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REVIEW OF FINANCIAL PERFORMANCE

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

MARCH 20, 2019

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, the outlook for North American and international economies for the current fiscal year and subsequent periods as well as statements or information related to the substantial issuer bids of the Corporation and Lifeco whose terms were announced on March 8, 2019. 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 rates, 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 MD&A 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 abbreviation is 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, 2018 (the 2018 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 with 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 in recent years implemented an active fintech strategy. Power Financial also has an investment in Pargesa, a holding company having influence through its holdings in global industrial and services companies based in Europe. Power Financial's historic and ongoing objective is to create superior shareholder value over the long term.

Since its inception, the leadership of Power Financial has remained consistent in its approach to base decisions on what is in the best long-term interest of its operating companies and shareholders. Throughout its history, Power Financial has managed to the same basic principles:

- take a long-term perspective and investment horizon;
- build industry leaders with attractive growth profiles;
- provide active and strong governance oversight of its companies; and
- use prudence, be risk aware and maintain a strong financial position.

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 company:

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 ▪ 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 in its principal markets: 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, continues to collaborate on the future of the financial services market, which is rapidly changing. The group is actively participating in the emerging fintech industry, with the objectives of providing an attractive return on the capital invested while helping the existing financial services businesses transform their models.

The investments to date have been towards building leading platforms that will be part of the next generation of financial services. The fintech strategy creates opportunities for our incumbent businesses to learn from, adopt and integrate new technologies and understand how these disruptive business models will affect the current business and how to react to changes in the environment to be more effective. The fintech strategy has three objectives:

- Through Portag3, create an ecosystem of early-stage investments in promising fintech companies that have potential for global impact;
- Make significant investments in leading digital financial services providers including Wealthsimple, one of Canada's largest digital financial advisors;
- Develop a fintech venture builder to support the creation of the next generation of Canadian-based global fintech companies.

Power Financial also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa, a holding company which, through its subsidiary GBL, maintains a diversified high-quality portfolio composed of global companies that are leaders in their respective sector, through which it can contribute to value creation as an active professional investor. The Pargesa group has positioned its portfolio with a view to strengthening its growth profile and consequently optimizing its potential for long-term value creation. Pargesa 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 and diversifies its financial services portfolio.

The Corporation's current portfolio has laid the foundation for future value creation and the objectives include:

- Continued focus on long-term shareholder value creation;
- Growing earnings organically by capitalizing on the scale of our leading franchises in a rapidly changing environment;
- Actively seeking opportunities to deploy capital in accretive acquisitions;
- Pursuing technology–enabled solutions in financial services to enhance incumbent businesses;
- Rotation of GBL's portfolio to accelerate value creation.

SUBSEQUENT EVENTS

Disposal of Lifeco's U.S. individual life insurance and annuity business

On January 24, 2019, Lifeco announced it was selling substantially all of its U.S. individual life insurance and annuity business, via reinsurance, to Protective Life Insurance Company. Lifeco estimates that the transaction will result in an after-tax transaction value of approximately US$1.2 billion (C$1.6 billion), excluding one-time expenses but including the ceding commissions and a capital release of approximately US$400 million (C$530 million). The business to be transferred, which is marketed under the Great-West Financial brand, includes bank-owned and corporate-owned life insurance, single premium life insurance, individual annuities, and closed block life insurance and annuities. This business contributed $138 million (US$108 million) to Lifeco's net earnings for the twelve months ended December 31, 2018. Lifeco expects the transaction to close in the first half of 2019 and Lifeco anticipates recognizing a loss related to this transaction.

Within the U.S., Lifeco continues to focus on the defined contribution retirement and asset management markets.

Substantial Issuer Bids

On March 8, 2019, Lifeco announced the terms of its previously disclosed substantial issuer bid to repurchase for cancellation up to $2 billion of its common shares by way of a modified Dutch auction within a price range of not less than $30.00 per share and not more than $35.00 per share (the Lifeco Offer). The Lifeco Offer is scheduled to expire on April 12, 2019, unless extended or withdrawn.

Power Financial announced that it intends to support the Lifeco Offer and that, through its participation in the Lifeco Offer, Power Financial expects its ownership interest in Lifeco will be marginally reduced, depending on the tendering activity of other Lifeco shareholders. Power Financial expects to use the proceeds from its participation in the Lifeco Offer, along with other available resources, to fund its own substantial issuer bid to repurchase for cancellation up to $1.65 billion of its common shares by way of a modified Dutch auction within a price range of not less than $29.00 per share and not more than $34.00 per share (the PFC Offer). The PFC Offer facilitates the repurchase of Power Financial shares at currently attractive valuations while maintaining a strong capital position to fund future growth opportunities. The PFC Offer was launched on March 8, 2019 and is scheduled to expire on April 13, 2019, unless extended or withdrawn. Power Corporation has informed Power Financial that it intends to support the Corporation through its participation in the PFC Offer.

LIFECO

Great-West Lifeco Inc., TSX: GWO; market capitalization of $27.9 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 of 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 savings and income and other speciality 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, enrollment 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.

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.

At December 31, 2018, Power Financial and IGM held interests of 67.8% 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 $7.5 billion, is a leading wealth and asset management 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 through its subsidiaries IG Wealth Management, Mackenzie Investments and Investment Planning Counsel.

In the third quarter of 2018, IGM announced that it has rebranded Investors Group as IG Wealth Management, reflecting its central focus on helping clients grow their wealth. The firm also announced the launch of the IG Living Plan™, a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan™ provides a single, integrated view of all aspects of a client's finances including retirement and estate planning, investments, and tax strategies, creating a truly synchronized and comprehensive plan.

IG Wealth Management offers an exclusive family of mutual funds and other investment vehicles, and a wide range of insurance, securities, mortgage products and other financial services. IG Wealth Management provides its services through its exclusive network of consultants across Canada. It strives to distinguish itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships.

Mackenzie Investments is an investment management firm providing investment advisory and related services through multiple distribution channels: Retail, Strategic Alliances and Institutional. Mackenzie distributes its products and services primarily through a diversified distribution network of third-party financial advisors. Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

IGM holds a 13.9% interest in China AMC, one of the first fund management companies in China, which has developed and maintained its position among the market leaders in China's asset management industry. China AMC's assets under management, excluding subsidiary assets under management, were RMB¥906 billion (C$180 billion) at June 30, 2018. Power Financial's parent company, Power Corporation, directly holds a 13.9% equity interest in China AMC. Power Corporation and IGM 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.

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

At December 31, 2018, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 61.4% 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, 2018, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa, SIX: PARG; market capitalization of SF6.0 billion, is a holding company, which, at December 31, 2018, held a 50% interest in GBL, representing 50.8% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange.

GBL, EBR: GBLB; market capitalization of €12.3 billion, 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 markets, in which GBL plays its role of professional shareholder.

At December 31, 2018, GBL's portfolio was mainly comprised of investments in the following publicly traded companies:

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

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

At December 31, 2018, Pargesa's net asset value was SF8,973 million, compared with SF10,851 million at December 31, 2017. GBL's net asset value at December 31, 2018, was €16,193 million, compared with €18,888 million at December 31, 2017.

PORTAG3 AND WEALTHSIMPLE

Power Financial together with IGM and Lifeco (the group), are anchor investors in funds managed by an affiliate, Portag3 Ventures, which operates investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. Portag3 Ventures has invested in more than 30 fintech companies and investment funds.

At December 31, 2018, Portag3, Power Financial and IGM held equity interests in Wealthsimple of 21.9%, 16.0% and 43.8%, respectively. Wealthsimple is one of Canada's largest and fastest-growing technology-driven investment managers. Since its launch in 2014, Wealthsimple has grown to serve over 100,000 clients with over $3.4 billion in assets under administration at December 31, 2018 ($1.7 billion at December 31, 2017). Wealthsimple has expanded its distribution reach through both its Wealthsimple for Advisors (W4A) and Wealthsimple for Institutions (W4I) platforms and serves clients across the Canada, United States and United Kingdom markets.

During 2018, Power Financial and IGM invested $30 million and $60 million, respectively, in Wealthsimple. At December 31, 2018, the group has invested $208 million in Wealthsimple.

In 2018, Portag3 Ventures announced the launch of Portag3 Ventures II LP, its second fintech venture fund focused on early stage investments in the global financial technology sector. At December 31, 2018, total capital commitments amounted to $211 million, of which Power Financial, Lifeco and IGM have each committed $33 million. The fair value of the investments held by the fund at December 31, 2018 was $67 million.

Basis of Presentation

IFRS FINANCIAL MEASURES AND PRESENTATION

The 2018 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, 2018, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Lifeco[1]	67.8	Controlling interest	Consolidation
IGM[2]	61.4	Controlling interest	Consolidation
Pargesa[3]	27.8	Joint control	Equity method
Portag3[4]	63.0	Controlling interest	Consolidation
Wealthsimple[5]	16.0	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 21.9% and 43.8%, respectively, in Wealthsimple.

At December 31, 2018, Pargesa's publicly listed holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	50.0	Controlling interest	Consolidation
Imerys	53.9	Controlling interest	Consolidation
adidas	7.8	Portfolio investment	Available for sale
Pernod Ricard	7.5	Portfolio investment	Available for sale
SGS	16.6	Portfolio investment	Available for sale
LafargeHolcim	9.4	Portfolio investment	Available for sale
Umicore	17.7	Portfolio investment	Available for sale
Total	0.6	Portfolio investment	Available for sale
GEA	8.5	Portfolio investment	Available for sale
Ontex	20.0	Portfolio investment	Available for sale
Parques	21.2	Significant influence	Equity method
Other investments	< 5.0	Portfolio investments	Available for sale

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2018 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 6);
- Investments in jointly controlled corporations and associates (Note 8);
- Goodwill and intangible assets (Note 11); and
- Non-controlling interests (Note 20).

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 to net earnings and adjusted net earnings. This presentation is useful to the reader to assess the impact of the contribution to 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 divided by the weighted average number of common shares outstanding.	Assists 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	2018	2017
Net earnings – IFRS financial measure[1]	2,245	1,717
Share of Other items[2], net of tax		
Lifeco	39	340
IGM	16	78
Pargesa	(18)	–
	37	418
Adjusted net earnings – Non-IFRS financial measure[1]	2,282	2,135

[1] Available to common shareholders of Power Financial.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM and Pargesa.

Twelve months ended December 31	2018	2017
Net earnings per share – IFRS financial measure[1]	3.15	2.41
Share of Other items[2], net of tax		
Lifeco	0.05	0.47
IGM	0.02	0.11
Pargesa	(0.02)	–
	0.05	0.58
Adjusted net earnings per share – Non-IFRS financial measure[1]	3.20	2.99

[1] Available to common shareholders of Power Financial.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM and Pargesa.

Results of Power Financial

This section presents:

- the "Consolidated Statements of Earnings in accordance with IFRS"; and
- the "Non-Consolidated Statements 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, 2018 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

					Power Financial Consolidated net earnings	
Twelve months ended December 31	Lifeco	IGM[1]	Pargesa[2]	Corporate[3]	2018	2017
REVENUES						
Premium income, net[4]	35,461	–	–	(21)	35,440	33,880
Net investment income	2,752	183	–	(113)	2,822	7,610
Fee income[4]	5,819	3,037	–	(93)	8,763	8,497
Total revenues	44,032	3,220	–	(227)	47,025	49,987
EXPENSES						
Total paid or credited to policyholders	32,068	–	–	–	32,068	35,643
Commissions[4]	2,474	1,099	–	(61)	3,512	3,712
Operating and administrative expenses[4]	5,807	1,043	–	147	6,997	7,002
Financing charges	221	121	–	18	360	432
Total expenses	40,570	2,263	–	104	42,937	46,789
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,462	957	–	(331)	4,088	3,198
Share of earnings of investments in jointly controlled corporations and associates	–	29	57	8	94	200
Earnings before income taxes	3,462	986	57	(323)	4,182	3,398
Income taxes	387	210	–	5	602	584
Net earnings	3,075	776	57	(328)	3,580	2,814
ATTRIBUTABLE TO						
Non-controlling interests	1,074	330	–	(207)	1,197	964
Perpetual preferred shareholders	–	–	–	138	138	133
Common shareholders of Power Financial	2,001	446	57	(259)	2,245	1,717
	3,075	776	57	(328)	3,580	2,814

[1] Results reported by IGM are in accordance with IFRS 9 and include the transition impact related to the reclassification and remeasurement of certain mortgage loans. As the Corporation has not adopted IFRS 9, this adjustment has been reversed on consolidation and included in "Corporate".

[2] The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39, including the Corporation's share of gains realized on the sale of investments classified as fair value through other comprehensive income (FVOCI) by Pargesa and impairment charges. These amounts are not included in Pargesa's reported net earnings as it adopted IFRS 9 on January 1, 2018.

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

[4] Amounts in comparative periods have been reclassified; refer to the section "Adoption of IFRS 15" for more details.

As a holding company, the Corporation evaluates the performance of each segment based on its contribution to net earnings and adjusted net earnings. A discussion of the results of Lifeco, IGM and Pargesa is provided in the "Contribution to net earnings and 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	2018	2017
Adjusted net earnings[1]		
Lifeco[2]	2,040	1,791
IGM[2]	462	428
Pargesa[2]	39	131
	2,541	2,350
Corporate operations	(121)	(82)
Dividends on perpetual preferred shares	(138)	(133)
Adjusted net earnings[3]	2,282	2,135
Other items[4]		
Lifeco	(39)	(340)
IGM	(16)	(78)
Pargesa	18	–
	(37)	(418)
Net earnings[3]	2,245	1,717
Earnings per share – basic[3]		
Adjusted net earnings	3.20	2.99
Other items	(0.05)	(0.58)
Net earnings	3.15	2.41

[1] For a reconciliation of Lifeco, IGM and Pargesa's non-IFRS adjusted net earnings to their net earnings, refer to the "Contribution to net earnings and 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. Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39.

[3] Attributable to common shareholders.

[4] See "Other items" section below.

2018 vs. 2017	
Net earnings	$2,245 million or $3.15 per share, compared with $1,717 million or $2.41 per share in the corresponding period in 2017, an increase of 30.7% on a per share basis.
Adjusted net earnings	$2,282 million or $3.20 per share, compared with $2,135 million or $2.99 per share in the corresponding period in 2017, an increase of 7.0% on a per share basis.
Contribution to net earnings and adjusted net earnings from Lifeco, IGM and Pargesa	Contribution to net earnings of $2,504 million, compared with $1,932 million in the corresponding period in 2017, an increase of 29.6%. Contribution to adjusted net earnings of $2,541 million, compared with $2,350 million in the corresponding period in 2017, an increase of 8.1%.

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

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS

LIFECO

Contribution to Power Financial

Twelve months ended December 31	2018	2017
Contribution to Power Financial's[1]:		
Adjusted net earnings		
As reported by Lifeco	2,044	1,793
Consolidation entries	(4)	(2)
	2,040	1,791
Other items	(39)	(340)
Net earnings	2,001	1,451

[1] The average direct ownership of Power Financial in Lifeco was 67.7% for the year ended December 31, 2018.

Adjusted and net earnings by segment as reported by Lifeco

Twelve months ended December 31	2018	2017
CANADA		
Individual Customer	685	589
Group Customer	630	641
Canada Corporate[1]	(40)	(11)
	1,275	1,219
UNITED STATES		
Financial Services	397	357
Asset Management	(61)	(21)
U.S. Corporate[1]	52	(2)
	388	334
EUROPE		
Insurance and Annuities	1,036	947
Reinsurance	377	190
Europe Corporate[1]	(46)	(16)
	1,367	1,121
LIFECO CORPORATE	(13)	(27)
Adjusted net earnings[2][3]	3,017	2,647
Other items[1]	(56)	(498)
Net earnings[3]	2,961	2,149

[1] Other items represent amounts which have been excluded from the corporate business units of the Canada, U.S. and Europe segments. Refer to the "Other items" section.

[2] Non-IFRS financial measure as described in Lifeco's public disclosure.

[3] Attributable to Lifeco common shareholders.

2018 vs. 2017	
Net earnings	$2,961 million or $2.996 per share, compared with $2,149 million or $2.173 per share in the corresponding period in 2017, an increase of 37.9% on a per share basis. Lifeco's net earnings in 2018 include a net positive impact of $60 million after tax arising from refinancing in the U.S. segment completed in the second quarter. Lifeco's 2017 net earnings included provision of $175 million after tax related to the impact of 2017 Atlantic hurricane activity, which reduced Lifeco's earnings per common share by $0.177.
Adjusted net earnings	$3,017 million or $3.052 per share, compared with $2,647 million or $2.676 per share in the corresponding period in 2017, an increase of 14.1% on a per share basis.

CANADA

Net earnings for the twelve-month period ended December 31, 2018 increased by $201 million to $1,275 million, compared with the corresponding period in 2017. Adjusted net earnings in the twelve-month period ended December 31, 2017 were $1,219 million, and excluded Other items of $145 million. There were no Other items in the twelve-month period ended December 31, 2018.

INDIVIDUAL CUSTOMER

Net earnings for the twelve-month period ended December 31, 2018 increased by $96 million to $685 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from insurance contract liability basis changes; and
- More favourable morbidity and policyholder behaviour experience;
- Partially offset by lower contributions from investment experience, lower net fee income, less favourable impact of new business and less favourable mortality experience.

GROUP CUSTOMER

Net earnings for the twelve-month period ended December 31, 2018 decreased by $11 million to $630 million, compared with the same period last year. The decrease was primarily due to:

- Lower contributions from investment experience and insurance contract liability basis changes; and
- Higher expenses related to strategic investments;
- Partially offset by more favourable morbidity and mortality experience.

UNITED STATES

Net earnings for the twelve-month period ended December 31, 2018, increased by $438 million to $388 million, compared with the corresponding period in 2017. Adjusted net earnings in the twelve-month period ended December 31, 2017 were $334 million, and excluded Other items of $384 million. There were no Other items in the twelve-month period ended December 31, 2018.

FINANCIAL SERVICES

For the twelve-month period ended December 31, 2018, net earnings were US$306 million (C$397 million), compared with US$277 million (C$357 million) in the corresponding period in 2017. The increase of US$29 million was primarily due to:

- The impact of the U.S. corporate tax rate changes, which resulted in increased earnings of US$53 million; and
- Net business growth;
- Partially offset by lower contributions from investment experience, an increase in variable annuity insurance contract liabilities due to equity market declines, higher operating expenses and unfavourable mortality experience.

Net earnings in 2017 included a one-time expense recovery related to a change in future obligations for an employee pension plan.

ASSET MANAGEMENT

For the twelve-month period ended December 31, 2018, the net loss was US$47 million (C$61 million), compared with a net loss of US$15 million (C$21 million) in the corresponding period in 2017. The net loss for the twelve months ended December 31, 2017 included a US$7 million recovery related to the sale of a previously impaired investment product. Excluding this item, the net loss increased by US$25 million primarily due to:

- Lower net investment income;
- Partially offset by lower expenses and lower income taxes driven by the impact of a reduction in the U.S. corporate tax rate.

The net loss for the twelve-month period ended December 31, 2018 also includes financing and other expenses after tax of US$39 million (C$50 million). Financing and other expenses increased by US$9 million in 2018, primarily due to the reversal of a previously impaired indefinite life intangible asset in 2017.

EUROPE

Net earnings for the twelve-month period ended December 31, 2018 increased by $159 million to $1,311 million, compared with the corresponding period in 2017. Adjusted net earnings in the twelve-month period ended December 31, 2018 were $1,367 million, compared with $1,121 million in the corresponding period in 2017, and excluded Other items, discussed below, of $56 million ($31 million positive earnings impact in the corresponding period in 2017).

INSURANCE AND ANNUITIES

Net earnings for the twelve-month period ended December 31, 2018 increased by $89 million to $1,036 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from insurance contract liability basis changes related to the impact of updated annuitant mortality assumptions;
- Favourable mortality experience; and
- Higher new business volumes on payout annuities as well as the impact of changes to certain tax estimates and currency movement;
- Partially offset by lower contributions from investment experience and a gain on the sale of Lifeco's Allianz Ireland holdings in the first quarter of 2017.

REINSURANCE

Net earnings for the twelve-month period ended December 31, 2018 increased by $187 million to $377 million, compared with the same period last year. The 2017 results included a provision of $175 million related to the impact of 2017 Atlantic hurricane activity recorded in the third quarter. Excluding this item, net earnings increased by $12 million. The increase was primarily due to:

- Net favourable experience; and
- Higher business volumes and higher contributions from insurance contract liability basis changes;
- Partially offset by lower new business volumes.

During 2018, a provision release relating to the impact of 2017 Atlantic hurricanes was mostly offset by an increase in provisions related to 2018 catastrophes. In addition, net earnings in 2017 were more favourably impacted by changes to certain income tax estimates.

OTHER ITEMS

Adjusted net earnings in 2018 exclude a net charge of $56 million after tax:

- Restructuring charges related to the integration of Retirement Advantage, which was acquired in the first quarter of 2018, as well as the pending sale of a heritage block of policies to Scottish Friendly Assurance Society Limited announced during the second quarter of 2018. These restructuring charges reduced Lifeco's net earnings by $56 million and include the costs of decommissioning the existing U.K. operations' policy administration system and migrating policies to the existing Retirement Advantage policy administrative system, employee severance payments, fees related to exiting third-party contracts, and legal and other fees associated with the business transfers. The integration of Retirement Advantage and the sale of the heritage block of policies are subject to various regulatory and court approvals and are expected to occur in the second half of 2019.

In 2017 Other items of $498 million consisted 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 was generally effective for tax years beginning on January 1, 2018. The legislation resulted in significant tax reform and revised the *Internal Revenue Code* which included the lowering of the corporate federal income tax rate from 35% to 21% and modified how the U.S. taxes multinational entities. The charge primarily related to the revaluation of certain deferred tax balances and the impact on insurance contract liabilities and expense provisions.
- 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. 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.

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

IGM FINANCIAL

Contribution to Power Financial

Twelve months ended December 31	2018	2017
Contribution to Power Financial's[1]:		
Adjusted net earnings		
As reported by IGM	487	448
Consolidation entries[2]	(25)	(20)
	462	428
Other items	(16)	(78)
Net earnings	446	350

[1] The average direct ownership of Power Financial in IGM was 61.4% for the year ended December 31, 2018.

[2] Contribution to Power Financial includes an adjustment in accordance with IAS 39 and the allocation of the results of Wealthsimple and Portag3.

Adjusted and net earnings by segment as reported by IGM (in accordance with IFRS 9)

Twelve months ended December 31	2018	2017
IG Wealth Management	766	739
Mackenzie	178	180
Corporate and other	186	144
Adjusted net earnings (before interest, income taxes, preferred share dividends and other)[1]	1,130	1,063
Interest expense, income taxes, preferred share dividends and other	(338)	(335)
Adjusted net earnings[2]	792	728
Other items[3]	(25)	(126)
Net earnings[2]	767	602

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

[2] Available to IGM common shareholders.

[3] IGM does not allocate Other items to segments.

2018 vs. 2017	
Net earnings	$767 million or $3.18 per share, compared with $602 million or $2.50 per share in the corresponding period in 2017, an increase of 27.2% on a per share basis.
Adjusted net earnings	$792 million or $3.29 per share, compared with $728 million or $3.02 per share in the corresponding period in 2017, an increase of 8.9% on a per share basis.

On January 1, 2018, IGM adopted IFRS 9, *Financial Instruments*. IGM elected not to restate its comparative financial information for the effect of applying IFRS 9. The cumulative impact of applying IFRS 9 has been recognized as an adjustment to the opening retained earnings on January 1, 2018.

Mortgage loans of $282.6 million previously classified as held for trading were reclassified to amortized cost as a result of IGM's business model and contractual cash flow characteristics assessment. This resulted in a total remeasurement of $49.7 million due to the reversal of unrealized losses included in the carrying value of the loans and the capitalization of previously expensed mortgage issue costs.

Other investments of $19.9 million were reclassified from available for sale to fair value through profit or loss, and IGM elected to classify other investments of $262.8 million at fair value through other comprehensive income. These reclassifications had no impact on opening retained earnings.

Power Financial has deferred the adoption of IFRS 9 and continues to apply IAS 39, *Financial Instruments: Recognition and Measurement*. As such, the contribution to Power Financial includes an adjustment to reverse the impact of the application of IFRS 9 by IGM.

Adjusted net earnings exclude a charge of $25 million in the twelve-month period ended December 31, 2018 and a charge of $126 million in the corresponding period in 2017. IGM does not allocate Other items to segments.

The following is a summary of each segment's net earnings:

IG WEALTH MANAGEMENT

Net earnings increased by $27 million in the twelve-month period ended December 31, 2018, compared with the corresponding period in 2017, due to:

- An increase in income from management fees of $43 million to $1,458 million. The increase was primarily due to an increase in average assets under management of 3.4%. The average management fee rate was comparable in both periods;
- An increase in net investment income of $5 million to $47 million. Net investment income related to mortgage banking income was $37 million in 2018, comparable with the corresponding period. Net interest income on securitized loans decreased due to lower margins on the loans as a result of the impact from the adoption of IFRS 9 and gains realized on the sales of residential mortgages decreased as a result of lower sales activity. These decreases were partially offset by lower negative fair value adjustments in 2018 on loans held and an increase in other net investment income of $13 million primarily due to the adoption of IFRS 9, where issue costs for securitized loans previously expensed as incurred are now amortized over the life of the related loans;
- Expenses in the twelve-month period were $1,221 million, a decrease of $10 million mainly related to a decrease in commission expenses of $83 million, offset by an increase in asset-based compensation of $52 million. The decrease in commission expenses was primarily due to the treatment of commission expenses as a result of the adoption of IFRS 15 (refer to the section "Adoption of IFRS 15"). Non-commission expenses increased by $21 million to $597 million, primarily due to the implementation of certain strategic initiatives, including the brand relaunch of IG Wealth Management;
- Partially offset by a decrease in distribution fee income of $19 million to $172 million, mainly due to a decrease in distribution fee income from insurance products and lower redemption fees. Administration fee income decreased by $12 million, primarily due to the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management.

MACKENZIE

Net earnings decreased by $2 million in the twelve-month period ended December 31, 2018 to $178 million, compared with the corresponding period in 2017, due to:

- Revenues which include management, administration and distribution fees, decreased by $2 million to $807 million. Since October 1, 2017, the Mackenzie segment excludes investment advisory mandates to IG Wealth Management and investments into Mackenzie mutual funds by IG Wealth Management mutual funds. Normalizing 2017 revenues to exclude fees related to these investments would have resulted in an increase in revenues of $15 million from the corresponding period. The increase is primarily due to an increase in the average assets under management of 8.6%, partially offset by a decrease in the average management fee rate; and
- A decrease in net investment income of $3 million which primarily relates to investment returns on proprietary funds;
- Partially offset by a decrease in expenses of $3 million due to lower commission expenses as a result of the adoption of IFRS 15. This was offset by an increase in trailing commissions resulting from a period-over-period increase in average mutual fund assets offset, in part, by a decline in the effective trailing commission rate and an increase in non-commission expenses.

ASSETS AND INVESTMENT FUND ASSETS UNDER MANAGEMENT

Total assets under management were as follows:

December 31 [In billions of dollars]	2018	2017
IG Wealth Management	83.1	88.0
Mackenzie[1]	62.7	64.5
Corporate and other[2]	3.3	4.0
Total	149.1	156.5

[1] Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management 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 subadvised by Mackenzie on behalf of other segments.

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

				2018				2017
[In billions of dollars]	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
IG Wealth Management	85.1	89.4	88.0	87.8	87.2	83.8	85.0	82.8
Mackenzie[1]	57.1	59.5	57.9	57.1	55.7	53.4	54.1	52.3
Corporate and other[2]	4.8	5.1	5.0	5.2	5.2	5.2	5.2	5.0
Total	147.0	154.0	150.9	150.1	148.1	142.4	144.3	140.1

[1] Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management 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 subadvised by Mackenzie on behalf of other segments.

OTHER ITEMS

Adjusted net earnings in 2018 exclude a net charge of $25 million after tax consisting of:

- Restructuring and other charges of $17 million: resulting from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.
- A premium paid of $8 million: on the early redemption of the $375 million 7.35% debentures on August 10, 2018.

Adjusted net earnings in 2017 excluded a net charge of $126 million after tax consisting mainly of:

- Total restructuring and other charges of $144 million which included:
  - Severance and termination costs largely 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.
- Change related to pension plan of $37 million: favourable revaluation of IGM's registered pension plan obligation reflecting a new policy which limits the possibility of certain benefit increases in the future.
- IGM's proportionate share of Lifeco's Other items of $19 million.

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

PARGESA

Contribution to Power Financial

Twelve months ended December 31 [In millions of Canadian dollars]	2018	2017
Contribution to Power Financial's[1]:		
Adjusted net earnings		
As reported by Pargesa	116	141
Consolidation entries[2]	(77)	(10)
	39	131
Other items	18	–
Net earnings	57	131

[1] The average ownership of Power Financial in Pargesa was 27.8% for the year ended December 31, 2018.

[2] The Corporation has not adopted IFRS 9. The contribution to Power Financial includes an adjustment to account for Pargesa under IAS 39 as described below. The adjustment in 2017 relates to the reclassification of Parques from available for sale to an associate in accordance with the Corporation's accounting policy.

Adjusted and net earnings as reported by Pargesa (in accordance with IFRS 9)

Twelve months ended December 31 [In millions of Swiss francs]	2018	2017
Contribution from the portfolio to adjusted net earnings		
Share of earnings of:		
Imerys	129	126
Parques	3	–
Dividends:		
LafargeHolcim	58	60
SGS	50	46
Pernod Ricard	28	23
Total	21	20
adidas	21	15
Umicore	18	14
Ontex	6	5
GEA	6	1
Other[1]	1	7
Contribution from private equity activities and other investment funds	31	123
	372	440
Net financing income (charges)	(26)	(20)
General expenses and taxes	(29)	(36)
Adjusted net earnings[2][3]	317	384
Other items	44	(2)
Net earnings[3]	361	382

[1] Consists of dividends from other investments and Parques. At the end of 2017, the investment in Parques was reclassified from available for sale to an associate and is now accounted for using the equity method.

[2] Described by Pargesa as "Economic operating income" in its public disclosure.

[3] Attributable to Pargesa shareholders.

2018 vs. 2017	
Net earnings	SF361 million, compared with SF382 million in the corresponding period in 2017, a decrease of 5.5%.
Adjusted net earnings	SF317 million, compared with SF384 million in the corresponding period in 2017, a decrease of 17.4%.

On January 1, 2018, Pargesa adopted IFRS 9, *Financial Instruments*, and reclassified the majority of its publicly traded portfolio, previously accounted for as available-for-sale investments, to investments classified as fair value through other comprehensive income (FVOCI). The FVOCI is an elective classification for equity instruments in which all fair value changes remain permanently in OCI.

The investments in private equity and other investment funds that were previously accounted for as available-for-sale investments were reclassified to fair value through profit or loss (FVPL). The transition requirements of IFRS 9 require that all unrealized gains and losses on investments previously classified as available for sale remain permanently in equity. Subsequent to January 1, 2018, changes in fair value are recorded in earnings.

As noted above, Power Financial has deferred the adoption of IFRS 9 and continues to apply IAS 39. The following table presents adjustments to the contribution of Pargesa to Power Financial's earnings in accordance with IAS 39:

					2018
[In millions of dollars]	Q4	Q3	Q2	Q1	Total
Impairment charges on[1]:					
GEA	(43)	–	–	–	(43)
Ontex	(1)	(2)	(34)	–	(37)
LafargeHolcim	(22)	–	–	–	(22)
ConvaTec Group plc	(11)	–	–	–	(11)
Disposal of Burberry[2]	–	–	18	–	18
Disposal of private equity funds[3]	4	–	–	21	25
Unrealized (gains) losses on private equity funds[4]	(1)	(2)	(5)	1	(7)
Total	(74)	(4)	(21)	22	(77)

[1] Under IFRS 9, Pargesa classifies the majority of its investments in public entities as FVOCI, and as a result impairment charges are not recognized in earnings. Power Financial recognized impairment charges during the year on the following investments:

- GEA – During the fourth quarter, the share price declined to €22.50 per share from a cost of €35.63 per share, resulting in an impairment charge of SF118 million. Power Financial's share was $43 million;
- Ontex – During the second quarter, the share price of Ontex decreased to €18.81 from a cost of €27.62 per share, which resulted in an impairment charge of SF87 million. Power Financial's share of the impairment in the second quarter was $34 million.

  At the end of the third and fourth quarters, the share price of Ontex decreased to €18.35 and €17.90 per share respectively; further impairment charges of $2 million and $1 million were recognized by Power Financial in the third and fourth quarter, relating to its share of the impairment;
- LafargeHolcim – The investment in LafargeHolcim has been previously impaired, resulting in an adjusted cost of €37.10 per share. During the fourth quarter, the share price decreased to €35.83 per share, resulting in an impairment charge of SF59 million including a foreign exchange loss. Power Financial's share was $22 million;
- ConvaTec Group plc – During the fourth quarter, the share price decreased to €1.55 per share from a cost of €2.39 per share, resulting in an impairment charge of SF29 million. Power Financial's share was $11 million;

[2] During the second quarter, the investment in Burberry was disposed of resulting in a gain of SF39 million. This gain was not reflected in Pargesa's earnings as it is classified as FVOCI;

[3] During the first and fourth quarters, three investments held through private equity funds, classified as FVPL in accordance with IFRS 9, were disposed of, which resulted in gains of SF57 million and SF11 million, respectively. Realized gains of SF58 million have not been reflected in Pargesa's earnings as the investments were reclassified from available for sale to FVPL on January 1, 2018. As described above, on transition, the related unrealized gains recorded in other comprehensive income were transferred permanently to retained earnings;

[4] During 2018, Pargesa recognized SF20 million of net unrealized gains in earnings related to changes in fair value of its private equity funds. These gains are not recognized by Power Financial as it continues to classify these private equity funds as available for sale in accordance with IAS 39.

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 usually 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)
- Ontex (second quarter)
- GEA (second quarter)

RESULTS

Net earnings in the twelve-month period ended December 31, 2018 decreased by SF21 million to SF361 million, compared with the corresponding period in 2017. Adjusted net earnings in the twelve-month period ended December 31, 2018 were SF317 million and excluded a positive earnings impact of SF44 million. Other items in the corresponding period in 2017 were SF2 million. The decrease in adjusted net earnings of SF67 million was mainly due to:

- A decrease in the contribution from private equity activities and other investment funds of SF92 million. The decrease is mainly due to the adoption of IFRS 9 by Pargesa, resulting in gains of SF58 million realized on the disposal of investments not reflected in earnings. Excluding the impact of IFRS 9, the contribution from private equity activities and other investment funds would have been SF79 million. In 2017, realized gains of SF124 million were related to the disposal of two private equity investments; and
- An increase in net financing charges of SF6 million from the corresponding period in 2017 to SF26 million, mainly due to a decrease in income from trading and derivative activities of GBL in managing its portfolio, partially offset by the net impact of fair value adjustments to derivative instruments;
- Partially offset by an increase in dividends from its principal holdings of SF18 million to SF209 million, compared with SF191 million in the corresponding period in 2017. The increase in dividends is primarily due to the increase in dividends per share paid by most of the portfolio companies, additional investment made in GEA as well as a higher Euro/SF average exchange rate.

OTHER ITEMS

Adjusted net earnings in 2018 exclude a positive earnings impact of SF44 million mainly consisting of:

- Imerys disposed of its roofing division, Imerys Toiture. Pargesa's share of the gain amounted to SF235 million;
- Restructuring and other charges recognized by Imerys relating to its North American talc subsidiaries, ceramic proppants and graphite and carbon divisions. Pargesa's share of the restructuring and other charges recognized by Imerys were SF186 million, and also include other acquisition costs and provisions for rehabilitation and restructuring costs.

There were no significant Other items in 2017.

AVERAGE EXCHANGE RATES

The average exchange rates for the twelve-month periods ended December 31, 2018 and 2017 were as follows:

	2018	2017	Change %
Euro/SF	1.155	1.112	3.9
SF/CAD	1.325	1.319	0.5

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

CORPORATE OPERATIONS

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

Twelve months ended December 31	2018	2017
Income (loss) from investments[1]	(15)	12
Operating and other expenses		
Operating expenses	(85)	(86)
Financing charges	(18)	(18)
Depreciation	(2)	(2)
Income taxes[2]	(1)	12
	(106)	(94)
Corporate operations	(121)	(82)

[1] During the second quarter of 2017, Power Financial attained control of Wealthsimple resulting in the recognition of a gain reflecting the Corporation's investment at fair value.

[2] The amount in 2017 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	2018	2017
Lifeco		
Restructuring charges	(38)	(107)
Impact of U.S. tax reform	–	(146)
Net charge on sale of an equity investment	–	(83)
Share of IGM's other items	(1)	(4)
	(39)	(340)
IGM		
Restructuring and other charges	(10)	(88)
Premium paid on early redemption of debentures	(5)	–
Pension plan	–	22
Share of Lifeco's other items	(1)	(12)
	(16)	(78)
Pargesa		
Imerys – Disposal of roofing activity	86	–
Imerys – Impairments, restructuring charges and other	(68)	–
	18	–
	(37)	(418)

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, 2018.

December 31	Power Financial	Lifeco	IGM	Consolidation adjustments and other[1]	Power Financial Consolidated balance sheets 2018	2017
ASSETS						
Cash and cash equivalents	1,025	4,168	650	(219)	5,624	5,321
Investments	184	172,959	8,198	(162)	181,179	172,345
Investment – Lifeco	15,088	–	968	(16,056)	–	–
Investment – IGM	2,688	346	–	(3,034)	–	–
Investment – Parjointco	3,291	–	–	–	3,291	3,354
Investments – other jointly controlled corporations and associates	–	8	683	27	718	662
Assets held for sale	–	897	–	–	897	169
Funds held by ceding insurers	–	9,251	–	–	9,251	9,893
Reinsurance assets	–	6,126	–	–	6,126	5,045
Other assets	115	10,564	1,259	10	11,948	10,750
Intangible assets	–	3,976	1,191	62	5,229	5,748
Goodwill	–	6,548	2,660	738	9,946	9,580
Investments on account of segregated fund policyholders	–	209,527	–	–	209,527	217,357
Investments on account of segregated fund policyholders held for sale	–	3,319	–	–	3,319	–
Total assets	22,391	427,689	15,609	(18,634)	447,055	440,224
LIABILITIES						
Insurance and investment contract liabilities	–	168,431	–	–	168,431	161,365
Liabilities held for sale	–	897	–	–	897	–
Obligations to securitization entities	–	–	7,370	–	7,370	7,596
Debentures and other debt instruments	250	6,459	1,850	(67)	8,492	8,128
Other liabilities	561	11,658	1,787	64	14,070	12,254
Insurance and investment contracts on account of segregated fund policyholders	–	209,527	–	–	209,527	217,357
Insurance and investment contracts on account of segregated fund policyholders held for sale	–	3,319	–	–	3,319	–
Total liabilities	811	400,291	11,007	(3)	412,106	406,700
EQUITY						
Perpetual preferred shares	2,830	2,714	150	(2,864)	2,830	2,830
Common shareholders' equity[2]	18,750	21,809	4,452	(26,261)	18,750	17,683
Non-controlling interests[3][4]	–	2,875	–	10,494	13,369	13,011
Total equity	21,580	27,398	4,602	(18,631)	34,949	33,524
Total liabilities and equity	22,391	427,689	15,609	(18,634)	447,055	440,224

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

[2] Opening retained earnings were decreased by $360 million as a result of the adoption of IFRS 15; refer to the "Adoption of IFRS 15" section for more details.

[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, IGM and Wealthsimple.

Total assets of the Corporation increased to $447.1 billion at December 31, 2018, compared with $440.2 billion at December 31, 2017, primarily due to the impact of currency movement and new business growth of Lifeco, partially offset by the impact of market movement.

Assets held for sale of $897 million and investments on account of segregated fund policyholders held for sale of $3,319 million at December 31, 2018 relate to Lifeco's pending sale of a heritage block of policies to Scottish Friendly which is expected to close in the second half of 2019.

Liabilities increased to $412.1 billion at December 31, 2018, compared with $406.7 billion at December 31, 2017, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contract liabilities increased by $7.1 billion, primarily due to the impact of new business, the strengthening of the British pound, euro and U.S. dollar against the Canadian dollar and the acquisition of Retirement Advantage, partially offset by the impact of fair value adjustments.
- Insurance and investment contracts on account of segregated fund policyholders decreased by $7.8 billion, primarily due to the combined impact of market value losses and investment income of $8.3 billion, funds transferred to assets held for sale of $3.3 billion and net withdrawals of $1.8 billion, partially offset by the impact of currency movement of $5.5 billion.
- Liabilities held for sale of $897 million and insurance and investment contracts on account of segregated fund policyholders held for sale of $3,319 million at December 31, 2018 relate to the pending sale of a heritage block of policies to Scottish Friendly, which is expected to close in the second half of 2019.

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	2018	2017
ASSETS		
Cash and cash equivalents [1]	1,025	1,054
Investments		
Lifeco	15,088	13,772
IGM	2,688	2,865
Parjointco	3,291	3,354
Other [2]	184	142
Other assets	115	122
Total assets	22,391	21,309
LIABILITIES		
Debentures	250	250
Other liabilities	561	546
Total liabilities	811	796
EQUITY		
Perpetual preferred shares	2,830	2,830
Common shareholders' equity	18,750	17,683
Total equity	21,580	20,513
Total liabilities and equity	22,391	21,309

[1] Cash equivalents include $293 million ($281 million at December 31, 2017) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified as investments in the Consolidated Financial Statements.

[2] Includes Power Financial's investments in Portag3 and Wealthsimple presented using the equity method.

Cash and cash equivalents

Cash and cash equivalents held by Power Financial amounted to $1,025 million at December 31, 2018, compared with $1,054 million at the end of December 2017. The fourth quarter dividends declared by the Corporation and paid on February 1, 2019 are included in other liabilities and amounted to $344 million. Dividends declared on November 2, 2018 by IGM and received by the Corporation on January 31, 2019 are included in other assets and amounted to $83 million (see "Non-consolidated Statements of Cash Flows" below for details).

Investments in Lifeco, IGM and Parjointco

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, accounted for using the equity method, increased to $21,067 million at December 31, 2018, compared with $19,991 million at December 31, 2017:

	Lifeco	IGM	Parjointco	Total
Carrying value, at the beginning of the year	13,772	2,865	3,354	19,991
Change in accounting policy[1]	(42)	(318)	–	(360)
Restated carrying value, at the beginning of the year	13,730	2,547	3,354	19,631
Share of adjusted net earnings	2,040	462	39	2,541
Share of other items	(39)	(16)	18	(37)
Share of other comprehensive income	450	28	(36)	442
Dividends	(1,042)	(333)	(75)	(1,450)
Other[2]	(51)	–	(9)	(60)
Carrying value, at December 31, 2018	15,088	2,688	3,291	21,067

[1] Refer to the "Adoption of IFRS 15" section for more details.

[2] Mainly related to the effect of change in ownership in a subsidiary of Lifeco.

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, 2018 (same as at December 31, 2017). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

The terms and conditions of the outstanding First Preferred Shares are described in Note 18 to the Corporation's 2018 Consolidated Financial Statements.

COMMON SHAREHOLDERS' EQUITY

Common shareholders' equity was $18,750 million at December 31, 2018, compared with $17,683 million at December 31, 2017:

Twelve months ended December 31	2018	2017
Common shareholders' equity, at the beginning of the year	17,683	16,901
Change in accounting policy[1]	(360)	–
Restated common shareholders' equity, at the beginning of the year	17,323	16,901
Changes in retained earnings		
Net earnings before dividends on perpetual preferred shares	2,383	1,850
Dividends declared	(1,375)	(1,310)
Effects of changes in capital and ownership of subsidiaries, and other	(62)	(8)
	946	532
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	529	(387)
Investment revaluation and cash flow hedges	(55)	177
Actuarial gains (losses) on defined benefit plans	22	(56)
Share of Pargesa and other associates	(25)	493
Share-based compensation	3	2
	474	229
Issuance of common shares (225,000 shares in 2018 and 601,819 shares in 2017) under the Corporation's Employee Stock Option Plan	7	21
Common shareholders' equity, at December 31	18,750	17,683

[1] Refer to the "Adoption of IFRS 15" section for more details.

The book value per common share of the Corporation was $26.26 at December 31, 2018, compared with $24.77 at the end of 2017.

Outstanding number of common shares

At the date of this hereof, there were 714,096,479 common shares of the Corporation outstanding, compared with 713,871,479 at December 31, 2017. In March 2019, the Corporation launched a substantial issuer bid to repurchase for cancellation up to $1.65 billion of its common shares (refer to the section "Subsequent Events"). At the date of this hereof, options were outstanding to purchase up to an aggregate of 11,292,625 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, 2018.

					Power Financial Consolidated	
Twelve months ended December 31	Power Financial	Lifeco	IGM	Consolidation adjustments and other	2018	2017
Cash flows from:						
Operating activities	1,386	6,494	785	(1,536)	7,129	7,255
Financing activities	(1,353)	(1,267)	(1,132)	1,474	(2,278)	(1,156)
Investing activities	(62)	(4,776)	30	94	(4,714)	(5,146)
Effect of changes in exchange rates on cash and cash equivalents	–	166	–	–	166	(28)
Increase (decrease) in cash and cash equivalents	(29)	617	(317)	32	303	925
Cash and cash equivalents, at the beginning of the year	1,054	3,551	967	(251)	5,321	4,396
Cash and cash equivalents, at December 31	1,025	4,168	650	(219)	5,624	5,321

Consolidated cash and cash equivalents increased by $303 million in the twelve-month period ended December 31, 2018, compared with an increase of $925 million in the corresponding period in 2017.

Operating activities produced a net inflow of $7,129 million in the twelve-month period ended December 31, 2018, compared with a net inflow of $7,255 million in the corresponding period in 2017.

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 $2,278 million in the twelve-month period ended December 31, 2018, compared with a net outflow of $1,156 million in the corresponding period in 2017.

Cash flows from investing activities resulted in a net outflow of $4,714 million in the twelve-month period ended December 31, 2018, compared with a net outflow of $5,146 million in the corresponding period in 2017.

The Corporation increased its level of fixed income securities with maturities of more than three months, resulting in a net outflow of $12 million in the twelve-month period ended December 31, 2018, compared with a net inflow of $60 million in the corresponding period in 2017.

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	2018	2017
OPERATING ACTIVITIES		
Dividends		
Lifeco	1,042	983
IGM	333	333
Pargesa	75	78
	1,450	1,394
Corporate operations, net of non-cash items	(64)	(87)
	1,386	1,307
FINANCING ACTIVITIES		
Dividends paid on perpetual preferred shares	(138)	(130)
Dividends paid on common shares	(1,222)	(1,163)
Issuance of perpetual preferred shares	–	250
Issuance of common shares	7	18
Other (including share issue costs)	–	(6)
	(1,353)	(1,031)
INVESTING ACTIVITIES		
Investments in Portag3 and Wealthsimple	(62)	(25)
Purchase of other investments and other	–	(39)
	(62)	(64)
Increase (decrease) in cash and cash equivalents	(29)	212
Cash and cash equivalents, at the beginning of the year	1,054	842
Cash and cash equivalents, at December 31	1,025	1,054

On a non-consolidated basis, cash and cash equivalents decreased by $29 million in the twelve-month period ended December 31, 2018, compared with an increase of $212 million in the corresponding period in 2017.

Operating activities resulted in a net inflow of $1,386 million in the twelve-month period ended December 31, 2018, compared with a net inflow of $1,307 million in the corresponding period in 2017.

- Dividends paid by Lifeco on its common shares during the twelve-month period ended December 31, 2018 were $1.5560 per share, compared with $1.4680 in the corresponding period in 2017. In the twelve-month period ended December 31, 2018, the Corporation received dividends from Lifeco of $1,042 million, compared with $983 million in the corresponding period in 2017. On February 7, 2019, Lifeco announced a 6% increase in the quarterly dividend on its common shares, from $0.3890 per share to $0.4130 per share, payable on March 29, 2019.
- Dividends paid by IGM on its common shares during the twelve-month period ended December 31, 2018 were $2.25 per share, the same as in the corresponding period in 2017. In the twelve-month period ended December 31, 2018, the Corporation received dividends from IGM of $333 million, the same as in the corresponding period in 2017.
- Pargesa declares and pays an annual dividend in the second quarter. The dividend paid by Pargesa to Parjointco in 2018 amounted to SF2.50 per bearer share, compared with SF2.44 in 2017. The Corporation received dividends of $75 million (SF59 million) from Parjointco in 2018, compared with $78 million (SF57 million) in 2017. On March 14, 2019, Pargesa announced that its board of directors will recommend the distribution of a dividend for the 2018 financial year of SF2.56 per bearer share, representing an increase of 2.4%.

The Corporation's financing activities during the twelve-month period ended December 31, 2018 were a net outflow of $1,353 million, compared with a net outflow of $1,031 million in the corresponding period in 2017, and included:

- Dividends paid on preferred and common shares by the Corporation of $1,360 million, compared with $1,293 million in the corresponding period in 2017. In the twelve-month period ended December 31, 2018, dividends paid on the Corporation's common shares were $1.7115 per share, compared with $1.63 per share in the corresponding period in 2017.
- In 2017, the Corporation issued perpetual preferred shares of $250 million.
- Common shares issued of $7 million for employee stock options exercised in the period, compared with $18 million in the corresponding period in 2017.

The Corporation's investing activities during the twelve-month period ended December 31, 2018 were a net outflow of $62 million, compared with a net outflow of $64 million in the corresponding period in 2017.

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 the capital markets.

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

The 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, oversee and have the 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 80% of consolidated capitalization at December 31, 2018.

December 31	2018	2017
DEBENTURES AND OTHER DEBT INSTRUMENTS		
Power Financial	250	250
Lifeco	6,459	5,777
IGM	1,850	2,175
Other subsidiaries and consolidation adjustments	(67)	(74)
	8,242	7,878
	8,492	8,128
PREFERRED SHARES		
Power Financial	2,830	2,830
Lifeco	2,714	2,714
IGM	150	150
	2,864	2,864
	5,694	5,694
EQUITY		
Common shareholders' equity	18,750	17,683
Non-controlling interests[1]	10,505	10,147
	29,255	27,830
	43,441	41,652

[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.

On March 8, 2019, the Corporation and Lifeco each launched a substantial issuer bid to repurchase for cancellation up to $1.65 billion and $2.0 billion of their respective common shares (refer to the section "Subsequent Events").

Power Financial

- The Corporation filed a short-form base shelf prospectus dated November 16, 2018, 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.

Lifeco

- On February 28, 2018, Lifeco issued $500 million of 10-year 3.337% debentures.
- On March 21, 2018, Lifeco's 6.14% $200 million debenture notes matured at their principal amount together with accrued interest.
- On May 17, 2018, Great-West Lifeco Finance 2018, LP, a subsidiary of Lifeco, issued $384 million (US$300 million) 4.047% senior notes due May 17, 2028 and $640 million (US$500 million) 4.581% senior notes due May 17, 2048.
- On June 18, 2018, Great-West Life & Annuity Insurance Capital, LP II, a subsidiary of Lifeco, redeemed all $399 million (US$300 million) aggregate principal amount of its 2.538% plus 3-month LIBOR unsecured subordinated debentures due May 16, 2046.
- On June 26, 2018, Great-West Lifeco Finance (Delaware) LP II, a subsidiary of Lifeco, redeemed all $500 million principal amount of its 7.127% subordinated debentures due June 26, 2048 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.

IGM

- On March 7, 2018, IGM repaid on maturity its $150 million 2003 Series 6.58% debentures.
- On July 11, 2018, IGM issued $200 million of 4.174% debentures maturing July 13, 2048. On August 10, 2018, the net proceeds were used by IGM, together with a portion of its existing internal cash resources, to fund the early redemption of all of its $375 million 7.35% debentures due April 8, 2019. A premium of $11 million was paid by IGM on the early redemption.

Subsequent event

- On March 20, 2019, IGM issued $250 million of 4.206% debentures maturing March 21, 2050. The net proceeds will be used by IGM to fund the intended redemption of its issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B for $150 million, and for general corporate purposes

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

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 oversight and 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 reviews and 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 or be able 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 corporations and associates, as well as on their ability to pay dividends. The payment of interest and dividends by Power Financial's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained.

The Corporation 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, 2017.

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 private and public equity securities) 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, the variation of credit spreads on tradable fixed income securities and also to counterparty risk relating 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, 2017.

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, 2018, approximately 3% of the $1,025 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, 2018, the sensitivity of the financial instruments portfolio to a change of 1% in interest rate was $3 million over a portfolio of $269 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, 2018, the impact of a 5% decrease in the value of other investments would have been a $6 million unrealized loss recorded in other comprehensive income.

Power Financial's management of financial instruments risk has not changed materially since December 31, 2017. For a further discussion of the Corporation's risk management, please refer to Note 22 to the Corporation's 2018 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, a third party code of conduct, 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 anticipate 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, analyze 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.

The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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.

		2018		2017
At December 31	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	91,815	91,815	89,824	89,824
Available for sale	13,532	13,532	12,628	12,628
Mortgage and other loans				
Fair value through profit or loss	817	817	287	287
Shares				
Fair value through profit or loss	8,794	8,794	8,194	8,194
Available for sale	213	213	243	243
Investment properties	5,218	5,218	4,851	4,851
Funds held by ceding insurers	7,155	7,155	7,938	7,938
Derivative instruments	433	433	422	422
Assets held for sale [1]	782	782	–	–
Other assets	927	927	892	892
	129,686	129,686	125,279	125,279
Assets disclosed at fair value				
Bonds				
Loans and receivables	19,722	20,619	17,959	19,470
Mortgage and other loans				
Loans and receivables	31,900	32,349	29,748	30,680
Shares				
Available for sale [2]	239	239	331	331
Funds held by ceding insurers	91	91	106	106
	51,952	53,298	48,144	50,587
Total	181,638	182,984	173,423	175,866
LIABILITIES				
Liabilities recorded at fair value				
Investment contract liabilities	1,711	1,711	1,841	1,841
Investment contract liabilities held for sale	27	27	–	–
Derivative instruments	1,593	1,593	1,364	1,364
Other liabilities	162	162	71	71
	3,493	3,493	3,276	3,276
Liabilities disclosed at fair value				
Obligations to securitization entities	7,370	7,437	7,596	7,658
Debentures and other debt instruments	8,492	9,224	8,128	8,991
Deposits and certificates	622	622	555	555
	16,484	17,283	16,279	17,204
Total	19,977	20,776	19,555	20,480

[1] Excludes cash and cash equivalents and loans to policyholders as the carrying value is a reasonable approximation of the fair value.

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

See Note 27 to the Corporation's 2018 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2018.

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, 2018. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

			2018			2017
December 31	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Financial	20	–	(2)	17	2	2
Lifeco	19,614	417	(1,145)	16,589	384	(952)
IGM	2,883	16	(13)	3,269	36	8
Other subsidiaries	8	–	–	–	–	–
	22,505	433	(1,158)	19,858	420	(944)
	22,525	433	(1,160)	19,875	422	(942)

During the twelve-month period ended December 31, 2018, there was an increase of $2.7 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward-settling mortgage-backed security transactions ("to-be-announced securities") and regular hedging activities.

The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) increased to $433 million at December 31, 2018 from $422 million at December 31, 2017.

See Note 26 to the Corporation's 2018 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 also Note 32 to the Corporation's 2018 Consolidated Financial Statements.

Contingent Liabilities

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

Commitments and Contractual Obligations

Payments due by period	Less than 1 year	1–5 years	More than 5 years	Undefined	Total
Power Financial[1]	30	6	251	–	287
Lifeco	1,865	1,812	5,214	–	8,891
IGM	1,835	6,208	1,911	–	9,954
Other subsidiaries and consolidation entries	29	2	(86)	11	(44)
Total	3,759	8,028	7,290	11	19,088
Debentures and other debt instruments[2]	494	1,279	6,764	–	8,537
Obligations to securitization entities	1,208	6,135	27	–	7,370
Deposits and certificates	615	5	2	–	622
Operating leases[3]	142	400	497	–	1,039
Purchase obligations[4]	90	148	–	–	238
Pension contributions[5]	338	–	–	–	338
Contractual commitments[6]	872	61	–	11	944
Total	3,759	8,028	7,290	11	19,088

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

[2] Please refer to Note 15 to the Corporation's 2018 Consolidated Financial Statements for further information.

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

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

[5] 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.

[6] Represents $933 million of commitments by Lifeco. These contractual commitments are essentially commitments to investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfillment of certain contract conditions.

Income Taxes (non-Consolidated basis)

The Corporation had, at December 31, 2018, non-capital losses of $230 million available to reduce future taxable income (including capital gains). These losses expire during the years 2028 to 2038. In addition, the Corporation has capital losses of $84 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 subadvisory 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 October 2017, IGM obtained advance 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 in each year up to and including 2020. 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 31, 2018 and December 29, 2017, IGM acquired shares of the subsidiary.

See Note 30 to the Corporation's 2018 Consolidated Financial Statements for additional 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 or accounted for using the equity method, 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 2018 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.

JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Management of the Corporation and of each of its subsidiaries exercise judgment in determining whether joint control or significant influence exists.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's 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 13 to the Corporation's 2018 Consolidated Financial Statements.

FAIR VALUE MEASUREMENT

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

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

The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following is a description of the methodologies used to determine fair value.

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

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

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

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

Equity-release mortgages at fair value through profit or loss

There are no market observable prices for equity-release mortgages; an internal valuation model is used which is based on discounting expected future cash flows and considering the embedded no-negative-equity guarantee. Inputs to the model include market observable inputs such as benchmark yields and risk-adjusted spreads. Non-market observable inputs include property growth and volatility rates, expected rates of voluntary redemptions, death, moving to long-term care and interest cessation assumptions and the value of the no-negative-equity guarantee.

Bonds and mortgage and other loans classified as loans and receivables

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

Investment properties

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

IMPAIRMENT OF INVESTMENTS

Investments are reviewed 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 bonds and mortgage and other loans 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. Where available-for-sale bonds are determined to be impaired, 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, interest is no longer accrued on impaired bonds and mortgage and other loans and previous interest accruals are reversed in net investment income.

Impairment losses on available-for-sale shares are recorded in net investment income if the loss is significant or prolonged. Subsequent losses are 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 and its 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 and settlement gains or losses are included in operating and administrative expenses.
- Remeasurements 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 deferred tax assets is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets. The Corporation and its subsidiaries' financial planning process provides a significant basis for the measurement of deferred tax assets.

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

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

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

Changes in Accounting Policies

There were no changes to the Corporation's accounting policies from those reported at December 31, 2017, except as described below.

ADOPTION OF IFRS 15 – *REVENUE FROM CONTRACTS WITH CUSTOMERS* (IFRS 15)

On January 1, 2018, the Corporation and its subsidiaries adopted IFRS 15, *Revenue from Contracts with Customers* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard outlines criteria that determine whether the Corporation's subsidiaries in the asset management industry are to capitalize and amortize contract costs or expense them.

The Corporation's subsidiaries receive commissions on investment product sales where they either receive a fee directly from the client or directly from the investment fund. The application of IFRS 15 has resulted in a change to the accounting policy related to commission expense as follows:

- Commissions that are paid on investment product sales where a fee is directly received from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years.
- All other commissions paid on investment product sales are expensed as incurred.

The Corporation and its subsidiaries have elected to apply the modified retrospective approach, as permitted by the transition provisions within IFRS 15. As a result of changes to the treatment of contract costs, Lifeco and IGM have recorded an adjustment for the derecognition of certain deferred acquisition costs included in other assets, deferred selling commissions included in intangible assets and related income tax liabilities which resulted in a decrease of $360 million in the opening retained earnings of the Corporation at January 1, 2018.

The impact of the change in accounting policy on the consolidated balance sheet is as follows:

	December 31, 2017 (as previously reported)	Impact of change in accounting policy	January 1, 2018 (restated)
Assets			
Other assets	8,163	5	8,168
Intangible assets[1]	5,748	(767)	4,981
		(762)	
Liabilities and shareholders' equity			
Deferred tax liabilities	1,670	(205)	1,465
Retained earnings	15,381	(360)	15,021
Non-controlling interests	13,011	(197)	12,814
		(762)	

[1] On January 1, 2018, as a result of IFRS 15, the balance of deferred selling commissions has been reclassified from intangible assets to other assets as they are a cost of obtaining a contract.

Commission expenses are expected to decline in future years due to the change in treatment of the contract costs in accordance with IFRS 15 and changes in IGM's commission structure in which there is an ongoing shift from sales-based commissions to asset-based commissions.

In addition, the Corporation and its subsidiaries have reclassified fee and premium income amounts for 2017 comparative periods in the Consolidated Statements of Earnings and in this review of financial performance for the change in presentation of certain revenues and expenses on a gross or net basis. These reclassifications did not have an impact on net earnings.

The implementation of IFRS 15 will result in a change in timing of the recognition of commission expenses. However, there is no effect on the cash flows of the Corporation's subsidiaries.

For a further description of the impact of the accounting policy change, refer to Note 2 of the 2018 Consolidated Financial Statements.

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 16 – Leases (IFRS 16)	In January 2016, 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. The distinction between operating and financing leases no longer applies. A lessee will recognize 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. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon transition. The Corporation expects to use the modified retrospective method upon transition with no restatement of comparative financial information. Under this approach, the Corporation will recognize the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at January 1, 2019. The Corporation will recognize a lease liability at the present value of the remaining lease payments discounted using the lease's incremental borrowing rate at January 1, 2019. The right-of-use asset will be recognized on a lease by lease basis either at i) its carrying amount as if IFRS 16 had been applied since the commencement date but discounted using the Corporation's incremental borrowing rate at January 1, 2019; or ii) an amount equal to the lease liability adjusted for any prepaid or accrued lease payments. The Corporation and its subsidiaries are finalizing their assessment of the quantitative impact of the adoption of IFRS 16 which will be disclosed in the first quarter of 2019. The preliminary estimate of the impact includes the recognition of approximately $635 million in right-of-use assets and a lease liability of $715 million. The Corporation and its subsidiaries do not anticipate that there will be a material impact on the statement of earnings. The standard is effective for annual reporting periods beginning on or after January 1, 2019.
IFRS 17 – Insurance Contracts (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* and will be applied retrospectively. If the full retrospective application is impractical, then the modified retrospective or fair value methods may be used. In November 2018, the IASB proposed an amendment to IFRS 17 providing a deferral of one year of the effective date of the standard to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instruments standard, IFRS 9, *Financial Instruments*, so that both IFRS 9 and IFRS 17 will have the same effective date. The IASB continues to evaluate certain elements of the standard and is expected to issue narrow-scope amendments specific to these items. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has made progress in implementing its project plan. Lifeco has assembled a project team that is working on the implementation of IFRS 17 which involves preparing the financial reporting systems and processes for reporting under IFRS 17, as well as monitoring developments from the IASB, the Transition Resource Group for IFRS 17 and other industry associations. 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. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how it reports financial performance in the statements of earnings. Lifeco continues to assess the impact of IFRS 17, which is expected to be significant on the timing of earnings recognition for its insurance contracts as well as continues to assess the impact on regulatory and tax regimes that are dependent upon IFRS accounting values. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements.

New standard	Summary of future changes
Current implication of IFRS 9 – Financial Instruments (IFRS 9)	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments, with an effective date of January 1, 2018. 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 2022 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 and has elected to apply the deferral approach which permits the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation continues to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. Pargesa (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted 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 although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to Pargesa's results.
IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)	In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries do not anticipate a significant impact from the adoption of this interpretation.
IFRS 3 – Business Combinations (IFRS 3)	In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments are effective for periods beginning on or after January 1, 2020. The Corporation and its subsidiaries are evaluating the impact of the adoption of these amendments.
IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)	In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for periods beginning on or after January 1, 2020. The Corporation and its subsidiaries are evaluating the impact of the adoption of these amendments.

Disclosure Controls and Procedures

Based on their evaluations at December 31, 2018, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective at December 31, 2018.

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, under the supervision of the Chief Executive Officer and the Chief Financial Officer, 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, 2018, 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, 2018.

There have been no changes in the Corporation's internal control over financial reporting during the year ended December 31, 2018 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	2018	2017	2016
Total revenues	47,025	49,987	49,122
Assets under administration [in billions]	1,565	1,521	1,404
Net earnings (attributable to common shareholders)	2,245	1,717	1,919
per share – basic	3.15	2.41	2.69
per share – diluted	3.14	2.40	2.68
Adjusted net earnings (attributable to common shareholders) [1]	2,282	2,135	2,136
per share – basic	3.20	2.99	2.99
Consolidated assets	447,055	440,224	418,407
Total financial liabilities	24,550	23,522	23,229
Debentures and other debt instruments	8,492	8,128	7,674
Shareholders' equity	21,580	20,513	19,481
Book value per common share	26.26	24.77	23.69
Number of common shares outstanding [millions]	714.1	713.9	713.3
Dividends per share [declared]			
Common shares	1.7320	1.6500	1.5700
First preferred shares			
Series A [2]	0.6301	0.5067	0.4725
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 [3]	0.5765	0.5765	0.5765
Series Q [3]	0.7091	0.5673	0.5252
Series R	1.3750	1.3750	1.3750
Series S	1.2000	1.2000	1.2000
Series T [4]	1.0500	1.0500	1.0500
Series V [5]	1.2875	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] 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.

[3] 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.

[4] Subsequent to December 31, 2018, the dividend rate for the five-year period from and including January 31, 2019 was reset to 4.215% or $0.263438 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.