthening of the British pound against the U.S. dollar on cross-currency swaps that pay British pounds and receive U.S. dollars and to the expiration and settlement of foreign exchange contracts that paid euros and received British pounds.

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

Off-Balance Sheet Arrangements

GUARANTEES

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

LETTERS OF CREDIT

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

Contingent Liabilities

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

Commitments and Contractual Obligations

Payments due by period	Less than 1 year	1–5 years	More than 5 years	Total
Power Financial[1]	8	5	251	264
Lifeco[2]	2,094	939	5,043	8,076
IGM	1,924	6,810	1,659	10,393
Other	50	1	–	51
Total	4,076	7,755	6,953	18,784
Debentures and other debt instruments[3]	778	875	6,361	8,014
Obligations to securitization entities	1,193	6,357	46	7,596
Capital trust debentures	–	–	150	150
Deposits and certificates	546	7	2	555
Operating leases[4]	149	371	394	914
Purchase obligations[5]	109	144	–	253
Pension contributions[6]	363	–	–	363
Contractual commitments[7]	938	1	–	939
Total	4,076	7,755	6,953	18,784

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

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

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

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

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

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

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

Income Taxes (non-consolidated basis)

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

Transactions with Related Parties

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

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

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

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

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

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

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

Summary of Critical Accounting Estimates and Judgments

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

CONSOLIDATION

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

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

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

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

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

FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

Mortgage loans and bonds classified as loans and receivables

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

Investment properties

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

IMPAIRMENT OF INVESTMENTS

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

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

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

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

GOODWILL AND INDEFINITE LIFE INTANGIBLES IMPAIRMENT TESTING

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

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

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

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

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

INCOME TAXES

Current income tax

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

Deferred income tax

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

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

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

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

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

Changes in Accounting Policies

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

Future Accounting Changes

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

New standard	Summary of future changes
IFRS 15 – Revenue from Contracts with Customers (IFRS 15)	In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which provides a single model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to customers in an amount that reflects the expected consideration. The revenue recognition requirements in IFRS 15 do not apply to the revenue arising from insurance contracts, leases and financial instruments. This standard is effective for annual reporting periods beginning on or after January 1, 2018. The Corporation and its subsidiaries have concluded that there will not be a material change in the timing of revenue recognition. The presentation of certain revenues and expenses in the financial statements will change between being reported on a gross versus net basis and others from net to gross basis. There is no significant net earnings impact, however, there is an approximate $100 million increase in Lifeco's fee income and a corresponding increase in operating and administrative expenses. IFRS 15 also outlines various criteria for the eligibility of capitalizing contract costs. For the Corporation's subsidiaries in the asset management industry, determining whether the customer is the fund or the end investor can impact whether costs should be capitalized as a cost of obtaining a contract with a customer or whether they should be assessed as a cost of fulfilling a contract with a customer. Significant judgment is required in determining whether fulfillment costs should be expensed or capitalized. IFRS 15 could therefore result in changes to the timing of recognition of certain commission-related expenses. Due to recent developments in the interpretation of the guidance on fulfillment costs, the Corporation and its subsidiaries continue to assess the impact to certain commission payments and related expenses.
IFRS 16 – Leases (IFRS 16)	The IASB issued IFRS 16, *Leases*, which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. The standard will be effective January 1, 2019. The Corporation and its subsidiaries are evaluating the impact of the adoption of this standard.
IFRS 17 – Insurance Contracts (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces new measurement models depending on the nature of the insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfillment cash flows: the current estimates of amounts that Lifeco expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfillment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. Lifeco is currently in the planning phase of its project, which includes assessing the financial statement impacts of adopting IFRS 17, identifying potential business impacts, developing a detailed project plan, assessing resource requirements, and providing training to staff. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework, for which substantial resources are being dedicated to ensure proper implementation. The new standard is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how it reports financial performance in the statements of earnings. Lifeco is currently assessing the impact that IFRS 17 will have on the financial statements. Lifeco expects this standard to have a significant impact on the timing of earnings recognition for the insurance contracts and a significant impact on how insurance contract results are presented and disclosed in the financial statements.

<table>
<tr><th>New standard</th><th>Summary of future changes</th></tr>
<tr><td>IFRS 9 – Financial Instruments (IFRS 9)</td><td>
In July 2014, the IASB issued a final version of IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

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

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

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

The Corporation qualifies for the deferral approach and will be applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously on January 1, 2021.
In October 2017, the IASB issued an amendment to IFRS 9 that certain prepayable financial assets with negative compensation can be measured at amortized cost or fair value through other comprehensive income instead of fair value through profit or loss under a certain condition.
The Corporation and its subsidiaries continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17.
Parjointco, a jointly controlled corporation which does not qualify for the exemption, will adopt IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method.
Pargesa currently classifies the majority of its portfolio investments as available for sale. In accordance with IFRS 9, Pargesa has the choice to classify the majority of its portfolio investments as either fair value through profit or loss or elect the fair value through other comprehensive income option (FVTOCI). Under the FVTOCI option, unrealized gains and losses from fair value changes (including impairments) are recorded in other comprehensive income and not subsequently reclassified to net earnings. Pargesa has elected to classify the majority of its portfolio investments using the FVTOCI option. On January 1, 2018, these investments will continue to be recorded at fair value, however the accumulated unrealized gains in other comprehensive income will be permanently retained in equity.
The Corporation is finalizing its assessment as to whether it will retain Pargesa’s (through Parjointco) accounting policy in accordance with IFRS 9.
</td></tr>
<tr><td>IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)</td><td>In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries do not anticipate a significant impact from the adoption of this interpretation.</td></tr>
</table>

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

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

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

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

Selected Annual Information

For the years ended December 31	2017	2016	2015
Total revenues	49,878	49,122	36,512
Assets under administration [in billions]	1,521	1,404	1,361
Net earnings (attributable to common shareholders)	1,717	1,919	2,319
per share – basic	2.41	2.69	3.25
per share – diluted	2.40	2.68	3.24
Adjusted net earnings (attributable to common shareholders)[1]	2,135	2,136	2,241
per share – basic	2.99	2.99	3.14
Consolidated assets[2]	440,224	418,407	417,630
Total financial liabilities[2]	23,522	23,229	22,400
Debentures and other debt instruments	7,968	7,513	6,927
Shareholders' equity	20,513	19,481	19,473
Book value per common share	24.77	23.69	23.69
Number of common shares outstanding [millions]	713.9	713.3	713.2
Dividends per share [declared]			
Common shares	1.6500	1.5700	1.4900
First preferred shares			
Series A[3]	0.5067	0.4725	0.4887
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	1.3125
Series F	1.4750	1.4750	1.4750
Series H	1.4375	1.4375	1.4375
Series I	1.5000	1.5000	1.5000
Series K	1.2375	1.2375	1.2375
Series L	1.2750	1.2750	1.2750
Series O	1.4500	1.4500	1.4500
Series P[4]	0.5765	0.5765	1.1000
Series Q[4]	0.5673	0.5252	–
Series R	1.3750	1.3750	1.3750
Series S	1.2000	1.2000	1.2000
Series T	1.0500	1.0500	1.0500
Series V[5]	0.8792	–	–

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

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

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

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

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