POWER CORPORATION OF CANADA

2019 Annual Report

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

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

In addition, selected information concerning the business, operations, financial condition, financial performance, priorities, ongoing objectives, strategies and outlook of Power Corporation subsidiaries and associates is derived from public information published by such subsidiaries and associates and is provided here for the convenience of the shareholders of Power Corporation. For further information concerning such subsidiaries and associates, shareholders and other interested persons should consult the websites of, and other publicly available information published by, such subsidiaries and associates, including the 2019 annual MD&As of Power Financial, Great-West Lifeco and IGM Financial, as filed under their respective profiles at www.sedar.com, as well as the year-end press release of Pargesa.

All figures mentioned in this report are in Canadian dollars and as of December 31, 2019, unless otherwise noted.

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

Management uses the following non-IFRS financial measures and basis of presentation:

- Adjusted net earnings, which is net earnings excluding the impact of Other items;
- Other items, which include the after-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Other items include the Corporation's share of items presented as Other items by a subsidiary or a jointly controlled corporation;
- Adjusted net earnings per share, which is the adjusted net earnings divided by the weighted average number of participating shares outstanding;
- Net asset value, which is the fair value of the Corporation's non-consolidated assets less its net debt and preferred shares;
- Net asset value per share, which is the net asset value divided by the number of participating shares outstanding.

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

Adjusted net earnings attributable to participating shareholders, adjusted net earnings per share, net asset value and net asset value per share are non-IFRS financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. Refer to the "Non-IFRS Financial Measures and Presentation" section further in this report for the definition of non-IFRS financial measures and their reconciliation with IFRS financial measures.

The Corporation also uses a non-consolidated basis of presentation to present and analyze its results whereby its interests in Power Financial and other subsidiaries are accounted for using the equity method. Presentation on a non-consolidated basis is a non-IFRS presentation. However, it is useful to the reader as it presents the holding company's (parent) results separately from the results of its operating subsidiaries. Reconciliations of the non-IFRS basis of presentation with the presentation in accordance with IFRS are included further in this report.

ABBREVIATIONS

The following abbreviations are used throughout this report:

Power Corporation or the Corporation (Power Corporation of Canada)
adidas (adidas AG)
BME (Madrid Stock Exchange)
Burberry (Burberry Group plc)
CALM (Canadian Asset Liability Method)
Canada Life (The Canada Life Assurance Company)
China AMC (China Asset Management Co., Ltd.)
Eagle Creek (Eagle Creek Renewable Energy, LLC)
EBR (Euronext Brussels)
EPA (Euronext Paris)
GBL (Groupe Bruxelles Lambert)
GEA (GEA Group)
Great-West Life (The Great-West Life Assurance Company)
Great-West Life & Annuity or Empower Retirement (Great-West Life & Annuity Insurance Company)
IFRS (International Financial Reporting Standards)
IGM or IGM Financial (IGM Financial Inc.)
IG Wealth Management (Investors Group Inc.)
IntegraMed (IntegraMed America, Inc.)
Investment Planning Counsel (Investment Planning Counsel Inc.)
Irish Life (Irish Life Group Limited)
Koho (KOHO Financial Inc.)
LafargeHolcim (LafargeHolcim Ltd)
La Presse (La Presse, ltée)
Lifeco or Great-West Lifeco (Great-West Lifeco Inc.)
Lion or Lion Electric (The Lion Electric Co.)
London Life (London Life Insurance Company)
Lumenpulse (Lumenpulse Group Inc.)
Mackenzie or Mackenzie Investments (Mackenzie Financial Corporation)
Nautilus (Nautilus Solar Energy, LLC)
Ontex (Ontex N.V.)
PanAgora (PanAgora Asset Management, Inc.)
Pargesa (Pargesa Holding SA)
Parjointco (Parjointco N.V.)
Parques (Parques Reunidos Servicios Centrales, S.A.)
Peak (Peak Achievement Athletics Inc.)
Personal Capital (Personal Capital Corporation)
Portag3 (Portag3 Ventures Limited Partnership)
Portag3 II (Portag3 Ventures II Limited Partnership)
Potentia or Potentia Renewables (Potentia Renewables Inc.)
Power Energy (Power Energy Corporation)
Power Financial (Power Financial Corporation)
Power Pacific or Sagard China (Power Pacific Investment Management Inc.)
Power Sustainable Capital (Power Sustainable Capital Investments Inc.)
Putnam (Putnam Investments, LLC)
Retirement Advantage (MGM Advantage Holdings Ltd.)
Sagard Europe (Sagard SAS, Sagard II and Sagard 3)
Sagard Healthcare Royalty Partners or SHRP (Sagard Healthcare Royalty Partners, LP)
Sagard Holdings (Sagard Holdings ULC)
SGS (SGS SA)
SIX (Swiss Stock Exchange)
Square Victoria Communications Group (Square Victoria Communications Group Inc.)
Total (Total SA)
Umicore (Umicore, NV/SA)
Wealthsimple (Wealthsimple Financial Corp.)
Webhelp (Webhelp Group)
XETR (XETRA Stock Exchange)

Highlights

Power Corporation of Canada

Net Earnings[1]

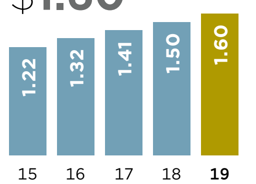
$1,108 MILLION

Adjusted Net Earnings[1][2]

$1,313 MILLION

Dividends Declared per Share[1][3]

$1.60



Net Earnings per Share[1]

$2.53

Adjusted Net Earnings per Share[1][2]

$3.00

Dividend yield[4]

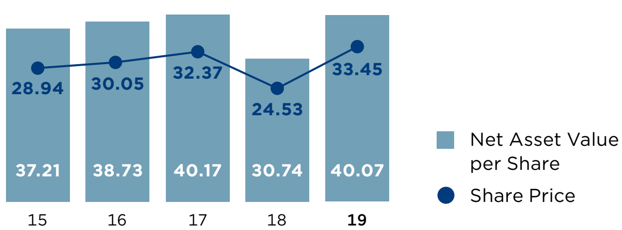
4.84%

Net Asset Value per Share[2]

$40.07

Share Price

$33.45



Incorporated in 1925, Power Corporation is an international management and holding company that focuses on financial services in North America, Europe and Asia. Its core holdings are leading insurance, retirement, wealth management and investment businesses, including a portfolio of alternative asset investment platforms.

Key Principles

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

FOR THE YEARS ENDED DECEMBER 31

[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]	2019	2018
Net earnings[1]	1,108	1,287
Net earnings per share[1]	2.53	2.77
Adjusted net earnings[1][2]	1,313	1,438
Adjusted net earnings per share[1][2]	3.00	3.09
Dividends declared per share[1][3]	1.60	1.50
Consolidated assets	477,250	452,303
Shareholders' equity[5]	14,174	15,118
Book value per participating share	30.98	30.38
Net asset value per participating share[2]	40.07	30.74
Participating shares outstanding [in millions]	426.5	466.0

[1] Attributable to participating shareholders.

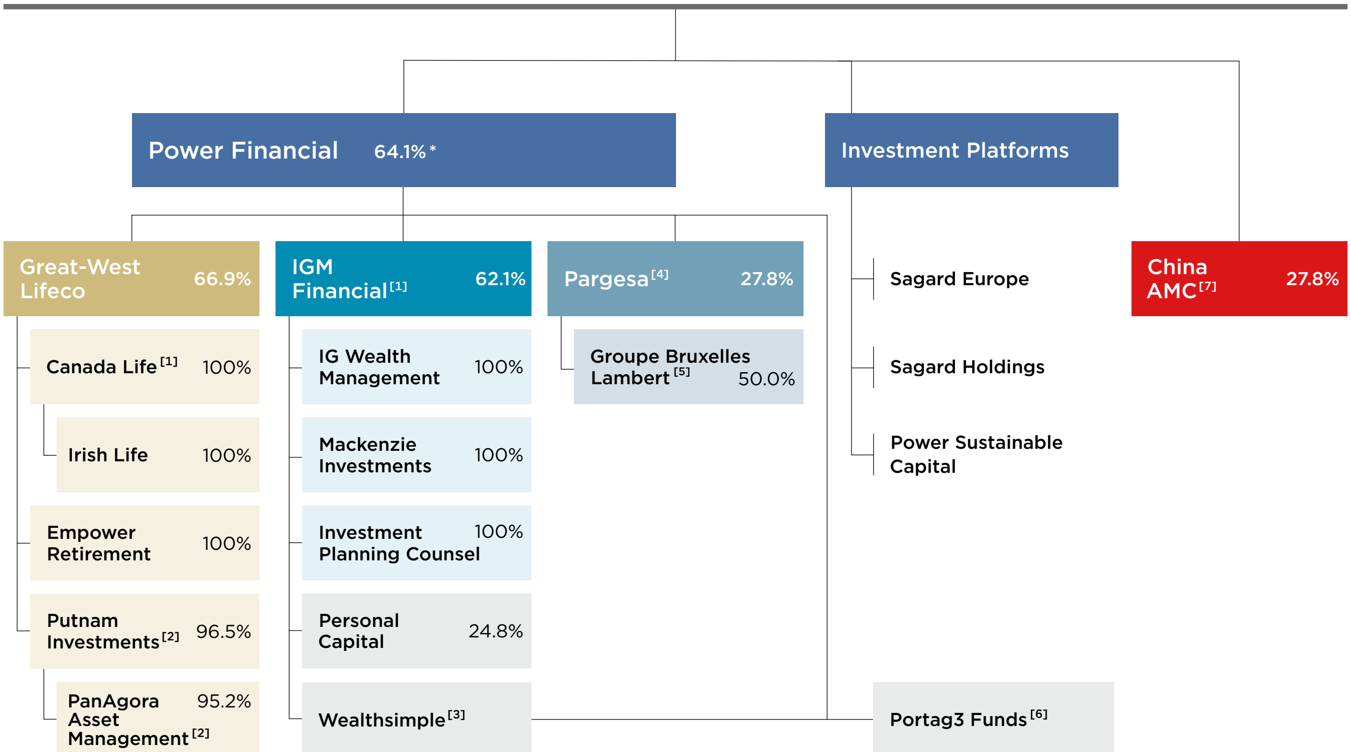
[2] Adjusted net earnings, adjusted net earnings per share and net asset value per participating share are non-IFRS financial measures. Please refer to the reconciliation of IFRS and non-IFRS financial measures in the Review of Financial Performance section of this annual report.

[3] Dividends declared exclude the dividend declared on December 12, 2019 announced as part of the reorganization which changed the dividend declaration and payment schedule.

[4] Dividend yield is calculated as the annualized dividend based on the last dividend declared in 2019 divided by the December 31, 2019 share price.

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

POWER CORPORATION OF CANADA



* Subsequent to the reorganization, as of February 13, 2020, Power Corporation holds 100% of the equity and voting interest of Power Financial.

Percentages denote equity interest as at December 31, 2019, unless otherwise noted.

[1] As of January 1, 2020, Great-West Life, London Life and Canada Life amalgamated into a single company: Canada Life. Great-West Life holds a 3.9% interest in IGM, and IGM holds a 4.0% interest in Lifeco.

[2] Representing 100% of the voting interests.

[3] Power Financial, Portag3 and IGM hold undiluted equity interests in Wealthsimple of 21.2%, 16.8% and 46.9%, respectively, representing a combined voting interest of 85.3% and a fully diluted equity interest of 71.3%.

[4] Held through Parjointco, a jointly controlled corporation (50%), which holds a 55.5% interest in Pargesa, representing 75.4% of the voting interest.

[5] Representing 51.7% of the voting interest in Groupe Bruxelles Lambert.

[6] Interest held in Portag3: Power Financial 63%, Lifeco 18.5% and IGM 18.5%. Interest held in Portag3 II: Power Financial 7.7%, Lifeco 7.7%, IGM 7.7% and Sagard Holdings 4.7%.

[7] Power Corporation and IGM each hold a 13.9% interest in China AMC.

Directors' Report to Shareholders

As we write this report to shareholders, the world is engulfed in combatting the spread and the impact of COVID-19. The current priorities of Power Corporation and its group companies around the world are the health and safety of our people, the proper functioning of our operations to continue to serve the needs of our clients and managing the potential impacts of economic stress among individuals, organizations and financial markets.

We salute the extraordinary efforts of our people who have managed so much change and challenge in such an effective manner. We salute the front-line workers in our communities dealing with the crisis, often putting their own health at risk. And our hearts and sympathies go out to the many people who have loved ones directly impacted by the disease.

It is too early today to understand the duration and full effects of the crisis and its ultimate impacts from a health or economic perspective. We do know that it will eventually pass, and we will all look back and ask ourselves whether we made the judgments and took the actions that were appropriate under the circumstances.

In the context of the current environment, discussing corporate achievements, strategy and future opportunities feels out of place. As we emerge from the worst of the COVID-19 crisis, however, and start to get the world functioning again, it will be important for all of us to get back to focusing on building for the future.

The following pages describe our plans.

The Corporation will pursue a more focused strategy emphasizing financial services.

AT POWER, 2019 WAS A YEAR OF CHANGE FOCUSED ON THE FUTURE

2019 has been a year of significant change and progress for Power Corporation and our group companies as we moved to refine our focus on long-term value creation and adapt to the changing needs of customers around the world.

The initiatives that were undertaken during the year were part of our continuing efforts to serve our shareholders, customers, employees and other stakeholders.

SIMPLIFYING OUR CORPORATE STRUCTURE

In December, Power Corporation announced a significant reorganization whereby all Power Financial common shares held by the public were exchanged for Power Corporation shares, eliminating the dual-holding-company structure.

The simplified corporate structure reduces organizational complexity and makes Power Corporation easier to understand and value. The Corporation will pursue a more focused strategy emphasizing financial services. Shareholders will also benefit from an increased public float and trading liquidity. Power Corporation announced that it will undertake a reduction in operating expenses of $50 million per year within two years and a reduction in financing expenses of $15 million per year. As a result, the reorganization is expected to be accretive to earnings per share. The Corporation also announced a 10.5 per cent increase in its dividend commencing with the payment in the second quarter of 2020.

ONGOING VALUE CREATION STRATEGY

The reorganization was part of Power's ongoing efforts to create shareholder value.

Earlier in 2019, for example, Great-West Lifeco announced the sale of its U.S. individual life insurance and annuity business in order to focus on the retirement and asset management markets in the U.S. Great-West Lifeco decided to mitigate the resulting earnings dilution by buying back common shares, which provided the opportunity to launch simultaneous substantial share buybacks at each of Power Corporation, Power Financial and Great-West Lifeco.

The simultaneous three-level share buybacks were a first in the capital markets, returned capital to shareholders and increased the net asset values per share of each of Power Corporation and Power Financial.

In March of 2020, an additional initiative was announced with the goal of simplifying the corporate structure at Pargesa Holding and Groupe Bruxelles Lambert. The proposal would result in Pargesa becoming a private company controlled by Power and the Frère family, eliminating the dual-holding-company structure and leaving GBL as the sole public holding company. The transaction is subject to various shareholder approvals at Pargesa and GBL.

The Power group will continue to pursue initiatives that create and surface value for shareholders.

The Power group will continue to pursue initiatives that create and surface value for shareholders.

VALUE CREATION FOCUSED ON THREE LEVERS

Power's value creation strategy is focused upon three levers.

The first lever is the pursuit of clearly articulated organic growth strategies at each of our public operating companies. Across the businesses that make up Great-West Lifeco, IGM Financial and GBL, the management teams are transforming their business models to meet the changing needs of their customers.

The second lever is the deployment of capital to add to growth inorganically, such as via acquisition, and the redeployment of capital from businesses not expected to meet our return aspirations. Our public operating companies are continually reviewing opportunities to add to their competitive position and earnings potential through engaging in potential acquisition activity.

The third lever is the focus on actions we can take either at the Power level, between Power and its operating companies, or between our group companies. The recent collapse of Power's dual-holding-company structure, the simultaneous share buybacks and the proposed simplification of Pargesa and GBL's structure, all referred to above, are examples of utilizing this third lever.

It is expected that the organic and inorganic strategies at our operating companies will continue to be the primary drivers of Power's value creation going forward, given that they represent over 80 per cent of our total current value.

We will also continue to build upon our very successful investment platforms to create growing and profitable alternative asset management businesses.

BUILDING ALTERNATIVE ASSET MANAGEMENT BUSINESSES

Power Corporation will continue to build upon its very successful investment platforms to create growing and profitable alternative asset management businesses. We have highly skilled teams operating in different investment asset classes, including private equity in Europe, public equities in China, North American renewable energy, fintech, private credit and healthcare royalties.

A number of these teams have been in place for many years, while other teams are made up of experienced professionals who have joined our group more recently.

The plan for our alternative asset management businesses is based upon the following:

- operate in asset classes where we can create competitive advantage;
- raise and manage primarily third-party capital, with Power acting as a provider of seed capital;
- demonstrate the ability to be profitable as an asset manager within a reasonable time period, thereby increasing the returns we earn on our seed capital; and
- realize synergies with our various operating companies, by creating mutually beneficial distribution arrangements to help them serve their clients, or by meeting their own balance sheet needs.

Third-party capital is already the primary source of funds for many of our investment strategies, while others are currently funded by Power's own balance sheet.

Power also owns a number of stand-alone companies that are not in financial services, most of which are private. We will continue to support the growth of these companies in a manner that allows us to realize value over time. Investing in new stand-alone businesses that are not in financial services will not be part of the go-forward strategy.

Our expectation is that as this new strategy is implemented, we will, at the Power Corporation level, migrate to a model which requires a lighter commitment of capital, produces a higher return on the capital which is deployed, and permits the return of excess capital to shareholders.

The guiding principles underlying Power's value creation strategy remain unchanged, and have guided the success of the Corporation over many decades.

OUR STRATEGY HAS CHANGED, OUR GUIDING PRINCIPLES HAVE NOT

The guiding principles underlying Power's value creation strategy remain unchanged, and have guided the success of the Corporation over many decades:

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

COMMUNICATING WITH OUR STAKEHOLDERS

We have been on a journey to enhance the communications of our goals, our strategies and our results to our various stakeholders, be they our shareholders, employees, clients or the communities where we operate.

As part of this effort, we have expanded our investor outreach during the past few years. Our goal is to have the investment community understand our strategies, how we measure value creation, our objectives, and our performance against those objectives. We still have work to do in meeting this goal, which we are pursuing in tandem with our public operating companies. We are committed to continuing to make meaningful progress.

RECOGNIZING POWER FINANCIAL — OUTSTANDING VALUE TO SHAREHOLDERS

Power Financial became a public company in the mid-1980s to provide the public with a pure-play financial services company, at a time when Power Corporation had substantial holdings in industrial companies and plans to build upon them.

Power Financial prospered and grew substantially by expanding existing businesses and acquiring new ones, such as London Life, Mackenzie Financial, Canada Life, Putnam Investments and Irish Life.

Shareholders were well rewarded. An investment of $100 in Power Financial shares 30 years ago was worth $4,218 at the time of the completion of the reorganization, an annual compounded return of 13.3 per cent. A $100 investment in the TSX Index over the same 30-year period was worth $898, an annual compounded return of 7.6 per cent.

Over time, the asset profile of Power Financial and Power Corporation became substantially similar, leading to the recent reorganization. Power Financial continues to exist as a company with preferred shares and debt securities held by the public. Its common shares, however, were delisted from the TSX in February of 2020, after having provided outstanding returns to its shareholders over many decades.

OUR GROUP COMPANIES

Each of Great-West Lifeco, IGM Financial and GBL have well articulated value creation strategies and have been positioning their businesses to prosper in a rapidly changing environment. We encourage you to learn more at www.greatwestlifeco.com, www.igmfinancial.com and www.gbl.be.

FINANCIAL RESULTS

Power Corporation's net earnings attributable to participating shareholders were $1,108 million or $2.53 per share for the year ended December 31, 2019, compared with $1,287 million or $2.77 per share in 2018.

Adjusted net earnings were $1,313 million or $3.00 per share, compared with $1,438 million or $3.09 per share in 2018.

Dividends declared on the Corporation's participating shares, excluding the dividend declared on December 12, 2019 as part of the reoganization, were $1.5970 per share in 2019, an increase of 6 per cent compared to 2018.

As mentioned previously, on March 18, 2020, the Board of Directors declared a 10.5 per cent increase in the quarterly dividend from 40.50 cents to 44.75 cents per participating share, payable May 1, 2020 to shareholders of record as at March 31, 2020.

OUR CORPORATE SOCIAL RESPONSIBILITY COMMITMENT

We take very seriously our responsibility to our shareholders and our duty to build a strong, profitable and sustainable business, but we also believe that businesses have a responsibility towards their communities, fellow citizens and the environment. Our responsible management philosophy is fundamental to our business success, enabling us to mitigate risk, create long-term value and earn the confidence of our customers, business partners, shareholders, employees and the communities in which we operate. This philosophy aligns with our support of the United Nations Global Compact.

We take very seriously our responsibility to our shareholders, but we also believe that businesses have a responsibility towards their communities, fellow citizens, and the environment.

We also engage with our group companies to confirm they continue to be managed in a manner consistent with our responsible management philosophy. We are proud of the actions taken by our companies as part of their respective corporate social responsibility journeys. For example, many of them have become supporters and signatories of important third-party-led initiatives such as the Women's Empowerment Principles, the Principles for Responsible Investment, the Task Force on Climate-related Financial Disclosures and the Climate Action 100+ initiative.

We are also proud that, over the past few years, our group's efforts to strengthen our corporate social responsibility programs, initiatives and disclosure have been recognized by well-regarded external organizations.

We invite you to read more on www.PowerCorporationCSR.com.

IN MEMORIAM

It was with profound sadness that we learned of the passing of Mr. Arnaud Vial in November 2019. Mr. Vial joined the Power group of companies in 1997 and served as Senior Vice-President of Power Corporation and Power Financial until June 2018. Mr. Vial also worked for the Pargesa group over the last 30 years, most notably as General Secretary, Managing Director and Director of the company. We are forever grateful for his contribution to the group.

BOARD OF DIRECTORS

At the May 2020 Annual Meeting, shareholders will be asked to elect Ms. Paula B. Madoff and Mr. Siim A. Vanaselja to the Board.

Ms. Madoff has served as an Advisory Director at Goldman Sachs since 2017. During her 25-year career at Goldman Sachs, she held several leadership positions, most recently as a Partner and Head of Sales and Distribution for Interest Rate Products and Mortgages. Ms. Madoff joined the boards of directors of Great-West Lifeco, Canada Life, Empower Retirement and Putnam Investments in 2018.

Mr. Vanaselja served as Executive Vice-President and Chief Financial Officer of BCE Inc. and Bell Canada from 2001 to 2015. Prior to that, he was a Partner with KPMG Canada in Toronto. Mr. Vanaselja has also been a member of the Board of Directors of Power Financial since 2018 and of Great-West Lifeco and Canada Life since 2014. Mr. Vanaselja also acted as Chair of the Special Committee of the Board of Directors of Power Financial in the context of the reorganization transaction.

Dr. Emőke J.E. Szathmáry will not stand for re-election to the Corporation's Board of Directors. Dr. Szathmáry has served as a Director since 1999 and has been a member of the Audit Committee since 2002. She has also chaired the Related Party and Conduct Review Committee since 2013. The Directors wish to thank Dr. Szathmáry, on behalf of the shareholders, for her significant contribution during her 20-year tenure on the Board.

Following the reorganization, the Corporation determined that the ongoing governance requirements at Power Financial could be met by a smaller board of directors. As a result, on February 28, 2020, the following directors resigned from the Power Financial Board of Directors: Mr. Marc A. Bibeau, Mr. Gérald Frère, Mr. Anthony R. Graham, Mr. J. David A. Jackson, Ms. Susan J. McArthur and Dr. Emőke J.E. Szathmáry. On behalf of the Board and the shareholders, we wish to thank them for their valuable service and important contribution to Power Financial during their tenure.

With our employees and our management teams, we are building the future of the Corporation with optimism and enthusiasm.

SENIOR MANAGEMENT CHANGES

In February 2020, after 24 years as Co-Chief Executive Officers of Power Corporation, Paul Desmarais, Jr. and André Desmarais retired from these roles. They will continue to play an active role in the governance of Power Corporation and maintain their positions as Chairman and Deputy Chairman, respectively, of the Board of Directors. The Boards of Directors of Power Corporation and Power Financial wish to thank Messrs. Paul Desmarais, Jr. and André Desmarais for their outstanding contributions and years of dedicated service.

The Board of Directors appointed R. Jeffrey Orr, current President and Chief Executive Officer of Power Financial, as President and Chief Executive Officer of Power Corporation effective February 13, 2020.

THE POWER GROUP

The changes we have undertaken at Power Corporation and at our public operating companies have placed additional demands on our employees around the world. They have risen to the challenges set before them and continue to work diligently to ensure the success of the Corporation and its various stakeholders. To all of them, we say "thank you."

With our employees and our management teams, we are building the future of the Corporation with optimism and enthusiasm. We have a clear vision, we know what needs to be done, and we are confident we will accomplish the tasks ahead.

On behalf of the Board of Directors,

Signed	Signed	Signed
R. Jeffrey Orr President and Chief Executive Officer	**Paul Desmarais, Jr.**, O.C., O.Q. Chairman of the Board	**André Desmarais**, O.C., O.Q. Deputy Chairman of the Board

March 18, 2020

Tribute to Paul Desmarais, Jr. and André Desmarais

Paul Jr. and André Desmarais have devoted most of their professional and personal lives to the growth and success of Power Corporation and its group companies, and have overseen a period of dramatic growth and value creation. They have led Power with uncommon intellect and initiative, an exceptional sense of personal responsibility, an abiding respect for others and with the interests of their shareholders and other stakeholders always top of mind.

Value of $100 invested
on May 1, 1996

Power Corporation	
$1,504	TSR: **12.1%** [1]
Power Financial	
$2,045	TSR: **13.5%** [1]
S&P/TSX Composite Index	
$609	TSR: **7.9%** [1]

[1] Annualized Total Shareholder Return as of February 12, 2020. Assumes all dividends were reinvested.

Source: Bloomberg

Their collective contributions to the financial performance of our group companies have been outstanding. Between May 1, 1996, when Paul Jr. and André assumed their roles as Co-Chief Executive Officers, and February 12, 2020, Power Corporation produced an annualized total shareholder return of 12.1 per cent and Power Financial 13.5 per cent, compared to the S&P/TSX Composite return of 7.9 per cent.

Under their leadership, Power built one of the leading insurance and investment companies in Canada, completing a series of successful acquisitions against highly capable and often significantly larger industry competitors. The vision and the courage to attempt such a feat and succeed is remarkable. Internationally, Power and its group companies also launched strategic, targeted initiatives in the United States, Europe and China, and innovative, effective investment vehicles such as Pargesa and Power's alternative asset management businesses.

Through their stewardship, Power has also established itself as a responsible corporate citizen, conducting business with integrity and transparency, and fulfilling its responsibilities towards the community. Paul Jr. and André have led by example, and together, have built a company with leading brands and businesses in its various markets, while being steadfast in its long-term investment approach and adherence to prudent risk management.

Whenever their success as Co-CEOs is raised, Paul Jr. and André are always quick to recognize others and will point out the special contributions of people like Robert Gratton, Michel Plessis-Bélair, Jeffrey Orr and Greg Tretiak, among many others at Power and at its group companies, and the close partnerships they built with them.

They have created an incredible business legacy that is the hallmark of the Desmarais family. All of us at Power are delighted that Paul Jr. and André will continue to play active roles in the governance of the Corporation as Chair and Deputy Chair, respectively.

On behalf of the shareholders, Directors, management and employees of Power Corporation and its group companies, I extend a heartfelt thank you to Paul Desmarais, Jr. and André Desmarais. From this foundation, the people of Power will emulate the example set by them as we continue their work to further build and strengthen the Corporation.

Sincerely,

Signed

R. Jeffrey Orr
President and Chief Executive Officer
Power Corporation of Canada

Exceptional Shareholder Value Created

1996
Paul Desmarais, Jr. becomes Power's Chairman and Co-Chief Executive Officer; André Desmarais becomes Deputy Chairman, President and Co-Chief Executive Officer.

1996
Power sells its block of Southam and repurchases its own shares from Paribas.

1997
Great-West Lifeco acquires London Life.

2001
Investors Group acquires Mackenzie Financial Corporation.

2003
Great-West Lifeco acquires Canada Life.

2007
Great-West Lifeco buys Putnam Investments.

2013
Great-West Lifeco buys Irish Life.

2014
Great-West Financial buys J.P. Morgan Retirement Plan Services to create Empower Retirement.

2019
Great-West Life, London Life and Canada Life combine into one company serving an aggregate 13 million Canadian customers.

2019
Significant share buybacks by each of Great-West Lifeco, Power Financial and Power Corporation.

2020
Reorganization of Power group to simplify structure and delist Power Financial and Pargesa.

1996 1997 2001 2003 2007 2013 2014 2019 2020

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REVIEW OF FINANCIAL PERFORMANCE

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

MARCH 18, 2020

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

FORWARD-LOOKING STATEMENTS › Certain statements in this document, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries including the fintech strategy, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, the intended effects of the Reorganization (as defined herein), the NCIB (as defined herein) and the proposed redemption by the Corporation and Power Financial of certain classes of their First Preferred Shares. 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, man-made disasters, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic or other public health crises, 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 the availability of cash to complete purchases under the NCIB and to redeem First Preferred Shares of the Corporation and Power Financial and 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 Corporation and Notes thereto for the year ended December 31, 2019 (the 2019 Consolidated Financial Statements or the Financial Statements).

Overview

POWER CORPORATION OF CANADA

Incorporated in 1925, Power Corporation (TSX: POW; POW.PR.E) is an international management and holding company that focuses on financial services in North America, Europe and Asia. Its core holdings are leading insurance, retirement, wealth management and investment businesses, including a portfolio of alternative asset investment platforms. Through its controlling interest in Power Financial, it controls Lifeco and IGM and in recent years has implemented an active fintech strategy. It also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa.

Power Corporation conducts investment activities, built upon a network of deep and long-standing relationships, to provide superior returns on a diversified basis. Investment activities include investments in alternative asset managers and investment funds including Sagard Europe, Sagard Holdings, Power Pacific, Power Energy and interests in China resulting from more than 40 years of engagement.

Power Corporation adheres to four overriding investing principles to pursue its objectives of achieving sustainable long-term value creation in the best interests of the Corporation:

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

Power Corporation is anchored through its core investment in Power Financial, which historically has provided stable cash flows through its regular dividends. Power Corporation's value creation strategy is designed to achieve superior investment returns and stable cash flows. Significant investments have also been made in non-financial sector investment platforms. Historically many of these investments were held in funds managed by third parties. Since the early 2000s, Power Corporation has been investing and developing its own investment platforms:

- Sagard Europe funds invest with significant influence or controlling positions in mid-size European private companies that have high growth potential and superior management talent. Pargesa, GBL and third parties also invest in the Sagard Europe funds.
- Sagard Holdings, since its inception in 2005, has evolved into a multi-strategy alternative asset manager. Sagard Holdings invests across four asset classes: equity, private credit, royalties and venture capital. Sagard Holdings looks to generate attractive returns by matching investment opportunities with flexible capital solutions and pairing entrepreneurs with teams that have deep industry knowledge.
- Power Sustainable Capital manages investments in sustainable strategies with a focus on long-term profitability. Power Sustainable Capital manages the following platforms:
  - Power Pacific, formerly Sagard China, is a long-term, fundamentals-based investor in publicly listed Chinese companies. Its philosophy emphasizes rigorous research in building a portfolio of selected stocks.
  - Power Energy actively manages investments in the sustainable and renewable energy sector. Power Energy applies the Corporation's principles of collaboration and building trusted relationships in industries that benefit from the global energy transformation. It is rapidly expanding its footprint in businesses with stable long-term cash flows.

The Corporation's multi-generational relationships have been foundational in creating investment opportunities in China, such as through its investment in China AMC. China AMC, one of the largest asset managers in China, diversifies the Corporation's interests creating strategic opportunities with other asset managers within the Power group of companies.

2019 HIGHLIGHTS

Substantial Issuer Bids

On April 17, 2019, Lifeco completed a substantial issuer bid (Lifeco SIB), and purchased for cancellation 59,700,974 of its common shares, representing approximately 6.0% of the issued and outstanding common shares prior to the repurchase, at a purchase price of $33.50 per common share, for an aggregate amount of $2.0 billion. Power Financial supported Lifeco through its participation in the Lifeco SIB. As a result of the Lifeco SIB, Power Financial's equity interest in Lifeco decreased from 67.8% to 66.8% (excluding IGM's 4.0% interest) after giving effect to the cancellation of Lifeco common shares. IGM also participated in the Lifeco SIB, tendering on a proportionate basis.

Power Financial used the proceeds from its participation in the Lifeco SIB to fund its own substantial issuer bid (PFC SIB). On April 17, 2019, Power Financial completed the PFC SIB, and purchased for cancellation 49,999,973 of its common shares, representing approximately 7.0% of the issued and outstanding common shares prior to the repurchase, at a purchase price of $33.00 per common share, for an aggregate amount of $1.65 billion. Power Corporation supported Power Financial through its participation in the PFC SIB. As a result of the PFC SIB, the Corporation's equity interest in Power Financial decreased from 65.5% to 64.1% after giving effect to the cancellation of Power Financial common shares.

On April 17, 2019, the Corporation completed its substantial issuer bid (PCC SIB), and purchased for cancellation 40,909,041 of its subordinate voting shares, representing approximately 9.8% of the issued and outstanding subordinate voting shares prior to the repurchase, at a purchase price of $33.00 per subordinate voting share, for an aggregate amount of $1.35 billion. Power Corporation used the proceeds from its participation in the PFC SIB to fund its own substantial issuer bid. The PCC SIB allowed the Corporation to return capital to shareholders, while maintaining a strong capital position to fund future growth opportunities.

Reorganization

On December 13, 2019, the Corporation and Power Financial announced the execution of a definitive agreement to effect a reorganization transaction (Reorganization) pursuant to which each common share of Power Financial held by holders of common shares of Power Financial other than the Corporation and certain of its affiliates (PFC Minority Shareholders), would be exchanged for 1.05 subordinate voting shares of the Corporation and $0.01 in cash. At December 31, 2019, Power Financial incurred $9 million of costs related to this transaction, primarily related to legal and financial advisor fees, which have been included in Other items.

On February 13, 2020, subsequent to year-end, the Corporation successfully completed the Reorganization. The Corporation acquired 238,693,580 common shares of Power Financial and issued 250,628,173 of its subordinate voting shares to PFC Minority Shareholders. The Corporation now holds 100% of the issued and outstanding common shares of Power Financial, which were delisted from the TSX. Power Financial remains a reporting issuer in all of the provinces and territories of Canada, as Power Financial's First Preferred Shares and its 6.9% debentures due March 11, 2033 remain outstanding.

The Reorganization is expected to benefit shareholders of the Corporation by serving as the foundation and catalyst for a broader set of strategic initiatives expected to create long-term value:

- Simplified Corporate Structure – The Reorganization has effectively eliminated the current dual-holding company structure and consolidated ownership of the group's industry-leading financial services operating companies, while concurrently reducing organizational complexity.
- Focus on Financial Services – the Corporation's strategy now emphasizes financial services, including the businesses of Power Financial and the investment platform businesses of the Corporation.
  - Power Financial's Operating Companies – Commitment to value creation at each of Lifeco, IGM Financial and Pargesa, Power Financial's leading insurance, retirement, wealth management and investment franchises.
  - The Corporation's Investment Platforms – The Corporation has built investment platforms that manage portfolios on behalf of the Corporation and third-party investors in several alternative asset classes where the Corporation has a competitive advantage. The Corporation will continue to prioritize the development of these investment platforms. The Corporation also owns majority control of several standalone businesses, which will be managed to realize value over time.
- Operating Expense Reduction – The Corporation anticipates significant near-term cost reductions of approximately $50 million per year within two years by eliminating duplicative public company related expenses and rationalizing other general and administrative expenses.
- Financing Expense Reduction – The Corporation and Power Financial intend to redeem an aggregate of $350 million of their First Preferred Shares with available cash, resulting in reduced annual financing costs of approximately $15 million per year.
- Increase in the Corporation's Quarterly Dividend – The Corporation intends to increase its quarterly dividend by 10% to 44.75 cents per share, commencing in the second quarter of 2020.

As part of the Reorganization, Paul Desmarais, Jr. and André Desmarais retired as Co-Chief Executive Officers of Power Corporation after 24 years in their roles; they continue to serve as Chairman and Deputy Chairman, respectively, of Power Corporation's Board of Directors. R. Jeffrey Orr, President and Chief Executive Officer of Power Financial, became President and Chief Executive Officer of Power Corporation.

On February 12, 2020, in connection with the Reorganization, and in accordance with the pre-emptive right (Pre-Emptive Right) in favour of holders of participating preferred shares included in the Corporation's Articles, the Corporation issued 6,006,094 participating preferred shares to holders who duly exercised the Pre-Emptive Right. There were no further exercises of the Pre-Emptive Right on or prior to the subsequent deadline of March 12, 2020. The Pre-Emptive Right entitled holders of participating preferred shares to acquire from the Corporation, pro rata to their respective holdings in participating preferred shares, an aggregate number of participating preferred shares that is equal to 12.0% of the number of subordinate voting shares issued pursuant to the Reorganization. Pansolo Holding Inc. (Pansolo), a corporation controlled by the Desmarais Family Residuary Trust, purchased 6 million participating preferred shares under the Pre-Emptive Right on February 12, 2020, resulting in a direct and indirect ownership by Pansolo of voting shares of the Corporation to which are attached an aggregate 50.6% of the total votes of all the Corporation's shares outstanding.

POWER FINANCIAL

Power Financial is an international management and holding company with interests in financial services and asset management businesses in Canada, the United States and Europe, through its controlling interests in Lifeco, IGM, Wealthsimple and Koho. It also has significant holdings in a portfolio of global companies based in Europe through its investment in Pargesa. At March 18, 2020, subsequent to the Reorganization, Power Corporation held 100% of the equity and voting interests in Power Financial.

Lifeco

Great-West Lifeco Inc., TSX: GWO; market capitalization of $30.8 billion at December 31, 2019, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco operates in Canada, the United States and Europe under the brands Canada Life, Empower Retirement, Putnam Investments 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. On April 3, 2019, Lifeco announced that its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, would be moving to one brand in Canada: Canada Life. Canada Life has become the brand under which the organization creates, delivers and communicates products and services in Canada across all of its lines of business. On January 1, 2020, Great-West Life, London Life and Canada Life amalgamated into a single life insurance company: The Canada Life Assurance Company.

The United States segment operates two primary business units, Financial Services and Asset Management. Empower Retirement, the Financial Services unit, is a leading provider of employer-sponsored defined contribution plans, administrative and record-keeping services, individual retirement accounts, fund management as well as 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.

On June 1, 2019, Great-West Life & Annuity, a U.S. subsidiary of Lifeco, completed the sale, via indemnity reinsurance, of substantially all of its individual life insurance and annuity business to Protective Life Insurance Company (Protective Life) which now assumes the economics and risks associated with the reinsured business. The transaction resulted in an after-tax transaction value to Lifeco of approximately $1.6 billion (US$1.2 billion), excluding one-time expenses. The transaction value included a ceding commission of $1,080 million (US$806 million) and a capital release of approximately $530 million (US$400 million). The business transferred included bank-owned and corporate-owned life insurance, single-premium life insurance, individual annuities as well as closed-block life insurance and annuities. The transaction was structured as a reinsurance agreement, consequently, Lifeco will hold both the liability and offsetting reinsurance asset on its balance sheet.

In the second quarter of 2019, Lifeco recognized a loss related to this transaction of $199 million (US$148 million), which included transaction costs of $63 million (US$47 million) and $36 million (US$27 million) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commission received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided Lifeco with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, Lifeco formally objected to these proposed adjustments. Lifeco continues to resolve these differences according to the Master Transaction Agreement. Based on the information presently known by Lifeco, it is difficult to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the consolidated financial position of Lifeco. Great-West Life & Annuity has retained a block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

The Reinsured Insurance & Annuity Business unit reflects substantially all of the individual life insurance and annuity business sold, through indemnity reinsurance, to Protective Life effective June 1, 2019. These products include life insurance, annuity and executive benefits, which are no longer offered by the U.S. segment.

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, 2019, Power Financial and IGM held interests of 66.9% 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 $8.9 billion at December 31, 2019, 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.

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 offers 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 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.

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

IGM previously announced a five-year transformation to modernize its digital platforms and technology infrastructure to enable it to enhance operations, achieve efficiencies and further improve the service experience for its clients. As part of this transformation effort, IGM announced two initiatives during 2019:

- IGM has selected CIBC Mellon to assume most of its fund services functions. This will add fund administration servicing solutions to the custody and related services that CIBC Mellon already performs for IGM.
- IGM has chosen Google Cloud to manage its data platform. IGM is among the first major Canadian financial services companies to move SAP applications and data to the Google Cloud Platform. The migration of the firm's data to a cloud-based environment is expected to enhance operational efficiencies through greater productivity and business agility, and enhanced service levels.

At December 31, 2019, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 62.1% and 3.9%, 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, 2019, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa, SIX: PARG; market capitalization of SF6.8 billion at December 31, 2019, is a holding company, which held a 50% interest in GBL, representing 51.7% of the voting rights at December 31, 2019. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange.

GBL, EBR: GBLB; market capitalization of €15.2 billion at December 31, 2019, 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 and supportive 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, 2019, GBL's portfolio was mainly comprised of investments in the following:

PUBLICLY LISTED

- 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

PRIVATELY HELD

- Webhelp – provider of customer experience and business process outsourcing
- Parques – operation of regional leisure parks

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

During the second quarter of 2019, GBL sold its 0.6% interest in Total through forward sales contracts maturing in January 2020. GBL expects to realize a gain of €411 million in the first quarter of 2020.

On August 2, 2019, GBL announced the signing of an agreement to acquire Webhelp, through an investment vehicle controlled by GBL. Webhelp is one of the world's leading providers of customer experience and business process outsourcing. On November 19, 2019, GBL completed the acquisition of Webhelp. GBL invested €0.9 billion for an ownership of 64.7% of the capital of the investment vehicle, on the basis of a total enterprise value of €2.4 billion for Webhelp.

On March 11, 2020 Parjointco and Pargesa announced an agreement for a proposed transaction that would simplify the group structure. As per the agreement, a public exchange offer will be initiated by Parjointco for all Pargesa shares not already owned by Parjointco under which Pargesa shareholders will be entitled to receive 0.93 shares of GBL for each Pargesa bearer share they hold. Following the proposed transaction, it is anticipated that Pargesa will be delisted from the SIX and Parjointco is expected to retain de facto control and maintain approximately the same economic equity interest in GBL of 28%. The proposed transaction will be subject to Parjointco holding or having received shareholder acceptances with respect to at least 90% of Pargesa's total voting rights and is conditional upon GBL shareholders approving the implementation of double-voting rights at GBL's Extraordinary Shareholders Meeting to be held on April 28, 2020. The proposed reorganization of Pargesa will further simplify Power Corporation's corporate structure as part of its ongoing strategy of value creation.

At December 31, 2019, Pargesa's net asset value was SF10,946 million, compared with SF8,973 million at December 31, 2018. GBL's net asset value at December 31, 2019 was €20,349 million, compared with €16,193 million at December 31, 2018.

Fintech Investments

Portag3

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. To date, Portag3 Ventures has invested in more than 45 fintech companies and investment funds. Portag3 Ventures is managed by Sagard Holdings, a subsidiary of Power Corporation.

Portag3 Ventures' first fintech fund (Portag3) held investments of $64 million at December 31, 2019 ($56 million at December 31, 2018), excluding the investments in consolidated subsidiaries Wealthsimple and Koho discussed below.

Portag3 II, Portag3 Ventures' second fintech fund, is focused on early stage investments in specific verticals within the global financial technology sector. During the fourth quarter of 2019, additional closings increased the total capital commitments by $74 million to $427 million ($211 million at December 31, 2018). Power Financial, Lifeco and IGM have each committed $33 million for a total of $99 million. At December 31, 2019, the fair value and cost of Portag3 II's investment portfolio, excluding the investment in the consolidated subsidiary Koho, was $143 million ($62 million at December 31, 2018) and $110 million ($55 million at December 31, 2018), respectively.

Wealthsimple

At December 31, 2019, Portag3, Power Financial and IGM held, through a limited partnership controlled by Power Financial, an undiluted equity interest in Wealthsimple of 84.9%, representing a voting interest of 85.3% and a fully diluted equity interest of 71.3%. Wealthsimple is one of Canada's leading financial technology companies, and operates one of the country's largest and fastest-growing digital investing service. In May 2019, Wealthsimple announced the closing of a $100 million Series B investment round, led by a third party, Allianz X, the digital investment unit of Germany-based insurer and asset manager Allianz Group.

Wealthsimple continues to expand its presence in the marketplace and diversify its offering to a suite of investment and save products, which include Wealthsimple Invest, Wealthsimple Save, Wealthsimple Trade, Wealthsimple for Advisors (W4A) and Wealthsimple for Work (W4W). At December 31, 2019, Wealthsimple has over 250,000 clients across the Canadian, United States and United Kingdom markets with assets under administration of over $6.3 billion. On September 24, 2019, Wealthsimple announced that it had acquired SimpleTax, a Canadian web-based tax preparation service. On January 23, 2020, Wealthsimple announced that Purpose Advisor Solutions acquired Wealthsimple for Advisors.

During the fourth quarter of 2019, Power Financial and IGM invested $4 million and $5 million, respectively, in Wealthsimple. In 2019, Power Financial and IGM invested a total of $107 million in Wealthsimple, which includes the conversion of $20 million of previously issued promissory notes. At December 31, 2019, the cost of the group's investment was $315 million.

Koho

At December 31, 2019, Portag3 II and Portag3, Power Financial, Lifeco and IGM, through a limited partnership controlled by Power Financial, held a 54.4% equity interest in Koho. Koho is a Canada-based digital platform offering a suite of financial services to provide consumers an experience that is an alternative to a traditional bank. During the fourth quarter of 2019, Koho announced that it closed an extension of its latest Series B round for $25 million of new capital led by Drive Capital. At December 31, 2019, the cost of the group's investment in Koho was $32 million.

INVESTMENT PLATFORMS AND OTHER

Since the launch of the first Sagard fund in 2002, Power Corporation has continued to build investment platforms that manage portfolios on behalf of the Corporation and third-party investors in several alternative asset classes in three principal geographies: Europe, North America, and China. The investment platforms, Sagard Europe, Sagard Holdings, Power Pacific and Power Energy, are managed locally by experienced investment professionals who have an in-depth knowledge of the local public and/or private markets and benefit from collaboration within the Power group of companies. Power Corporation's investment platforms: (i) leverage its extensive global network and business relationships; (ii) seek to achieve long-term capital appreciation through fundamental investment analysis; and (iii) seek opportunities to acquire controlling interests in its most promising investments, where appropriate. Each of the investment platforms adheres to Power Corporation's investment philosophy and governance model.

The investment platforms manage and operate investment funds in which third-party investors, the Corporation and associated companies can participate. The Corporation controls a fund when it is exposed, or has rights, to variable returns from its involvement with the fund and has the ability to affect those returns through its power to direct the relevant activities of the fund.

The following table summarizes Power Corporation's interests in each of the funds managed by its investment platforms:

	Sagard Europe[1]		Sagard Holdings[2]				Power Pacific	Power Energy
December 31, 2019 (in millions; except as otherwise noted)	Sagard II	Sagard 3	Sagard Capital Partners LP	Sagard Credit Partners LP	Sagard Healthcare Royalty Partners[3]	Portag3 Ventures II LP	A, H and ADR equities	Investments in sustainable and renewable energy entities
	€	€	US$	US$	US$	C$	C$	C$
Original commitment								
Power Corporation	154	302	485	100	75	20	238	814
Power Financial	–	–	–	–	–	33	–	–
Third parties and associated companies[4]	594	506	–	457	400	374	–	–
Fund size	748	808	485	557	475	427	238	814
Unfunded commitment								
Power Corporation	4	88	–	64	44	14	–	–
Power Financial	–	–	–	–	–	22	–	–
Third parties and associated companies	26	159	–	292	400	251	–	–
Total unfunded commitment	30	247	–	356	444	287	–	–
Interest (%)								
Power Corporation	22.0	37.3	100.0	18.0	15.8	4.7	100.0	100.0
Power Financial	–	–	–	–	–	7.7	–	–
Third parties and associated companies	78.0	62.7	–	82.0	84.2	87.6	–	–
Base management fees[5]	1.75	2.00	–	1.50	1.75	2.00	n.a.	n.a.
Assets under management of fund[6]	410	736	152	230	33	174	739	1,075
Nature of the fund	Portfolio investment	Portfolio investment	Controlling interest	Controlling interest	Controlling interest	Controlling interest	Controlling interest	Controlling interest
Accounting method	Available for sale	Available for sale	Consolidation	Consolidation	Consolidation	Consolidation	Consolidation	Consolidation

[1] Subsequent to December 31, 2019, the management and operations of the Sagard Europe funds, Sagard SAS, was transferred under Sagard Holdings.

[2] Sagard Holdings also manages Portag3, a fund held by Power Financial, Lifeco and IGM.

[3] On January 9, 2020, Sagard Holdings announced the first closing of Sagard Healthcare Royalty Partners.

[4] Included in third parties and associated companies are commitments of Pargesa (€37 million in Sagard II), and GBL (€113 million in Sagard II and €218 million in Sagard 3). Lifeco and IGM have each committed $33 million to Portag3 Ventures II LP. Also includes commitments from management.

[5] Management fees are based on committed or invested capital.

[6] Includes fair value of controlled and consolidated investments held through investment funds.

Sagard Europe

Sagard Europe comprises (i) Sagard SAS, a French management company headquartered in Paris, a wholly owned subsidiary of the Corporation and (ii) Sagard II and Sagard 3 funds that are managed by Sagard SAS. These funds invest in mid-sized private companies based in France, Belgium, Luxembourg and Switzerland.

The Corporation's interests in these two active funds are classified as available-for-sale investments.

Sagard Europe funds:

December 31, 2019	Sagard II	Sagard 3
Corporation's investment to date	220	470
Corporation's share of distributions to date	215	301
Fair value of the Corporation's investment at December 31, 2019	105	373

The Corporation has invested $864 million to date in the Sagard Europe funds (including Sagard I) and has received distributions of $936 million. At December 31, 2019, the fair value of the Corporation's investments in the Sagard Europe funds, excluding the Corporation's share of investments held indirectly through Pargesa and GBL, was $478 million (includes unrealized gains of $125 million), compared with $391 million at December 31, 2018.

Subsequent to December 31, 2019 the Corporation committed an amount of €150 million, which may be increased to €200 million under certain circumstances, to Sagard 4, a new fund launched by Sagard SAS.

Sagard Holdings

Sagard Holdings, a wholly owned subsidiary of the Corporation, was founded in 2005 as a complement to the Corporation's global investment holdings. Today, Sagard Holdings is a multi-strategy alternative asset manager with professionals located in Montréal, Toronto, New York, Paris and Singapore. Sagard Holdings looks to generate attractive returns by matching investment opportunities with flexible capital solutions and pairing entrepreneurs with teams that have deep industry knowledge. Sagard Holdings develops long-term partnerships and empowers the growth of its investments through a unique global network of portfolio companies, limited partners, advisors and other valued relationships.

Sagard Holdings manages US$2.0 billion of assets including unfunded commitments across four asset classes: equity, private credit, royalties and venture capital.

- Equity
  - Sagard Holdings holds a 91.6% interest in IntegraMed, a private healthcare services company operating a network of fertility clinics in North America. The Corporation controls IntegraMed and consolidates its interest.
  - Sagard Holdings holds a 42.6% equity interest and 50% of the voting rights in Peak. Peak designs and markets sports equipment and apparel for ice hockey, baseball, softball and lacrosse under iconic brands including Bauer and Easton. The Corporation's investment is accounted for using the equity method.
  - Sagard Holdings holds a 21.4% equity interest in GP Strategies Corporation, a global performance improvement company offering sales and technical training, eLearning solutions, management consulting and engineering services. The Corporation accounts for its investment using the equity method.
- Private Credit
  - Sagard Credit Partners LP, a fund launched and managed by Sagard Holdings, provides credit capital directly to public and private middle-market companies across the U.S. and Canada. Sagard Credit Partners LP has total commitments of US$557 million, of which Sagard Holdings has committed US$100 million, and has funded US$36 million at December 31, 2019. Sagard Credit Partners LP held investments of $288 million (US$222 million) at December 31, 2019.
- Royalties
  - In January 2019, Sagard Holdings announced the launch of Sagard Healthcare Royalty Partners (SHRP), which will invest in the life sciences sector with a focus on investments protected by strong intellectual property. SHRP will invest in various structures including traditional healthcare royalties, royalty securitizations and credit. At December 31, 2019, SHRP held one investment of US$32 million, in a cancer drug marketed as Rubraca.

    During the fourth quarter of 2019, Sagard Holdings completed the first closing of SHRP, with commitments totalling US$475 million at December 31, 2019, of which Sagard Holdings has committed US$75 million.
- Venture Capital
  - Portag3 Ventures, an investment manager within Sagard Holdings, manages investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. Through its funds, Portag3 and Portag3 II, Portag3 Ventures has invested in more than 45 fintech companies and investment funds. Portag3 II has total commitments of $427 million, of which Sagard Holdings has committed $20 million and has funded $6 million at December 31, 2019. The combined fair value of the investment portfolios managed by Portag3 Ventures, excluding investments in consolidated subsidiaries Wealthsimple and Koho, was $207 million at December 31, 2019.

At December 31, 2019, the Corporation had invested $616 million in Sagard Holdings and has received distributions of $64 million. At December 31, 2019, the fair value of Sagard Holdings' investments, including cash, was $536 million (includes unrealized gains of $70 million), compared with $579 million at December 31, 2018.

Power Pacific

Power Pacific (formerly Sagard China) invests in the mainland China A-shares ("A" shares) market through a Qualified Foreign Institutional Investor (QFII) licence as well as through Hong Kong Stock Connect. Power Pacific has a long-term, fundamentals-based investment philosophy, and benefits from ongoing growth across multiple attractive sectors in China.

Since its inception in 2005, the Corporation has invested $316 million in Power Pacific and has received distributions of $120 million, including a distribution of US$75 million (C$101 million) in the second quarter of 2019. At December 31, 2019, the fair value of the Corporation's investment in Power Pacific, including cash, was $739 million (includes unrealized gains of $84 million), compared with $669 million at December 31, 2018.

December 31	2019	2018
Investments		
Money market funds	–	167
A, H, and ADR equities[1]	717	340
Cash	22	162
Total portfolio, at fair value	739	669

[1] In 2018, the portfolio included shares held on the Hong Kong stock exchange ("H" shares) and American Depository Receipts ("ADR").

Subsequent to December 31, 2019 Power Pacific distributed a further amount of $50 million.

Power Energy

Power Energy actively manages investments in the sustainable and renewable energy sector with the goal of building and owning, over the long term, companies that can generate growing and stable cash flows. Power Energy invests in companies that benefit from the global energy transformation and currently has invested in companies that develop, own and operate solar and wind generating assets in North America as well as companies in the sustainable sector:

- Renewable Energy Infrastructure
  - Potentia Renewables: Potentia, a renewable energy generation company, is a fully integrated developer, owner and operator of solar and wind energy assets, active in North America and the Caribbean.
  - Nautilus: On July 30, 2019, Power Energy acquired a 100% equity interest in Nautilus Solar Energy, LLC, a company headquartered in New Jersey, U.S. that acquires, develops, finances and manages distributed solar projects across community, municipal/utility-scale, commercial and industrial markets.

Total assets of the renewable energy infrastructure portfolio were $1,294 million at December 31, 2019. The portfolio has a combined 910 megawatts (MW) of solar and wind operating assets, which includes 260 MW of assets under construction, and 371 MW of assets in advanced development projects.

During 2019, Power Energy invested $231 million in the renewable energy infrastructure portfolio. A further $37 million was invested in the portfolio subsequent to December 31, 2019.

- Sustainable sector
  - Lumenpulse: Power Energy holds a controlling interest of 60.5% in Lumenpulse, a leading manufacturer of high-performance, specification-grade LED lighting solutions.
  - Lion Electric: Power Energy holds a 44.2% interest in Lion Electric, an innovative company manufacturing zero-emission vehicles sold throughout North America. During 2019, Power Energy invested a further $5 million in Lion Electric.

At December 31, 2019, Power Energy had invested a total of $843 million in these four companies.

CHINA AMC

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained its position among the market leaders in China's asset management industry. China AMC's assets under management, excluding subsidiary assets under management, were RMB¥1,032 billion (C$192 billion) at December 31, 2019.

The Corporation and IGM each hold interests of 13.9% in China AMC, representing a combined 27.8% interest. Together they have significant influence and account for their respective interests as an associate using the equity method.

The investment in China AMC provides the potential to leverage the group's global experience in wealth management and distribution. The Power group of companies benefit from the strategic relationship with China AMC which provides opportunities to work together on developing products and subadvisory relationships.

Basis of Presentation

IFRS FINANCIAL MEASURES AND PRESENTATION

The 2019 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

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

The financial statements of the Corporation are consolidated with those of Power Financial which include the results of Lifeco, IGM, Wealthsimple, Koho and the Portag3 funds, which are controlled and consolidated by Power Financial.

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

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

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

Control	Accounting Method	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	Consolidation	Consolidated with non-controlling interests	Goodwill and indefinite life intangible assets are tested at least annually for impairment	Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	Equity method	Corporation's share of earnings and other comprehensive income	Entire investment is tested for impairment	Reversed if there is evidence the investment has recovered its value
Investment	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, 2019, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Power Financial	64.1	Controlling interest	Consolidation
Lifeco[1]	66.9	Controlling interest	Consolidation
IGM[2]	62.1	Controlling interest	Consolidation
Pargesa[3]	27.8	Joint control	Equity method
Portag3[4]	63.0	Controlling interest	Consolidation
Portag3 II[5]	7.7	Controlling interest	Consolidation
Wealthsimple[6]	21.2	Controlling interest	Consolidation
Koho[7]	6.5	Controlling interest	Consolidation
Investment Platforms and Other			
Sagard Europe			
Sagard II	22.0	Investment	Available for sale
Sagard 3	37.3	Investment	Available for sale
Sagard Holdings	100.0		
IntegraMed	91.6	Controlling interest	Consolidation
Peak	42.6	Joint control	Equity method
Sagard Credit Partners LP	18.0	Controlling interest	Consolidation
Investments	< 50.0	Significant influence or Investment	Equity method or available for sale
Power Pacific	100.0		
Investments	< 5.0	Investment	Available for sale
Power Energy	100.0		
Potentia	100.0	Controlling interest	Consolidation
Nautilus	100.0	Controlling interest	Consolidation
Lumenpulse	60.5	Controlling interest	Consolidation
Lion	44.2	Significant influence	Equity method
China AMC[8]	13.9	Significant influence	Equity method

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

[2] Great-West Life also holds a 3.9% 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] Lifeco and IGM also hold equal interests of 7.7% in Portag3 II, and Sagard Holdings holds a 4.7% interest.

[6] Portag3 and IGM also hold interests of 16.8% and 46.9%, respectively, in Wealthsimple.

[7] Lifeco and IGM also hold equal interests of 6.5% and Portag3 and Portag3 II hold interests of 2.7% and 32.1%, respectively, in Koho.

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

At December 31, 2019, Pargesa's main holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	50.0	Controlling interest	Consolidation
Publicly listed			
Imerys	54.0	Controlling interest	Consolidation
adidas	6.8	Investment	Available for sale
Pernod Ricard	7.5	Investment	Available for sale
SGS	16.7	Investment	Available for sale
LafargeHolcim	7.6	Investment	Available for sale
Umicore	18.0	Investment	Available for sale
Total	0.6	Investment	Available for sale
GEA	8.5	Investment	Available for sale
Ontex	20.0	Investment	Available for sale
Other investments	< 5.0	Investment	Available for sale
Privately held			
Sienna Capital[1]	100.0	Controlling interest	Consolidation
Webhelp	64.7	Controlling interest	Consolidation
Parques	23.0	Significant influence	Equity method

[1] Sienna Capital holds a portfolio of investments in alternative investment funds.

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2019 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 Corporation, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. The non-IFRS financial measures used herein are defined as follows:

Non-IFRS financial measure	Definition	Purpose
Non-consolidated basis of presentation	Power Corporation's interests in Power Financial and its controlling interests in Lifeco, IGM, Portag3, Portag3 II, Wealthsimple and Koho as well as other subsidiaries consolidated by Power Corporation 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 participating shares outstanding.	Assists in comparing adjusted net earnings on a per share basis.
Net asset value	Net asset value is the fair value of Power Corporation's non-consolidated assets less its net debt and preferred shares. The investments held in public entities (including Power Financial) are measured at their market value and investments in private entities and investment funds are measured at management's estimate of fair value.	Presents the fair value of the net assets of the holding company and is used to assist in assessing value. This measure may be used by investors and analysts in determining or comparing the fair value of investments held by the company or its overall fair value.
Net asset value per share	Net asset value calculated on a per share basis. Net asset value divided by the number of participating shares outstanding.	Assists the reader in comparing net asset value 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 net asset value and 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 reported in accordance with IFRS to non-IFRS financial measures: adjusted net earnings, other items and related per share amounts. Adjusted net earnings and adjusted net earnings per share are presented in the section "Non-Consolidated Statements of Earnings":

Twelve months ended December 31	2019	2018
Net earnings – IFRS financial measure [1]	1,108	1,287
Share of Other items [2], net of tax		
Power Financial		
Lifeco	183	25
IGM	7	11
Pargesa	24	(12)
Corporate operations	6	–
Investment platforms and other	16	66
Corporate operations		
Operating and other expenses	(31)	61
	205	151
Adjusted net earnings – Non-IFRS financial measure [1]	1,313	1,438

[1] Attributable to participating shareholders of Power Corporation.

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

Twelve months ended December 31	2019	2018
Net earnings per share – IFRS financial measure [1]	2.53	2.77
Share of Other items [2], net of tax		
Power Financial		
Lifeco	0.42	0.06
IGM	0.02	0.02
Pargesa	0.05	(0.03)
Corporate operations	0.01	–
Investment platforms and other	0.04	0.14
Corporate operations		
Operating and other expenses	(0.07)	0.13
	0.47	0.32
Adjusted net earnings per share – Non-IFRS financial measure [1]	3.00	3.09

[1] Attributable to participating shareholders of Power Corporation.

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

Results of Power Corporation

This section presents:

- the "Consolidated Statements of Earnings in accordance with IFRS"; and
- the "Non-Consolidated Statements of Earnings", which present the contributions of Power Financial, its operating subsidiaries and Pargesa, and the contribution of the Corporation's investment platforms and other and China AMC to the net earnings and adjusted net earnings of Power Corporation.

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

DEFERRAL OF IFRS 9, *FINANCIAL INSTRUMENTS* (IFRS 9)

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* and will be applied retrospectively. In June 2019, the IASB issued an Exposure draft, which provided targeted amendments to IFRS 17 including a deferral of one year of the effective date of the standard to January 1, 2022. Due to the responses received from stakeholders during the comment period on the exposure draft, on March 17, 2020, the IASB approved the deferral of the effective date of the standard to January 1, 2023. In addition, the IASB extended to January 1, 2023 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.

IGM, a subsidiary, and Pargesa, held through Parjointco, a jointly controlled corporation, do 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 but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation decided to continue applying accounting policies in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, to Pargesa's results. On consolidation, the Corporation has adjusted the results of both IGM and Pargesa to be in accordance with IAS 39. Refer to the specific discussion included in the IGM and Pargesa sections "Contribution to net earnings and adjusted net earnings".

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Corporation's consolidated statements of earnings for the twelve months ended December 31, 2019 are presented below. The Corporation's operating segments are Lifeco, IGM and Pargesa. This table reflects the contributions from Power Financial and the Corporation's investment platforms and other, which include controlled and consolidated investments, to the net earnings attributable to Power Corporation's participating shareholders.

Consolidated net earnings

	Power Financial					Other[4]	Power Corporation Consolidated net earnings	
Twelve months ended December 31	Lifeco	IGM[1]	Pargesa[2]	Corporate[3]	Sub-total		2019	2018
REVENUES								
Total net premiums[5]	24,510	–	–	(21)	24,489	–	24,489	35,440
Net investment income	13,107	169	–	(29)	13,247	195	13,442	3,069
Fee income[5]	7,081	3,051	–	(66)	10,066	15	10,081	8,776
Other revenues	–	–	–	–	–	829	829	813
Total revenues	44,698	3,220	–	(116)	47,802	1,039	48,841	48,098
EXPENSES								
Total paid or credited to policyholders	33,091	–	–	–	33,091	–	33,091	32,068
Commissions	2,429	1,101	–	(50)	3,480	–	3,480	3,512
Operating and administrative expenses	6,013	1,055	–	169	7,237	1,104	8,341	8,175
Financing charges	285	108	–	42	435	109	544	462
Total expenses	41,818	2,264	–	161	44,243	1,213	45,456	44,217
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,880	956	–	(277)	3,559	(174)	3,385	3,881
Share of earnings of investments in jointly controlled corporations and associates	–	13	193	5	211	1	212	164
Earnings before income taxes	2,880	969	193	(272)	3,770	(173)	3,597	4,045
Income taxes	373	220	–	8	601	(47)	554	578
Net earnings	2,507	749	193	(280)	3,169	(126)	3,043	3,467
ATTRIBUTABLE TO								
Non-controlling interests	1,489	458	68	(111)	1,904	(21)	1,883	2,128
Non-participating shareholders	–	–	–	–	–	52	52	52
Participating shareholders of Power Corporation	1,018	291	125	(169)	1,265	(157)	1,108	1,287
	2,507	749	193	(280)	3,169	(126)	3,043	3,467

[1] Results reported by IGM are in accordance with IFRS 9. As the Corporation has not adopted IFRS 9, adjustments in accordance with IAS 39 have been recognized on consolidation by Power Financial and included in "Corporate".

[2] Results reported by Pargesa are in accordance with IFRS 9. Power Financial's share of earnings of Pargesa includes adjustments in accordance with IAS 39, including Power Financial's share of gains realized on the sale of investments classified as fair value through other comprehensive income (FVOCI) by Pargesa and an impairment charge.

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

[4] "Other" is comprised of the Corporation's investment platforms, which include consolidated investment funds, Power Energy and IntegraMed, as well as corporate operations and consolidation entries.

[5] As a result of Lifeco's sale, via indemnity insurance, of its U.S. individual life insurance and annuity business to Protective Life effective June 1, 2019, total net premiums include $13.9 billion of premiums ceded to Protective Life and fee income includes $1.1 billion of ceding commission received from Protective Life.

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 Power Financial, including 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 Power Financial, including the contributions from Lifeco, IGM and Pargesa, and the Corporation's investment platforms and other, which include controlled and consolidated investments, and China AMC, to the net earnings and adjusted net earnings attributable to Power Corporation's participating shareholders are accounted for using the equity method.

Contribution to adjusted and net earnings

Twelve months ended December 31	2019	2018
Adjusted net earnings [1]		
Power Financial		
Lifeco [2]	1,201	1,337
IGM [2]	298	306
Pargesa [2]	149	25
Corporate operations of Power Financial		
Income (loss) from investments	(5)	(10)
Operating and other expenses	(68)	(69)
Dividends on perpetual preferred shares	(90)	(91)
	1,485	1,498
Investment platforms and other [3]	(10)	88
China AMC	30	29
Corporate operations		
Operating and other expenses	(140)	(125)
Dividends on non-participating shares	(52)	(52)
Adjusted net earnings [4]	1,313	1,438
Other items [5]		
Power Financial		
Lifeco	(183)	(25)
IGM	(7)	(11)
Pargesa	(24)	12
Corporate operations	(6)	–
	(220)	(24)
Investment platforms and other	(16)	(66)
Corporate operations	31	(61)
	(205)	(151)
Net earnings [4]	1,108	1,287

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

[2] The contributions from Lifeco and IGM include an allocation of the results of Wealthsimple, Koho, Portag3 and Portag3 II, based on their respective interest. Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39.

[3] Investment platforms and other includes earnings (losses) from Power Energy, IntegraMed and Square Victoria Communications Group Inc. (up to the date of disposal in July 2018).

[4] Attributable to participating shareholders.

[5] See "Other items" section below.

Contribution to adjusted and net earnings per share

Twelve months ended December 31	2019	2018
Adjusted net earnings per share – basic		
Power Financial [1]	3.39	3.22
Investment platforms and other [2]	(0.02)	0.19
China AMC	0.07	0.06
Operating and other expenses, and dividends on non-participating shares	(0.44)	(0.38)
Adjusted net earnings per share [3]	3.00	3.09
Other items [4]		
Power Financial		
Lifeco	(0.42)	(0.06)
IGM	(0.02)	(0.02)
Pargesa	(0.05)	0.03
Corporate operations	(0.01)	–
	(0.50)	(0.05)
Investment platforms and other	(0.04)	(0.14)
Corporate operations	0.07	(0.13)
	(0.47)	(0.32)
Net earnings per share [3]	2.53	2.77

[1] Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39. For a reconciliation of Power Financial's adjusted net earnings per share to their net earnings per share, refer to the "Contribution to net earnings and adjusted net earnings" section below.

[2] Investment platforms and other includes earnings (losses) from Power Energy, IntegraMed and Square Victoria Communications Group Inc. (up to the date of disposal in July 2018).

[3] Attributable to participating shareholders.

[4] See "Other items" section below.

2019 vs. 2018	
Net earnings	$1,108 million or $2.53 per share, compared with $1,287 million or $2.77 per share in the corresponding period in 2018, a decrease of 8.7% on a per share basis.
Adjusted net earnings	$1,313 million or $3.00 per share, compared with $1,438 million or $3.09 per share in the corresponding period in 2018, a decrease of 2.9% on a per share basis.
Contribution to net earnings and adjusted net earnings from Power Financial	Contribution to net earnings of $1,265 million, compared with $1,474 million in the corresponding period in 2018, a decrease of 14.2%. Contribution to adjusted net earnings of $1,485 million, compared with $1,498 million in the corresponding period in 2018, a decrease of 0.9%.

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

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS

POWER FINANCIAL

Contribution to Power Corporation

Twelve months ended December 31	2019	2018
Contribution to Power Corporation's[1]:		
Adjusted net earnings	1,485	1,498
Other items	(220)	(24)
Net earnings	1,265	1,474

[1] Power Corporation's average direct ownership in Power Financial was 64.5% for the year ended December 31, 2019 (65.5% in the corresponding period in 2018).

Adjusted and net earnings per share as reported by Power Financial

Twelve months ended December 31	2019	2018
Adjusted net earnings per share[1]	3.40	3.20
Other items	(0.51)	(0.05)
Net earnings per share[1]	2.89	3.15

Adjusted and net earnings as reported by Power Financial

Twelve months ended December 31	2019	2018
Adjusted net earnings		
Lifeco	1,864	2,040
IGM	465	462
Pargesa	230	39
	2,559	2,541
Corporate operations of Power Financial		
Income (loss) from investments	(8)	(15)
Operating and other expenses	(106)	(106)
Dividends on perpetual preferred shares	(139)	(138)
Adjusted net earnings[1]	2,306	2,282
Other items		
Lifeco	(285)	(39)
IGM	(11)	(16)
Pargesa	(37)	18
Corporate operations	(9)	–
	(342)	(37)
Net earnings[1]	1,964	2,245

[1] Attributable to Power Financial common shareholders.

2019 vs. 2018	
Net earnings	$1,964 million or $2.89 per share, compared with $2,245 million or $3.15 per share in the corresponding period in 2018, a decrease of 8.3% on a per share basis.
Adjusted net earnings	$2,306 million or $3.40 per share, compared with $2,282 million or $3.20 per share in the corresponding period in 2018, an increase of 6.3% on a per share basis.

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

LIFECO

Contribution to Power Corporation

Twelve months ended December 31	2019	2018
Contribution to Power Corporation's[1]:		
Adjusted net earnings		
As reported by Lifeco	1,204	1,339
Consolidation entries	(3)	(2)
	1,201	1,337
Other items	(183)	(25)
Net earnings	1,018	1,312

[1] Power Financial's average direct ownership in Lifeco and Power Corporation's average direct ownership in Power Financial were 67.1% and 64.5%, respectively, for the year ended December 31, 2019 (67.7% and 65.5%, respectively, in the corresponding period in 2018).

Adjusted and net earnings per share as reported by Lifeco

Twelve months ended December 31	2019	2018
Adjusted net earnings per share[1]	2.944	3.052
Other items[2]	(0.450)	(0.056)
Net earnings per share[1]	2.494	2.996

[1] Attributable to Lifeco common shareholders.

[2] See "Other items" section below.

Adjusted and net earnings by segment as reported by Lifeco

Twelve months ended December 31	2019	2018
CANADA		
Individual Customer	431	685
Group Customer	632	630
Canada Corporate	(12)	(40)
	1,051	1,275
UNITED STATES		
Financial Services[1]	278	240
Asset Management	33	(61)
U.S. Corporate[2][3]	(1)	52
Reinsured Insurance & Annuity Business[1][3]	63	157
	373	388
EUROPE		
Insurance and Annuities	1,050	1,036
Reinsurance	353	377
Europe Corporate[3]	(21)	(46)
	1,382	1,367
Lifeco Corporate	(21)	(13)
Adjusted net earnings[4]	2,785	3,017
Other items[3]	(426)	(56)
Net earnings[4]	2,359	2,961

[1] The Reinsured Insurance & Annuity Business unit reflects business transferred to Protective Life under an indemnity reinsurance agreement effective on June 1, 2019. Comparative figures have been adjusted to reflect the current presentation.

[2] U.S. Corporate net earnings for the second quarter of 2018 included a net positive impact of $60 million arising from refinancing in the U.S. segment.

[3] Other items represent amounts which have been excluded from the Reinsured Insurance & Annuity Business unit of the U.S. segment and from the corporate business units of the U.S. and Europe segments. Refer to the "Other items" section.

[4] Attributable to Lifeco common shareholders.

2019 vs. 2018	
Net earnings	$2,359 million or $2.494 per share, compared with $2,961 million or $2.996 per share in the corresponding period in 2018, a decrease of 16.8% on a per share basis. In the second quarter of 2019, Lifeco sold its U.S. individual life insurance and annuity business. Lifeco's net earnings for 2019 include a contribution of $63 million, compared with $157 million in the corresponding period in 2018.
Adjusted net earnings	$2,785 million or $2.944 per share, compared with $3,017 million or $3.052 per share in the corresponding period in 2018, a decrease of 3.5% on a per share basis.

Canada

Net earnings for the twelve-month period ended December 31, 2019 decreased by $224 million to $1,051 million, compared with the corresponding period in 2018.

There were no Other items in the twelve-month period ended December 31, 2019 and in the corresponding period in 2018.

INDIVIDUAL CUSTOMER

Net earnings for the twelve-month period ended December 31, 2019 decreased by $254 million to $431 million, compared with the same period last year. The decrease was primarily due to:

- Unfavourable contributions from insurance contract liability basis changes; and
- Lower net fee income and less favourable policyholder behaviour experience;
- Partially offset by higher contributions from investment experience.

Insurance contract liability basis changes in the fourth quarter of 2019 include the strengthening of actuarial reserves driven by impact of updates to policyholder behaviour assumptions, updates to morbidity assumptions and refinements to certain investment-related assumptions.

GROUP CUSTOMER

Net earnings for the twelve-month period ended December 31, 2019 increased by $2 million to $632 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from investment experience;
- Partially offset by lower contributions from insurance contract liability basis changes.

Insurance contract liability basis changes in the fourth quarter of 2019 include the impact of updates to mortality assumptions and refinements to certain investment-related assumptions.

United States

Net earnings for the twelve-month period ended December 31, 2019 were a net loss of $61 million, compared with net earnings of $388 million in the corresponding period in 2018. Adjusted net earnings were $373 million in the twelve-month period ended December 31, 2019, and excluded Other items of $434 million as discussed below. There were no Other items in the corresponding period in 2018.

FINANCIAL SERVICES

For the twelve-month period ended December 31, 2019, net earnings were US$211 million (C$278 million), compared with US$184 million (C$240 million) in the corresponding period in 2018. The increase of US$27 million was primarily due to:

- The impact of a valuation adjustment on an employee pension plan; and
- Higher contributions from investment experience and net business growth;
- Partially offset by lower contributions from insurance contract liability basis changes and higher operating expenses.

ASSET MANAGEMENT

For the twelve-month period ended December 31, 2019, net earnings were US$24 million (C$33 million), compared with a net loss of US$47 million (C$61 million) in the corresponding period in 2018. The increase in net earnings of US$71 million was primarily due to:

- Higher net investment income on seed capital; and
- Lower operating expenses, which included the impact of expense reduction initiatives;
- Partially offset by lower net fee income.

Net earnings also include financing and other expenses after tax of US$35 million (C$45 million). Financing and other expenses decreased by US$4 million from the corresponding period in 2018 primarily due to lower net financing costs as a result of debt refinancing during the prior year.

REINSURED INSURANCE & ANNUITY BUSINESS

For the twelve-month period ended December 31, 2019, the net loss was US$101 million (C$136 million) compared with net earnings of US$122 million (C$157 million) for the same period last year. Excluding other items which comprise a net charge of US$148 million (C$199 million) relating to the sale, via indemnity insurance, on June 1, 2019 to Protective Life (refer to the overview section "Lifeco"), adjusted net earnings were US$47 million (C$63 million), a decrease of US$75 million compared with the same period last year, reflecting the timing of the reinsurance transaction with Protective Life during the second quarter.

Europe

Net earnings for the twelve-month period ended December 31, 2019 increased by $79 million to $1,390 million, compared with the corresponding period in 2018. Adjusted net earnings in the twelve-month period ended December 31, 2019 were $1,382 million, and excluded Other items, discussed below, of a positive earnings impact of $8 million. Adjusted net earnings in the twelve-month period ended December 31, 2018 were $1,367 million, and excluded Other items, discussed below, of $56 million.

INSURANCE AND ANNUITIES

Net earnings for the twelve-month period ended December 31, 2019 increased by $14 million to $1,050 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from investment experience, which included the impact of bond and mortgage upgrades in 2019, and higher realized gains on surplus assets; and
- Favourable impact of new business, favourable mortality experience in the U.K. and the impact of changes to certain tax estimates, including the resolution of an outstanding issue with a foreign tax authority;
- Partially offset by the impact of impairment charges on mortgage loans and reductions in expected property cash flows primarily associated with a U.K. retail tenant entering a prepackaged administration, lower contributions from insurance contract liability basis changes and adverse morbidity experience in Ireland.

To address the evidence of an adverse trend in claims in Ireland, pricing action has been taken during 2019, which will take effect in 2020, and Lifeco will continue to monitor its progress.

REINSURANCE

Net earnings for the twelve-month period ended December 31, 2019 decreased by $24 million to $353 million, compared with the same period last year. The decrease was primarily due to:

- Less favourable claims experience in the life and annuity business; and
- Lower contributions from insurance contract liability basis changes;
- Partially offset by higher business volumes and favourable initial impacts of new business.

Other Items

Adjusted net earnings in 2019 exclude a net charge of $426 million after tax consisting of:

- Net charge of $199 million (US$148 million) relating to the sale of the U.S. individual life insurance and annuity business recorded in the Reinsured Insurance and Annuity Business unit of the U.S. segment:
  - In 2019, Lifeco recognized a net loss on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life on June 1, 2019. The net charge included transaction costs of $63 million and $36 million related to updated expense assumptions related to stranded overhead on the retained business.
- Revaluation of a deferred tax asset resulted in a charge of $199 million (US$151 million) recorded in the Corporate business unit of the U.S. segment:
  - During 2019, Lifeco's management determined that a $199 million revaluation of a deferred income tax asset pertaining to Putnam was appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years.
- Restructuring charges of $36 million (US$28 million) recorded in the Corporate business unit of the U.S. segment:
  - During 2019, Putnam undertook actions to realign its resources to better position itself for current and future opportunities. These actions included technology modernization, product consolidation, a reduction in staff and facilities reorganization and resulted in restructuring charges which reduced net earnings by $36 million. Lifeco expects to realize US$33 million in pre-tax annual operating expense savings as a result of the restructuring activities by the end of the fourth quarter of 2020. As of December 31, 2019, approximately US$24 million in pre-tax annual operating expense savings have been achieved.
- Net gain of $8 million on the Scottish Friendly transaction recorded in the Corporate business unit of the Europe segment:
  - In 2018, Canada Life Limited, an indirect wholly owned U.K. subsidiary of Lifeco, announced an agreement to sell a heritage block of individual policies to Scottish Friendly, comprised of unit-linked policies and non-unit-linked policies. On October 22, 2019, the required court approval for the transfer of these policies was received and this transfer occurred, effective November 1, 2019. In 2019, Lifeco recognized a gain of $8 million after tax related to this transaction.

In 2018, Other items of $56 million after tax consisted of restructuring costs related to the U.K. operations.

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

IGM FINANCIAL

Contribution to Power Corporation

Twelve months ended December 31	2019	2018
Contribution to Power Corporation's[1]:		
Adjusted net earnings		
As reported by IGM	305	319
Consolidation entries[2]	(7)	(13)
	298	306
Other items	(7)	(11)
Net earnings	291	295

[1] Power Financial's average direct ownership in IGM and Power Corporation's average direct ownership in Power Financial were 61.9% and 64.5%, respectively, for the year ended December 31, 2019 (61.4% and 65.5%, respectively, in the corresponding period in 2018).

[2] Contribution to Power Corporation includes adjustments made by Power Financial in accordance with IAS 39 and the allocation of the results of Wealthsimple, Koho, Portag3 and Portag3 II.

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

Twelve months ended December 31	2019	2018
Adjusted net earnings per share[1]	3.19	3.29
Other items[2]	(0.07)	(0.11)
Net earnings per share[1]	3.12	3.18

[1] Available to IGM common shareholders.

[2] See "Other items" section below.

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

Twelve months ended December 31	2019	2018
IG Wealth Management	770	766
Mackenzie	169	178
Corporate and other	155	186
Adjusted net earnings (before interest, income taxes, preferred share dividends and other)[1]	1,094	1,130
Interest expense, income taxes, preferred share dividends and other[2]	(330)	(338)
Adjusted net earnings[3]	764	792
Other items[4]	(17)	(25)
Net earnings[3]	747	767

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

[2] Interest expense includes interest on long-term debt and also includes interest on leases of $4.1 million in the twelve-month period ended December 31, 2019, as a result of IGM's adoption of IFRS 16, *Leases*.

[3] Available to IGM common shareholders.

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

2019 vs. 2018	
Net earnings	$747 million or $3.12 per share, compared with $767 million or $3.18 per share in the corresponding period in 2018, a decrease of 1.9% on a per share basis.
Adjusted net earnings	$764 million or $3.19 per share, compared with $792 million or $3.29 per share in the corresponding period in 2018, a decrease of 3.0% on a per share basis.

On January 1, 2018, IGM adopted IFRS 9, *Financial Instruments*. Power Corporation has deferred the adoption of IFRS 9 and continues to apply IAS 39. The contribution to Power Corporation includes adjustments to reverse the impact of the application of IFRS 9 by IGM.

In January 2019, IGM invested a further $67 million (US$50 million) in Personal Capital which increased its voting interest to 22.7%. IGM has significant influence and accounts for its interest as an associate using the equity method. In accordance with IFRS 9, IGM previously classified its interest in Personal Capital as fair value through other comprehensive income (FVOCI), in which fair value changes remain permanently in equity. In accordance with

IAS 39, the Corporation accounted for IGM's investment in Personal Capital as available for sale. The reclassification of the investment in the first quarter from available for sale to an associate, under IAS 39, resulted in a gain; the contribution of IGM to Power Corporation has been adjusted accordingly.

Adjusted net earnings exclude a charge of $17 million in the twelve-month period ended December 31, 2019 and charges of $25 million in the corresponding period ended December 31, 2018. These Other items are not allocated to segments. The following is a summary of each segment's net earnings:

IG Wealth Management

Net earnings increased by $4 million to $770 million in the twelve-month period ended December 31, 2019, compared with the corresponding period in 2018, due to:

- An increase in income from management fees of $30 million to $1,488 million. The increase was primarily due to an increase in average assets under management of 2.6%. The average management fee rate decreased by 0.5 basis points to 165.9 basis points of average assets under management, reflecting pricing reductions effective March 1, 2019; and
- An increase in net investment income of $10 million to $56 million, largely due to an increase of $9 million in fair value adjustments related to the mortgage banking operations;

Partially offset by:

- An increase in expenses of $24 million to $1,245 million in the twelve-month period, mainly due to an increase in non-commission expenses of $19 million, primarily due to increased technology expenses in the first quarter relating to the migration of clients to a new dealer platform and unbundled fee arrangements, as well as continued expenses associated with IG Wealth Management's brand relaunch;
- Asset-based compensation increased by $25 million in the twelve-month period primarily due to an increase in assets under management partially offset by a decrease in commissions of $19 million, primarily due to lower mutual fund sales partially offset by higher compensation related to the distribution of insurance products; and
- A decrease in administration fees of $11 million to $300 million. The decrease resulted primarily from 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 $9 million to $169 million in the twelve-month period ended December 31, 2019, compared with the corresponding period in 2018, due to:

- An increase in expenses of $17 million to $643 million, due to an increase in non-commission expenses of $15 million and an increase in trailing commissions of $6 million related to the increase in average mutual fund assets, offset by a decline in the effective trailing commission rate, partially offset by a decrease in commission expense of $4 million;
- Partially offset by an increase in net investment income and other of $6 million to $4 million. Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds; and
- An increase in management fee revenue of $2 million to $704 million, mainly due to an increase in total average assets under management of 2.9%, offset by a decline in the effective management fee rate. The average management fee rate decreased by 2.5 basis points to 104.0 basis points due to a change in the composition of assets under management.

Assets and Investment Fund Assets Under Management

Total assets under management were as follows:

December 31 [In billions of dollars]	2019	2018
IG Wealth Management	93.2	83.1
Mackenzie	70.2	62.7
Corporate and other[1]	3.4	3.3
Total	166.8	149.1

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

	2019				2018			
[In billions of dollars]	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
IG Wealth Management	91.9	90.4	90.2	87.0	85.1	89.4	88.0	87.8
Mackenzie	63.0	61.8	60.8	58.2	57.1	59.5	57.9	57.1
Corporate and other[1]	4.6	4.6	4.7	4.7	4.8	5.1	5.0	5.2
Total	159.5	156.8	155.7	149.9	147.0	154.0	150.9	150.1

[1] 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 2019 exclude a net charge of $17 million, consisting of IGM's proportionate share of Lifeco's Other items.

Adjusted net earnings in 2018 excluded 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 early redemption of the $375 million 7.35% debentures on August 10, 2018.

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

PARGESA

Contribution to Power Corporation

Twelve months ended December 31 [In millions of Canadian dollars]	2019	2018
Contribution to Power Corporation's[1]:		
Adjusted net earnings		
As reported by Pargesa	118	76
Consolidation entries[2]	31	(51)
	149	25
Other items	(24)	12
Net earnings	125	37

[1] Power Financial's average ownership in Pargesa and Power Corporation's average direct ownership in Power Financial were 27.8% and 64.5%, respectively, for the year ended December 31, 2019 (27.8% and 65.5%, respectively, in the corresponding period in 2018).

[2] The Corporation has not adopted IFRS 9. The contribution to the Corporation includes an adjustment to account for Pargesa under IAS 39 as described below.

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

Twelve months ended December 31 [In millions of Swiss francs]	2019	2018
Contribution from the portfolio to adjusted net earnings		
Share of earnings of:		
Imerys	87	129
Parques	(9)	3
Dividends:		
LafargeHolcim	64	58
SGS	50	50
Pernod Ricard	36	28
adidas	25	21
Total	21	21
Umicore	20	18
GEA	8	6
Ontex	4	6
Other[1]	67	1
Contribution from private equity activities and other investment funds	161	31
	534	372
Net financial income (charges)	(11)	(26)
General expenses and taxes	(31)	(29)
Adjusted net earnings[2][3]	492	317
Other items	(101)	44
Net earnings[3]	391	361

[1] Other dividends in 2019 mainly consist of a reimbursement of withholding taxes by the French tax authorities related to dividends received from Total and Engie between 2013 and 2016.

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

[3] Attributable to Pargesa shareholders.

2019 vs. 2018	
Net earnings	SF391 million, compared with SF361 million in the corresponding period in 2018, an increase of 8.3%.
Adjusted net earnings	SF492 million, compared with SF317 million in the corresponding period in 2018, an increase of 55.2%.

Adjustments to the contribution of Pargesa

On January 1, 2018, Pargesa adopted IFRS 9, *Financial Instruments*. The majority of its investments in public entities are classified as FVOCI, 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 are classified as fair value through profit or loss (FVPL). The transition requirements of IFRS 9 required that all unrealized gains and losses at January 1, 2018 on investments previously classified as available for sale remain permanently in equity. Starting January 1, 2018, subsequent changes in fair value are recorded in earnings.

Power Corporation 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 Corporation's earnings in accordance with IAS 39:

Twelve months ended December 31 [In millions of dollars]	2019	2018
Partial disposal of interest in adidas[1]	46	–
Partial disposal of interest in LafargeHolcim[2]	15	–
Impairment charges[3]	(8)	(74)
Disposal of private equity funds[4]	–	17
Disposal of Burberry[5]	–	12
Reversal of unrealized (gains) losses on private equity funds and other[6]	(22)	(6)
Total	31	(51)

[1] During the first and second quarters of 2019, a portion of the investment in adidas was disposed of, resulting in gains of SF49 million and SF144 million, respectively. These gains were not reflected in Pargesa's earnings as the investment is classified as FVOCI. Power Corporation's share of the realized gain was $12 million in the first quarter and $34 million in the second quarter.

[2] During the fourth quarter of 2019, a portion of the investment in LafargeHolcim was disposed of, resulting in a gain from the reversal of previous impairments of SF65 million. This gain was not reflected in Pargesa's earnings as the investment is classified as FVOCI. Power Corporation's share was $15 million.

[3] 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 on the following investments:

- Ontex – During the second quarter of 2018, the share price of Ontex decreased to €18.81 per share from a cost of €27.62 per share. Power Corporation recognized its share of the impairment charge of $22 million in the second quarter of 2018;

  During the remainder of 2018, the share price of Ontex decreased to €17.90 per share which resulted in further impairment charges, Power Corporation's share was $2 million;

  During the second quarter of 2019, the share price of Ontex decreased to €14.18 per share. An impairment charge of $8 million was recognized by Power Corporation, relating to its share of the impairment;
- GEA – During the fourth quarter of 2018, 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 Corporation's share was $28 million;
- LafargeHolcim – The investment in LafargeHolcim has been previously impaired, resulting in an adjusted cost of €37.10 per share. During the fourth quarter of 2018, the share price decreased to €35.83 per share, resulting in an impairment charge of SF59 million including a foreign exchange loss. Power Corporation's share was $15 million;
- Other investments – During the fourth quarter of 2018, Power Corporation's share of impairment charges on other investments was $7 million.

[4] During the first and fourth quarters of 2018, three investments held through private equity funds, classified as FVPL in accordance with IFRS 9, were disposed of, which resulted in realized gains of SF57 million and SF11 million, respectively. These realized gains have not been recognized in Pargesa's earnings as the investments were reclassified from available for sale to FVPL on transition to IFRS 9 on January 1, 2018. On transition, the related unrealized gains recorded in other comprehensive income were transferred permanently to retained earnings. Power Corporation's share of the realized gain was $17 million.

[5] During the second quarter of 2018, 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 was classified as FVOCI. Power Corporation's share of the realized gain was $12 million.

[6] Pargesa classifies private equity investments at FVPL in accordance with IFRS 9, and recognizes unrealized changes in fair value in earnings. Power Corporation does not recognize these unrealized fair value changes in earnings 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 and Parques, a significant portion of Pargesa's net earnings is composed of dividends from its non-consolidated investments, which are usually declared as follows:

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

RESULTS

Net earnings in the twelve-month period ended December 31, 2019 increased by SF30 million to SF391 million, compared with the corresponding period in 2018. Adjusted net earnings in the twelve-month period ended December 31, 2019 were SF492 million, compared with SF317 million in the corresponding period in 2018. Other items, discussed below, were a charge of SF101 million in the twelve-month period ended December 31, 2019, compared with a positive earnings impact of SF44 million in 2018. The increase in net earnings is mainly due to:

- An increase in dividends of SF86 million to SF295 million, compared with SF209 million in the corresponding period in 2018. Dividends from its principal holdings increased by SF20 million, primarily due to the increase in dividends per share paid by certain portfolio companies, impact of additional investments made in Umicore and GEA, as well as the monetization of a stock dividend received from LafargeHolcim. Other dividends include SF62 million related to reimbursements by the French tax authorities for withholding taxes which had been applied to dividends received from Total and Engie between 2013 and 2016;
- An increase in the contribution from private equity activities and other investment funds of SF130 million, mainly due to fair value increases of the non-consolidated funds and realized gains of SF70 million on the sale of investments in Looping and opseo; and
- A decrease in net financial charges of SF15 million from the corresponding period in 2018 to SF11 million mainly due to income from default interest on the withholding taxes which have been applied to the dividend reimbursements discussed above, offset by the net impact of fair value adjustments to derivative instruments.

Partially offset by:

- A decrease in the contribution from Imerys to adjusted net earnings, excluding other items of SF49 million as discussed below, from SF129 million to SF87 million at December 31, 2019, primarily due to a decrease in revenue from a market slowdown, especially in the manufacturing sector which deteriorated throughout the year, the deconsolidation of the North American talc subsidiaries and to the temporary shutdown of a U.S. plant in the first half of 2019. The decline was partially offset by a positive effect of pricing and cost saving measures; and
- A decrease in the contribution from Parques of SF12 million to a loss of SF9 million at December 31, 2019.

OTHER ITEMS

Other items in 2019 were SF101 million and mainly consisted of:

- Pargesa's share of Imerys' charges of SF49 million:
  - Charges of SF21 million relating to the implementation of a transformation program and charges related to the temporary shutdown of a U.S. plant, primarily recognized in the second quarter;
  - Charges of SF28 million relating to costs incurred by Imerys as part of its transformation program and depreciation of non-core assets due to the deconsolidation of the North American talc subsidiaries, recognized in the fourth quarter;
- Pargesa's share of Parques' charges of SF38 million: non-recurring expenses recorded by Parques; and
- Pargesa's share of SF11 million related to the contribution recognized by GBL following the acquisition of Webhelp, which primarily consists of GBL's share of transaction costs to complete the acquisition.

Other items in 2018 were a positive earnings impact of SF44 million mainly consisting of:

- Imerys' disposal 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.

AVERAGE EXCHANGE RATES

The average exchange rates for the twelve-month periods ended December 31, 2019 and 2018 were as follows:

Twelve months ended December 31	2019	2018	Change %
Euro/SF	1.113	1.155	(3.6)
SF/CAD	1.335	1.325	0.8

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

INVESTMENT PLATFORMS AND OTHER

Investment platforms and other includes income earned from management fees net of investment platform expenses, income earned on the capital invested by the Corporation (proprietary capital) in each platform and the share of earnings (losses) of controlled and consolidated subsidiaries, associates and jointly controlled investments.

Summary of income (loss) from the Corporation's investment platforms and other:

Twelve months ended December 31	2019	2018
Investment platforms		
Sagard Europe		
Management fees[1]	22	21
Investment platform expenses	(33)	(26)
Income earned on proprietary capital[2]	(7)	205
	(18)	200
Sagard Holdings		
Management fees and carried interest	22	2
Investment platform expenses	(42)	(23)
Income earned on proprietary capital	18	9
Share of earnings (losses)[3]	(70)	(79)
	(72)	(91)
Power Pacific		
Investment platform expenses	(20)	(12)
Income earned on proprietary capital[4]	121	(17)
	101	(29)
Power Energy		
Investment platform expenses	(7)	(6)
Income earned on proprietary capital[5]	(1)	54
Share of earnings (losses)	(38)	(42)
	(46)	6
Investment platforms	(35)	86
Other		
Investment and hedge funds	24	6
Other[6]	1	(4)
Other	25	2
	(10)	88

[1] Includes management fees charged by the investment platform on proprietary capital. Management fees paid by the Corporation are included in income earned on proprietary capital.

[2] Income in 2018 includes gains distributed by the funds in the first and fourth quarters on the sale of investments.

[3] Includes the Corporation's share of earnings (losses) of IntegraMed, a controlled investment, and share of earnings (losses) of investments in a jointly controlled corporation and associates.

[4] Mainly comprised of gains (losses) realized on the disposal of investments and dividends received. The 2018 results include realized losses of $46 million recognized in the third and fourth quarters.

[5] The 2018 results include a gain of $62 million ($54 million net of tax) recognized on the sale of Eagle Creek.

[6] Consists mainly of foreign exchange gains or losses and interest on cash and cash equivalents and includes the results of Square Victoria Communications Group (up to date of disposal in July 2018).

Income earned from proprietary capital and earnings from Other Investments are volatile in nature as they depend on many factors, including and primarily related to the timing of realizations.

Impairment charges included in income (loss) from investment platforms and other were as follows:

Twelve months ended December 31	2019	2018
Sagard Holdings	33	37
Power Pacific	1	43
Investment and hedge funds	4	1
	38	81

Sagard Holdings

For the twelve-month period ended December 31, 2019, impairment charges were $33 million compared with $37 million for the same period in 2018. Impairment charges in 2019 mainly relate to an equity-accounted investment in the third quarter. In 2018, impairment charges were related to an equity-accounted investment and available-for-sale investments due to decline in equity values in December 2018. The impairment charges in 2019 and 2018 exclude Sagard Holdings' share of an impairment charge recognized by IntegraMed for an amount of $16 million (US$13 million) and $66 million (US$50 million), respectively, which was included in Other Items.

Power Pacific

For the twelve-month period ended December 31, 2019, impairment charges were $1 million compared with $43 million for the same period in 2018. Impairment charges in 2018 were due to a significant decline in the Chinese equity markets in the third and fourth quarters of 2018.

CHINA AMC

For the twelve-month period ended December 31, 2019, income from China AMC was $30 million compared with $29 million for the same period in 2018.

CORPORATE OPERATIONS

Corporate operations include operating expenses, financing charges, depreciation and income taxes.

Operating and other expenses

Summary of corporate operating and other expenses of the Corporation and its share of operating and other expenses of Power Financial:

Twelve months ended December 31	2019	2018
Power Financial[1]		
Operating expenses	53	55
Financing charges	12	12
Depreciation	2	1
Income taxes	1	1
	68	69
Power Corporation		
Operating expenses	102	88
Financing charges	37	43
Depreciation	13	12
Income taxes[2]	(12)	(18)
	140	125
	208	194

[1] Power Corporation's share of operating and other expenses of Power Financial. For the twelve-month period ended December 31, 2019, Power Financial's gross operating expenses were $83 million ($85 million in the corresponding period in 2018).

[2] Includes a gain on the sale of tax losses on December 31, 2019 and 2018. Refer to the "Transactions with Related Parties" section for more details.

OTHER ITEMS (not included in adjusted net earnings)

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

Twelve months ended December 31	2019	2018
Power Financial		
Lifeco		
Net charge on the sale of U.S. individual life insurance and annuity business	(86)	–
Net charge on the revaluation of a deferred tax asset	(85)	–
Restructuring charges	(15)	(25)
Net gain on the Scottish Friendly transaction	3	–
	(183)	(25)
IGM		
Restructuring and other charges	–	(7)
Premium paid on early redemption of debentures	–	(3)
Share of Lifeco's other items	(7)	(1)
	(7)	(11)
Pargesa		
Imerys – Disposal of roofing activity	–	56
Imerys – Impairments, restructuring charges and other	(12)	(44)
Parques and other charges	(12)	–
	(24)	12
Corporate operations – Reorganization charges	(6)	–
	(220)	(24)
Investment platforms and other		
Sagard Holdings – Share of IntegraMed's goodwill impairment charge	(16)	(66)
Corporate operations		
Operating and other expenses		
Reduction of income tax estimates	31	–
Divestiture of La Presse operations	–	(54)
Premium paid on early redemption of debentures	–	(7)
	15	(127)
	(205)	(151)

For additional information, refer to the Lifeco, IGM and Pargesa "Other items" sections or "Investment Platforms and Other" section above.

Power Financial corporate other items

During 2019, Power Financial incurred $9 million of costs related to the Reorganization, primarily related to legal and financial advisor fees. The Corporation's share was $6 million.

Investment Platforms and Other

In 2019, the Corporation's share of a goodwill impairment charge by IntegraMed was $16 million (US$13 million). In 2018, the Corporation's share of a goodwill impairment charge by IntegraMed was $66 million (US$50 million).

Corporate other items

In 2019, Other items of $31 million relate to a favourable change to income tax provision estimates.

In 2018, the Corporation transferred net assets of La Presse to a new not-for-profit structure and realized a loss of $54 million on the divestiture, which included a financial contribution to the not-for-profit structure of $50 million.

On September 6, 2018, the Corporation redeemed all of its $250 million 7.57% debentures due April 22, 2019. A premium of $7 million was paid on the early redemption.

Financial Position

CONSOLIDATED BALANCE SHEETS (condensed)

The condensed balance sheets of Lifeco, IGM and other subsidiaries, as well as Power Corporation's and Power Financial's non-consolidated balance sheets are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at December 31, 2019.

						Power Corporation Consolidated balance sheets	
December 31	Power Corporation	Power Financial	Lifeco	IGM	Other Subsidiaries and Consolidation adjustments[1]	2019	2018
ASSETS							
Cash and cash equivalents	564	1,021	4,628	720	(128)	6,805	6,441
Investments[2]	2,976	203	163,756	7,555	(1,433)	173,057	182,656
Investment in:							
Power Financial, Lifeco and IGM	11,530	16,374	350	897	(29,151)	–	–
Parjointco	–	3,954	–	–	–	3,954	3,291
Other[3]	–	–	53	857	1,029	1,939	1,796
Assets held for sale	–	–	–	–	–	–	897
Funds held by ceding insurers	–	–	8,714	–	–	8,714	9,251
Reinsurance assets[2]	–	–	20,707	–	–	20,707	6,126
Other assets	450	137	11,553	1,472	1,273	14,885	12,789
Intangible assets	1	1	3,879	1,230	732	5,843	5,787
Goodwill	–	–	6,505	2,660	1,159	10,324	10,423
Investments on account of segregated fund policyholders	–	–	231,022	–	–	231,022	209,527
Investments on account of segregated fund policyholders held for sale	–	–	–	–	–	–	3,319
Total assets	15,521	21,690	451,167	15,391	(26,519)	477,250	452,303
LIABILITIES							
Insurance and investment contract liabilities	–	–	176,177	–	–	176,177	168,431
Liabilities held for sale	–	–	–	–	–	–	897
Obligations to securitization entities	–	–	–	6,914	–	6,914	7,370
Debentures and other debt instruments[4]	683	250	5,993	2,100	912	9,938	9,977
Other liabilities	664	625	12,432	1,878	1,015	16,614	14,736
Insurance and investment contracts on account of segregated fund policyholders	–	–	231,022	–	–	231,022	209,527
Insurance and investment contracts on account of segregated fund policyholders held for sale	–	–	–	–	–	–	3,319
Total liabilities	1,347	875	425,624	10,892	1,927	440,665	414,257
EQUITY							
Non-participating shares	960	2,830	2,714	–	(5,544)	960	962
Participating shareholders' equity[5]	13,214	17,985	19,963	4,499	(42,447)	13,214	14,156
Non-controlling interests[6][7]	–	–	2,866	–	19,545	22,411	22,928
Total equity	14,174	20,815	25,543	4,499	(28,446)	36,585	38,046
Total liabilities and equity	15,521	21,690	451,167	15,391	(26,519)	477,250	452,303

[1] Other Subsidiaries and Consolidation adjustments includes Portag3, Portag3 II, Wealthsimple, Koho, investment platforms including consolidated investment funds, Power Energy and IntegraMed, as well as consolidation entries.

[2] As a result of Lifeco's indemnity reinsurance agreement with Protective Life on June 1, 2019, investments of $15.5 billion were derecognized and reinsurance assets of $15.2 billion were recognized.

[3] Includes investments in jointly controlled corporations and associates.

[4] The debentures and other debt instruments of controlled and consolidated investments are secured by their assets which are non-recourse to the Corporation.

[5] Opening retained earnings were decreased by $52 million as a result of the adoption of IFRS 16, *Leases* and the application of IFRIC 23, *Uncertainty over Income Tax Treatments;* refer to the "Changes in Accounting Policies" section for more details.

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

[7] Non-controlling interests in consolidation adjustments represent non-controlling interests in the equity of Power Financial, Lifeco, IGM and controlled and consolidated investments.

Total assets of the Corporation increased to $477.3 billion at December 31, 2019, compared with $452.3 billion at December 31, 2018, primarily due to the impact of market movement and new business growth, partially offset by the impact of currency movement.

In June 2018, a subsidiary of Lifeco announced its agreement to sell a heritage block of policies to Scottish Friendly Assurance Society Limited (Scottish Friendly) and the amounts related to the unit-linked and non-unit-linked policies were classified as assets held for sale. On October 22, 2019, the required court approval for the transfer of these policies was received and the transfer occurred with effect from November 1, 2019. See Note 4 to the Corporation's 2019 Consolidated Financial Statements.

Liabilities increased to $440.7 billion at December 31, 2019, compared with $414.3 billion at December 31, 2018, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contracts on account of segregated fund policyholders increased by $21.5 billion, primarily due to the combined impact of market value gains and investment income of $27.3 billion, partially offset by the impact of currency movement of $6.5 billion.
- Insurance and investment contract liabilities increased by $7.7 billion, primarily due to fair value adjustments and the impact of new business, partially offset by the weakening of the euro, British pound, and U.S. dollar against the Canadian dollar.
- The transfer of a heritage block of policies to Scottish Friendly occurred with effect from November 1, 2019. See Note 4 to the Corporation's 2019 Consolidated Financial Statements.

NON-CONSOLIDATED BALANCE SHEETS

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

December 31	2019	2018
ASSETS		
Cash and cash equivalents[1]	564	750
Investment in Power Financial	11,530	12,295
Investment platforms and other		
Sagard Europe	478	391
Sagard Holdings[2]	306	395
Power Pacific	730	510
Power Energy	655	561
Other Investments[3]	149	171
Investment in China AMC	658	679
Other assets	451	471
Total assets	15,521	16,223
LIABILITIES		
Debentures and other debt instruments	683	646
Other liabilities	664	459
Total liabilities	1,347	1,105
EQUITY		
Non-participating shares	960	962
Participating shareholders' equity	13,214	14,156
Total equity	14,174	15,118
Total liabilities and equity	15,521	16,223

[1] Cash equivalents include $116 million ($181 million at December 31, 2018) 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. Cash and cash equivalents also include cash held within Sagard Holdings and Power Pacific (see below).

[2] Includes investment in IntegraMed, accounted for using the equity method and investment in associates and a jointly controlled corporation.

[3] Other investments include portfolio investments in private investment funds and a select number of hedge funds. These investments are classified as available for sale and are carried at fair value. The Corporation had outstanding commitments to make future capital contributions to these funds for an aggregate amount of $48 million.

Cash and cash equivalents

Cash and cash equivalents held by the Corporation amounted to $564 million at December 31, 2019, compared with $750 million at the end of December 2018 (see "Non-consolidated Statements of Cash Flows" below for details). Of this amount, $178 million ($347 million at December 31, 2018) was held by Sagard Holdings and Power Pacific.

Investments

The tables below reconcile the investment in Power Financial and Power Energy, which are presented using the equity method for the purposes of the non-consolidated presentation; this presentation is not in accordance with IFRS.

Investment in Power Financial (at equity)

The carrying value of Power Corporation's investment in Power Financial, accounted for using the equity method, decreased to $11,530 million at December 31, 2019, compared with $12,295 million at December 31, 2018:

Carrying value, at the beginning of the year	12,295
Change in accounting policies [1]	(52)
Restated carrying value, at the beginning of the year	12,243
Participation in the PFC SIB	(1,400)
Share of adjusted net earnings	1,485
Share of other items	(220)
Share of other comprehensive income	35
Dividends	(794)
Other [2]	181
Carrying value, at December 31, 2019	11,530

[1] Refer to the "Changes in Accounting Policies" section for more details.

[2] Mainly related to a dilution gain as a result of the PFC SIB and the Lifeco SIB, and the effect of the share repurchase program as part of a normal course issuer bid by Lifeco and IGM.

Investment in Power Energy (at equity)

The carrying value of Power Corporation's investment in Power Energy, accounted for using the equity method, was $655 million at December 31, 2019, compared with $561 million at December 31, 2018.

Carrying value, at the beginning of the year	561
Investments	155
Share of net losses	(46)
Share of other comprehensive loss	(14)
Other	(1)
Carrying value, at December 31, 2019	655

Investment in China AMC

The carrying value of Power Corporation's investment in China AMC was $658 million at December 31, 2019, compared with $679 million at December 31, 2018.

Carrying value, at the beginning of the year	679
Dividends	(10)
Share of net earnings	30
Share of other comprehensive loss	(41)
Carrying value, at December 31, 2019	658

China AMC's assets under management, excluding subsidiary assets under management, were RMB¥1,032 billion (C$192 billion) at December 31, 2019, compared with RMB¥880 billion (C$175 billion) at December 31, 2018.

EQUITY

Non-participating shares

Non-participating (preferred) shares of the Corporation consist of six series of First Preferred Shares with an aggregate stated capital of $960 million at December 31, 2019 ($962 million at December 31, 2018), of which $950 million are non-cumulative. 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 2019 Consolidated Financial Statements.

Participating shareholders' equity

Participating shareholders' equity was $13,214 million at December 31, 2019, compared with $14,156 million at December 31, 2018:

Twelve months ended December 31	2019	2018
Participating shareholders' equity, at the beginning of the year	14,156	13,414
Change in accounting policies [1]	(52)	–
Restated participating shareholders' equity, at the beginning of the year	14,104	13,414
Changes in retained earnings		
Net earnings before dividends on non-participating shares	1,160	1,339
Dividends declared	(920)	(752)
Repurchase of subordinate voting shares under PCC SIB	(1,350)	–
Effects of changes in capital and ownership of subsidiaries, and other	143	(52)
	(967)	535
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	(321)	398
Investment revaluation and cash flow hedges	160	(282)
Actuarial gains (losses) on defined benefit plans	(87)	21
Share of Pargesa and other jointly controlled corporations and associates	264	22
Share-based compensation, including the effect of subsidiaries	28	(1)
	44	158
Issuance of subordinate voting shares (1,422,502 shares in 2019 and 1,657,567 shares in 2018) under the Corporation's Executive Stock Option Plan	33	49
Participating shareholders' equity, at December 31	13,214	14,156

[1] Refer to the "Changes in Accounting Policies" section for more details.

The book value per participating share of the Corporation was $30.98 at December 31, 2019, compared with $30.38 at the end of 2018.

Outstanding number of participating shares

At the date hereof, there were 54,860,866 participating preferred shares of the Corporation outstanding, compared with 48,854,772 at December 31, 2018, and 624,323,591 subordinate voting shares of the Corporation outstanding, compared with 417,101,146 at December 31, 2018. As part of the Reorganization, the Corporation issued 6,006,094 participating preferred shares on February 12, 2020 and 250,628,173 subordinate voting shares on February 13, 2020.

As part of the Reorganization, the Corporation assumed the Power Financial Employee Stock Option Plan. The 13,079,888 options outstanding at February 13, 2020 under Power Financial's Employee Stock Option Plan were exchanged for options to acquire subordinate voting shares of the Corporation (Replacement Options). The Replacement Options each entitle the option holders to receive 1.05 subordinate voting shares of the Corporation. At the date hereof, options were outstanding to purchase up to an aggregate of 33,537,760 subordinate voting shares of the Corporation, which includes 13,709,449 subordinate voting shares issuable pursuant to Replacement Options, under the Corporation's Executive Stock Option Plan and the Power Financial Employee Stock Option Plan.

Substantial issuer bids

On April 17, 2019, Lifeco completed a substantial issuer bid and purchased for cancellation 59,700,974 of its common shares at a purchase price of $33.50 per common share. Power Financial participated in the Lifeco SIB and as a result its equity interest in Lifeco decreased from 67.8% to 66.8%.

On April 17, 2019, Power Financial completed a substantial issuer bid and purchased for cancellation 49,999,973 of its common shares at a purchase price of $33.00 per common share. The Corporation participated in the PFC SIB and as a result its equity interest in Power Financial decreased from 65.5% to 64.1%.

The decrease in ownership in Lifeco and Power Financial resulted in dilution gains of $71 million and $66 million, respectively, recorded in retained earnings and other comprehensive income reserve with a corresponding decrease in non-controlling interests.

On April 17, 2019, the Corporation completed its substantial issuer bid and purchased for cancellation 40,909,041 of its Subordinate Voting Shares at a purchase price of $33.00 per subordinate voting share for an aggregate amount of $1.35 billion. The excess paid under the PCC SIB over the stated capital of $1.28 billion was recognized as a reduction to retained earnings. Transaction costs incurred in connection with the PCC SIB of $5 million were recorded in retained earnings.

Net Asset Value

Net asset value is presented for Power Financial and Power Corporation. Net asset value represents management's estimate of the fair value of the common shareholders' equity of Power Financial and the participating shareholders' equity of the Corporation. Net asset value is the fair value of the assets of Power Financial and Power Corporation's non-consolidated balance sheet less their net debt and preferred shares. In determining the fair value of assets, investments in subsidiaries, jointly controlled corporations and associates are adjusted to fair value as follows:

- Investments in publicly traded companies are valued at their market value, measured as the closing share price on the reporting date;
- Investments in private entities are valued at fair value based on management's estimate using consistently applied valuation models either based on a valuation multiple or discounted cash flows. Certain valuations are prepared by external valuators or subject to review by external valuators. Market-comparable transactions are generally used to corroborate the estimated fair value. The value of investments in private entities is presented net of any management incentives;
- Investments in investment funds are valued at the fair value reported by the fund which is net of carried interest or other incentives.

The presentation of the investments in subsidiaries, jointly controlled corporations and associates at fair value is not in accordance with IFRS; net asset value is a non-IFRS financial measure.

POWER FINANCIAL

Power Financial's net asset value per share was $39.86 at December 31, 2019, compared with $32.96 at December 31, 2018, representing an increase of 20.9%.

			2019			2018
December 31	Non-consolidated balance sheet	Fair value adjustment	Net asset value	Non-consolidated balance sheet	Fair value adjustment	Net asset value
ASSETS						
Investments						
Lifeco[1]	13,654	6,976	20,630	15,088	3,780	18,868
IGM	2,720	2,795	5,515	2,688	1,902	4,590
Parjointco	3,954	(1,413)	2,541	3,291	(983)	2,308
Other[2]	203	127	330	184	90	274
Cash and cash equivalents	1,021	–	1,021	1,025	–	1,025
Other assets[3]	138	–	138	115	–	115
Total assets	21,690	8,485	30,175	22,391	4,789	27,180
LIABILITIES AND PREFERRED SHARES						
Debentures	250	–	250	250	–	250
Other liabilities[4]	625	–	625	561	–	561
Perpetual preferred shares	2,830	–	2,830	2,830	–	2,830
Total liabilities and preferred shares	3,705	–	3,705	3,641	–	3,641
NET VALUE						
Common shareholders' equity/Net asset value	17,985	8,485	26,470	18,750	4,789	23,539
Per share	27.08		39.86	26.26		32.96

[1] As a result of Power Financial's participation in Lifeco's SIB in the second quarter of 2019, the number of shares held by the Corporation decreased by 7.4% or 49,318,032 from 669,568,064 to 620,250,032 (equity interest decreased from 67.8% to 66.8%).

[2] Fair value adjustment is related to Power Financial's investments in Portag3, Portag3 II, Wealthsimple and Koho.

[3] Includes $83 million of dividends declared in the fourth quarter by IGM and received by Power Financial on January 31, 2020 (same as at December 31, 2018).

[4] Includes $337 million of dividends declared in the fourth quarter by Power Financial and paid on January 31, 2020 ($344 million at December 31, 2018).

Investments measured at market value and cash represent 98.4% of Power Financial's total assets at fair value at December 31, 2019 (98.6% at December 31, 2018).

Power Financial's net asset value per share was $28.01, based on: i) market values of publicly listed investments at March 17, 2020 and ii) fair values for non-publicly listed investments at December 31, 2019.

POWER CORPORATION

The Corporation's net asset value per share was $40.07 at December 31, 2019, compared with $30.74 at December 31, 2018, representing an increase of 30.4%.

December 31	2019 Non-consolidated balance sheet	2019 Reclassifications	2019 Fair value adjustment	2019 Net asset value	2018 Non-consolidated balance sheet	2018 Reclassifications	2018 Fair value adjustment	2018 Net asset value
ASSETS								
Investments								
Power Financial[1]	11,530	–	3,334	14,864	12,295	–	(211)	12,084
Sagard Europe[2]	478	–	–	478	391	–	–	391
Sagard Holdings[2][3]	306	156	74	536	395	181	3	579
Power Pacific[2][3]	730	9	–	739	510	159	–	669
Power Energy	655	–	420	1,075	561	–	363	924
China AMC[4]	658	–	–	658	679	–	–	679
Other investments	149	–	49	198	171	–	18	189
Cash and cash equivalents[3]	564	(178)	–	386	750	(347)	–	403
Other assets[5]	451	–	–	451	471	–	–	471
Total assets	15,521	(13)	3,877	19,385	16,223	(7)	173	16,389
LIABILITIES AND NON-PARTICIPATING SHARES								
Debentures and other debt instruments	683	–	–	683	646	–	–	646
Other liabilities[6]	664	(13)	–	651	459	(7)	–	452
Non-participating shares	960	–	–	960	962	–	–	962
Total liabilities and non-participating shares	2,307	(13)	–	2,294	2,067	(7)	–	2,060
NET VALUE								
Participating shareholders' equity/ Net asset value	13,214	–	3,877	17,091	14,156	–	173	14,329
Per share	30.98			40.07	30.38			30.74

[1] As a result of the Corporation's participation in the PFC SIB in the second quarter of 2019, the number of shares held by the Corporation decreased by 9.1% or 42,436,370 from 467,839,296 to 425,402,926 (equity interest decreased from 65.5% to 64.1%).

[2] The management companies of the investment funds are presented at their carrying value in accordance with IFRS.

[3] Cash of $178 million related to Sagard Holdings and Power Pacific has been included in the fair value ($347 million at December 31, 2018).

[4] Valued at carrying value in accordance with IFRS.

[5] Includes $194 million of dividends declared in the fourth quarter by Power Financial and received by the Corporation on January 31, 2020.

[6] Performance-related compensation payable of $13 million is presented in the fair value of Power Pacific ($3 million in Power Pacific and $4 million in Sagard Holdings at December 31, 2018).

Investments measured at market value and cash represent 83.9% of the total assets at fair value at December 31, 2019 (82.7% at December 31, 2018).

The Corporation's net asset value, presented on a look-through basis, where the investment in Power Financial is based on the Corporation's share of Power Financial's net asset value, was $19.2 billion or $44.98 per share at December 31, 2019 ($17.7 billion or $37.91 per share at December 31, 2018). The additional fair value adjustment of $2.1 billion ($3.3 billion at December 31, 2018) mainly relates to the Corporation's share of its investment in Lifeco, IGM and Pargesa at market value.

The Corporation's net asset value per share was $33.08, presented on a look-through basis, based on: i) market values of publicly listed investments at March 17, 2020 and ii) fair values for non-publicly listed investments at December 31, 2019.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (condensed)

The condensed cash flows of Lifeco, IGM and the Corporation's investment platforms and other, as well as Power Corporation's and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the twelve-month period ended December 31, 2019.

	Power Financial							Power Corporation Consolidated	
Twelve months ended December 31	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Power Financial Consolidated	Power Corporation	Investment platforms and Consolidation adjustments[1]	2019	2018
Cash flows from:									
Operating activities	1,414	6,110	712	(1,528)	6,708	689	(776)	6,621	7,116
Financing activities	(3,035)	(3,981)	(1,069)	3,213	(4,872)	(2,040)	2,281	(4,631)	(2,154)
Investing activities	1,617	(1,539)	427	(1,563)	(1,058)	1,182	(1,602)	(1,478)	(4,608)
Effect of changes in exchange rates on cash and cash equivalents	–	(130)	–	–	(130)	(17)	(1)	(148)	184
Increase (decrease) in cash and cash equivalents	(4)	460	70	122	648	(186)	(98)	364	538
Cash and cash equivalents, at the beginning of the year	1,025	4,168	650	(219)	5,624	750	67	6,441	5,903
Cash and cash equivalents, at December 31	1,021	4,628	720	(97)	6,272	564	(31)	6,805	6,441

[1] Investment platforms and consolidation adjustments include investment platforms, including consolidated investment funds, Power Energy and IntegraMed, as well as consolidation entries.

Consolidated cash and cash equivalents increased by $364 million in the twelve-month period ended December 31, 2019, compared with an increase of $538 million in the corresponding period in 2018.

Operating activities produced a net inflow of $6,621 million in the twelve-month period ended December 31, 2019, compared with a net inflow of $7,116 million in the corresponding period in 2018.

Cash flows from financing activities, which include the repurchase of shares pursuant to the Lifeco SIB, the PFC SIB and the PCC SIB, dividends paid on the participating and non-participating shares of the Corporation, and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of $4,631 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $2,154 million in the corresponding period in 2018.

Cash flows from investing activities resulted in a net outflow of $1,478 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $4,608 million in the corresponding period in 2018.

The Corporation decreased its level of fixed income securities with maturities of more than three months, resulting in a net inflow of $65 million in the twelve-month period ended December 31, 2019, compared with a net outflow of $2 million in the corresponding period in 2018.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

Twelve months ended December 31	2019	2018
OPERATING ACTIVITIES		
Dividends from Power Financial	803	801
Dividends from China AMC	10	12
Corporate operations, net of non-cash items	(124)	(161)
	689	652
FINANCING ACTIVITIES		
Dividends paid on non-participating shares	(52)	(52)
Dividends paid on participating shares	(695)	(700)
Issuance of subordinate voting shares	30	43
Repurchase of subordinate voting shares under PCC SIB	(1,350)	–
Repurchase of non-participating shares	(2)	(3)
Issuance of debentures	–	250
Redemption of debentures	–	(250)
Increase in other debt instruments	37	–
Share repurchase expenses and other	(8)	(2)
	(2,040)	(714)
INVESTING ACTIVITIES		
Proceeds from disposal of investments	1,085	1,127
Purchase of investments	(1,150)	(887)
Investments in controlled and consolidated investments	(155)	(90)
Proceeds from tender of Power Financial shares under PFC SIB	1,400	–
Other	2	(6)
	1,182	144
Effect of changes in exchange rates on cash and cash equivalents	(17)	22
Increase (decrease) in cash and cash equivalents	(186)	104
Cash and cash equivalents, at the beginning of the year	750	646
Cash and cash equivalents, at December 31	564	750
CASH AND CASH EQUIVALENTS:		
Corporate	386	403
Sagard Investment Funds	178	347
	564	750

On a non-consolidated basis, cash and cash equivalents decreased by $186 million in the twelve-month period ended December 31, 2019, compared with an increase of $104 million in the corresponding period in 2018.

Operating activities resulted in a net inflow of $689 million in the twelve-month period ended December 31, 2019, compared with a net inflow of $652 million in the corresponding period in 2018.

- Dividends paid by Power Financial on its common shares during the twelve-month period ended December 31, 2019 were $1.7995 per share, compared with $1.7115 per share in the corresponding period in 2018. Power Corporation received dividends of $803 million from Power Financial in the twelve-month period ended December 31, 2019, compared with $801 million in the corresponding period in 2018.

The Corporation's financing activities during the twelve-month period ended December 31, 2019 were a net outflow of $2,040 million, compared with a net outflow of $714 million in the corresponding period in 2018, and included:

- Dividends paid on non-participating and participating shares by the Corporation of $747 million, compared with $752 million in the corresponding period in 2018. In the twelve-month period ended December 31, 2019, dividends paid on the Corporation's participating shares were $1.5970 per share, compared with $1.5045 per share in the corresponding period in 2018.
- Issuance of subordinate voting shares of the Corporation for $30 million pursuant to the Corporation's Executive Stock Option Plan, compared with issuance for an amount of $43 million in the corresponding period in 2018.
- Repurchase of subordinate voting shares pursuant to the PCC SIB of $1,350 million, compared with no repurchase in the corresponding period in 2018.
- Increase in other debt instruments of $37 million, compared with nil in the corresponding period in 2018.
- Issuance of debentures of nil, compared with issuance of $250 million in the corresponding period in 2018.
- Redemption of debentures of nil, compared with a redemption of $250 million in the corresponding period in 2018.
- Repurchase of non-participating shares for cancellation of $2 million, compared with $3 million in the corresponding period in 2018.

The Corporation's investing activities during the twelve-month period ended December 31, 2019 were a net inflow of $1,182 million, primarily due to proceeds received from participation in the PFC SIB, compared with a net inflow of $144 million in the corresponding period in 2018.

Proceeds from disposal of investments and purchase of investments are comprised of investment activities of the Corporation and its investment platforms.

Capital Management

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

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to 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 participating shares, non-participating 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, non-participating shares, participating shareholders' equity, and non-controlling interests. The Corporation views non-participating shares as a cost-effective source of permanent capital.

On April 17, 2019, the Corporation completed the PCC SIB and repurchased for cancellation $1.35 billion of its subordinate voting shares. The PCC SIB facilitated the repurchase of subordinate voting shares at attractive market valuations and returned capital to shareholders while maintaining the financial resources to pursue its strategy for long-term value creation across its well-diversified portfolio of investments.

Subsequent to the Reorganization, the Corporation holds 100% of the issued and outstanding common shares of Power Financial, Power Financial's preferred shares and debt securities remain outstanding.

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 Power Financial, Lifeco, IGM and controlled investments are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Non-participating shares and total equity accounted for 79% of consolidated capitalization at December 31, 2019.

December 31	2019	2018
DEBENTURES AND OTHER DEBT INSTRUMENTS		
Power Corporation	683	646
Power Financial	250	250
Lifeco	5,993	6,459
IGM	2,100	1,850
Other[1][2]	1,005	838
Consolidation adjustments	(93)	(66)
	9,255	9,331
	9,938	9,977
NON-PARTICIPATING SHARES		
Power Corporation	960	962
Power Financial	2,830	2,830
Lifeco	2,714	2,714
IGM	–	150
	5,544	5,694
	6,504	6,656
EQUITY		
Participating shareholders' equity	13,214	14,156
Non-controlling interests[3]	16,867	17,234
	30,081	31,390
	46,523	48,023

[1] Other includes IntegraMed and entities controlled by Power Energy.

[2] Secured by the assets of the controlled investments which are non-recourse to the Corporation.

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

POWER CORPORATION

- The Corporation filed a short-form base shelf prospectus dated November 16, 2018, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of $2 billion of First Preferred Shares, subordinate voting shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.

Subsequent event

- As part of the Reorganization, the Corporation issued 6,006,094 participating preferred shares on February 12, 2020 for consideration of $206 million and 250,628,173 subordinate voting shares on February 13, 2020. Refer to the section "Overview – 2019 Highlights" for more information.

- The Corporation commenced a Normal Course Issuer Bid (NCIB) on February 20, 2020 which is effective until the earlier of February 19, 2021 and the date on which the Corporation has purchased the maximum permitted number of subordinate voting shares. Pursuant to this bid, the Corporation may purchase up to 30 million of its subordinate voting shares outstanding at February 20, 2020 (representing approximately 5.2% of the public float of subordinate voting shares outstanding).

  In connection with its NCIB, the Corporation has entered into an automatic securities purchase plan for its subordinate voting shares. The automatic securities purchase plan provides standard instructions regarding how the Corporation's subordinate voting shares are to be purchased under its NCIB during certain predetermined trading blackout periods. Outside of these predetermined trading blackout periods, purchases under the Corporation's NCIB will be completed based upon management's discretion.

LIFECO

- On December 10, 2019, Great-West Life & Annuity Insurance Capital, LP redeemed all $232 million (US$175 million) aggregate principal amount 6.625% deferrable debentures due November 15, 2034 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest up to but excluding the redemption date. A portion of the $1.0 billion cash received from the indemnity reinsurance agreement with Protective Life was used for the redemption.

IGM

- On March 20, 2019, IGM issued $250 million of 4.206% debentures maturing March 21, 2050. Part of the proceeds were used by IGM to fund the redemption of its $150 million issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B on April 30, 2019.

The Corporation itself is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries, IGM's subsidiaries and certain of the Corporation's other subsidiaries are subject to regulatory capital requirements. See Note 21 to the Corporation's 2019 Consolidated Financial Statements for additional information.

RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debentures is "A+" with a stable outlook, which was increased on December 13, 2019 from a rating of "A" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debentures is "A" with a stable rating trend.

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

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" rating assigned to the Corporation's debentures by DBRS is the sixth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A" implies that the capacity for 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 Corporation is an international management and holding company that focuses on financial services in North America, Europe and Asia. Its core holdings are leading insurance, retirement, wealth management and investment businesses including a portfolio of alternate asset investment platforms. Its principal asset is a controlling interest in Power Financial which in turn controls Lifeco and IGM and also holds a joint controlling interest in Parjointco, which itself holds a controlling interest in GBL through Pargesa. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. A complete description of these risks is presented in their public disclosures. The respective boards of directors of Power Financial, Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies.

RISK OVERSIGHT APPROACH

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors and executive officers of the Corporation have overall 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 with a view to 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 Corporation's ability to meet its obligations, including payment of interest, other operating expenses and dividends, and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon dividends from its principal subsidiaries and other investments, and its ability to raise additional capital. Dividends to shareholders of Power Corporation are dependent on the operating performance, profitability, financial position and creditworthiness of its subsidiaries, jointly controlled corporations and associates, as well as on their ability to pay dividends. The payment of interest and dividends by Power Financial's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained.

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

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

Liquidity is also available through the Corporation's lines of credit with Canadian banks. The Corporation has a committed line of credit of $250 million and an uncommitted line of credit of $100 million in which advances are at the banks' sole discretion. At December 31, 2019, an amount of €25 million (C$37 million) was drawn on the line of credit.

Power Corporation's management of liquidity risk has not changed materially since December 31, 2018.

CREDIT RISK AND MARKET RISK

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

Credit risk

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

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

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

Derivatives can be also used mainly to mitigate exposure to foreign exchange and market risk related to certain stock-based compensation arrangements. Power Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

The Corporation's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2018.

Market risk

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

Foreign Exchange Risk

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

In its ongoing operations, the Corporation may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation may from time to time enter into currency-hedging transactions with highly rated financial institutions. At December 31, 2019, approximately 44% of the $564 million of Power Corporation's cash and cash equivalents and fixed income securities were denominated in foreign currencies, consisting of $214 million in U.S. dollars, $17 million in euros and $17 million in Chinese renminbi.

Most of Power Corporation's other investments are classified as available for sale. As such, unrealized gains and losses on these investments, resulting from foreign exchange rate variations, are recorded in other comprehensive income until realized. Power Corporation also holds, through its investment platforms, investments in foreign companies which are subject to foreign exchange risk. These investment funds are diversified among the U.S. dollar, the euro, the Chinese renminbi and the Hong Kong dollar which contributes to reducing the concentration of foreign exchange risk. At December 31, 2019, the impact of a 5% strengthening of the Canadian dollar against foreign currencies would result in an unrealized loss recorded in other comprehensive income of approximately $75 million.

Interest Rate Risk

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

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

Equity Risk

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

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

Power Corporation also holds, through its investment platforms, shares of private and publicly traded companies which are subject to equity risk. At December 31, 2019, Sagard Europe, Sagard Holdings and Power Pacific collectively held $794 million in shares of publicly traded companies and $794 million in shares of private companies. The three investment platforms are diversified, investing in three distinct economic regions: Europe, North America and China. This diversification avoids a concentration in any one single economy.

At December 31, 2019, the impact of a 5% decrease in the value of other investments and Sagard Europe, Sagard Holdings and Power Pacific would have been a $70 million unrealized loss recorded in other comprehensive income.

The market price of the equity securities of Power Corporation's subsidiaries and investments may be volatile and subject to numerous factors beyond such subsidiaries' control. At times, financial markets have experienced significant price and volume fluctuations that have affected the market price of the equity securities of the subsidiaries and investments, and that are often unrelated to the operating performance, underlying asset values or prospects of such companies. Volatility in the market price of the equity securities of subsidiaries and investments may have an impact on the net asset value reported by the Corporation.

Power Corporation's management of financial instruments risk has not changed materially since December 31, 2018. For a further discussion of Power Corporation's risk management, please refer to Note 22 to the Corporation's 2019 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.

SUSTAINABILITY RISK

Sustainability risk is the potential loss associated with the inability of the Corporation and its employees to identify and manage environmental, social and governance risks, which could adversely impact the Corporation's financial position and reputation.

Environmental risks relate to the adverse impacts that could result from global warming and climate change, waste, and resource consumption. Social risks relate to the adverse impacts on people that could result from improper practices related to human rights, labour conditions, health and safety, harassment, diversity, wages and benefits, and supplier management. Governance risks relate to adverse impacts from unethical practices, including corruption and bribery, conflicts of interest, and data privacy.

Anchored by a strong responsible management culture, the Corporation adheres to the clear guidelines set out in its Code of Business Conduct and Ethics, which applies to the Corporation's Directors, officers and employees; as well as in its Third Party Code of Conduct, which applies to advisors, consultants and suppliers. The Corporation also maintains other supporting policies, procedures and controls, including a Corporate Social Responsibility Statement, an Environmental Policy, a Global Anti-Bribery Policy, a Privacy Policy, and a Respectful Workplace Policy.

The Corporation takes a balanced approach to conducting business, providing training and capacity building for its employees to ensure sustainability risks are identified and mitigated consistent with its policies and procedures. The Board's risk management oversight includes ensuring that material environmental, social and governance risks are appropriately identified, managed and monitored.

EMERGING RISKS

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

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

- Review and analysis at the boards and committees of its operating companies around the world where local executives describe the emerging risks in their respective environments.
- 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.

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

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.

	2019		2018	
At December 31	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	85,845	85,845	91,815	91,815
Available for sale	12,028	12,028	13,713	13,713
Mortgage and other loans				
Fair value through profit or loss	1,314	1,314	817	817
Shares				
Fair value through profit or loss	9,925	9,925	8,794	8,794
Available for sale	1,474	1,474	1,329	1,329
Investment properties	5,887	5,887	5,218	5,218
Funds held by ceding insurers	6,661	6,661	7,155	7,155
Derivative instruments	474	474	434	434
Reinsurance assets	127	127	–	–
Assets held for sale [1]	–	–	782	782
Other assets	1,490	1,490	927	927
	125,225	125,225	130,984	130,984
Assets disclosed at fair value				
Bonds				
Loans and receivables	17,372	19,344	19,722	20,619
Mortgage and other loans				
Loans and receivables	30,461	31,420	32,080	32,524
Shares				
Available for sale [2]	150	150	239	239
Funds held by ceding insurers	80	80	91	91
	48,063	50,994	52,132	53,473
Total	173,288	176,219	183,116	184,457
LIABILITIES				
Liabilities recorded at fair value				
Investment contract liabilities	1,656	1,656	1,711	1,711
Investment contract liabilities held for sale	–	–	27	27
Derivative instruments	1,410	1,410	1,597	1,597
Other liabilities	430	430	185	185
	3,496	3,496	3,520	3,520
Liabilities disclosed at fair value				
Obligations to securitization entities	6,914	6,997	7,370	7,437
Debentures and other debt instruments	9,938	11,451	9,977	10,823
Deposits and certificates	886	887	622	622
	17,738	19,335	17,969	18,882
Total	21,234	22,831	21,489	22,402

[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 2019 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2019.

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, 2019. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

			2019			2018
December 31	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Corporation	11	2	2	119	–	(4)
Power Financial	23	6	6	20	–	(2)
Lifeco	21,634	451	(930)	19,614	417	(1,145)
IGM	2,608	15	(2)	2,883	16	(13)
Other subsidiaries	288	–	(12)	131	1	1
	24,553	472	(938)	22,648	434	(1,159)
	24,564	474	(936)	22,767	434	(1,163)

During the twelve-month period ended December 31, 2019, there was an increase of $1.8 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 $474 million at December 31, 2019 from $434 million at December 31, 2018. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

See Note 26 to the Corporation's 2019 Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

GUARANTEES

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

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See Note 32 to the Corporation's 2019 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. See Note 31 to the Corporation's 2019 Consolidated Financial Statements.

Commitments and Contractual Obligations

	Payments due by period				
	Less than 1 year	1–5 years	More than 5 years	Undefined	Total
Power Corporation[1][2]	44	1	655	188	888
Power Financial	16	–	254	–	270
Lifeco	2,423	1,126	4,875	–	8,424
IGM	2,116	5,489	2,134	–	9,739
Other subsidiaries and consolidation entries	723	475	657	43	1,898
Total	5,322	7,091	8,575	231	21,219
Debentures and other debt instruments[3]	1,164	1,037	7,798	–	9,999
Obligations to securitization entities	1,474	5,431	9	–	6,914
Deposits and certificates	881	4	1	–	886
Lease obligations[4]	163	473	683	–	1,319
Purchase obligations[5]	312	110	84	–	506
Pension contributions[6]	333	–	–	–	333
Contractual commitments[1][7]	995	36	–	231	1,262
Total	5,322	7,091	8,575	231	21,219

[1] Includes $188 million of outstanding commitments from the Corporation to make future capital contributions to investment funds; the exact amount and timing of each capital contribution cannot be determined.

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

[3] Please refer to Note 15 to the Corporation's 2019 Consolidated Financial Statements for further information.

[4] Please refer to Note 16 to the Corporation's 2019 Consolidated Financial Statements for further information.

[5] Purchase obligations are commitments of Lifeco to acquire goods and services, primarily related to information services, as well as construction and turbine purchase contracts related to wind projects under construction at Potentia.

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

[7] Represents $1,042 million of commitments by Lifeco. These contractual commitments are essentially commitments to investment transactions made in the normal course of operations, in accordance with Lifeco's policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

Income Taxes (non-consolidated basis)

The Corporation had, at December 31, 2019, non-capital losses of $423 million ($406 million for which the benefits have not been recognized) available to reduce future taxable income (including capital gains). These losses expire from 2029 to 2039.

The Corporation had, at December 31, 2019, capital losses of $158 million ($11 million for which the benefits have been recognized) that can be used indefinitely to offset capital gains.

In addition, at December 31, 2019, deductible temporary differences for which the benefits have not been recognized were $293 million.

Transactions with Related Parties

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

In the normal course of business, Power Corporation and its subsidiaries enter into various transactions which include capital commitments to investment funds, performance and base management fees paid to subsidiaries of the group and loans to employees. Such transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

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, respectively, to other companies within the Power Corporation group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

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

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

In October 2017, IGM and a subsidiary of Power Corporation obtained advance tax rulings which permitted tax loss consolidation transactions whereby shares of a subsidiary that has generated tax losses may be acquired by IGM. The Corporation has recognized the benefit of the tax losses to be realized throughout this program. The program was renewed and extended to 2020.

On April 17, 2019, Power Financial participated in the Lifeco SIB and Power Corporation participated in the PFC SIB. These transactions were at market terms and conditions. Refer to the section "Equity" for more details.

On February 13, 2020, the Corporation and Power Financial completed the Reorganization. Refer to the section "Overview – 2019 Highlights" for more details.

In connection with the Reorganization, Pansolo, a corporation controlled by the Desmarais Family Residuary Trust, purchased 6 million participating preferred shares on February 12, 2020. Refer to the section "Overview – 2019 Highlights" for more details.

See Note 30 to the Corporation's 2019 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 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 2019 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 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 2019 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).
- Contributions 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, 2018, except as described below.

ADOPTION OF IFRS 16 – *LEASES* (IFRS 16)

Effective January 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, *Leases* (IAS 17) and related interpretations. The standard prescribes new guidance for identifying a lease as well as the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to recognize a right-of-use asset representing its right to use the 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, however an optional exemption is available for short-term and low-value leases.

Impact of transition to IFRS 16

The Corporation has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Corporation elected to measure right-of-use assets on a lease-by-lease basis at either i) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized on the balance sheets immediately before the date of initial application; or ii) at 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. When measuring lease liabilities, the Corporation and its subsidiaries discounted lease payments using their respective incremental borrowing rates at January 1, 2019. The weighted-average incremental borrowing rate was 4.29% at January 1, 2019.

On transition, the Corporation and its subsidiaries elected to apply practical expedients including: i) to not recognize right-of-use assets and lease liabilities for leases for which the remaining lease terms end within twelve months of the date of transition; and ii) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

Impact on the balance sheet as at January 1, 2019:

	December 31, 2018 (as previously reported)	Impact of IFRS 16	January 1, 2019 (restated)
Assets			
Investment properties	5,218	29	5,247
Owner-occupied properties and capital assets	1,867	854	2,721
Other assets	9,390	(40)	9,350
		843	
Liabilities and shareholders' equity			
Other liabilities[1]	11,544	851	12,395
Deferred tax liabilities	1,595	(2)	1,593
Retained earnings	11,726	(2)	11,724
Non-controlling interests	22,928	(4)	22,924
		843	

[1] Accrued lease payments of $100 million within other liabilities on the balance sheet at December 31, 2018 were reclassified to decrease right-of-use assets.

The application of IFRS 16 did not have a material impact on the statement of earnings or the statement of cash flows for the year ended December 31, 2019, except for the classification of lease payments as financing activities instead of operating activities. The adoption of IFRS 16 did not have an impact on net cash flows.

ADOPTION OF IFRIC 23 – *UNCERTAINTY OVER INCOME TAX TREATMENTS* (IFRIC 23)

Effective January 1, 2019, the Corporation adopted IFRIC 23 which clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meets the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties is classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of $109 million to Lifeco's retained earnings. The Corporation's share of this impact is $50 million.

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 17 – Insurance Contracts (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, on March 17, 2020, the IASB approved the deferral of the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. In addition, the IASB extended to January 1, 2023 the exemption for insurers to apply the financial instruments standard, IFRS 9–*Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB has also confirmed certain amendments proposed in the exposure draft – namely the amendment on the expected recovery of insurance acquisition cash flows – and has also agreed to extend the scope of the amendment related to the recovery of losses on reinsurance contracts to apply to all reinsurance held contracts. 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 assembled a project team that is working on the implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. These groups are also monitoring developments from the IASB, and various industry groups that Lifeco has representation on. Lifeco has made progress in implementing its project plan, with key policy decisions well-advanced as well as progression on the implementation of the technology solution. Lifeco continues to evaluate the readiness of technology vendors and their ability to deliver for IFRS 17 implementation. 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 three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows: the current estimates of amounts that a company 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. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the Canadian Asset Liability Method, where the discount rate was based on the yield curves of the assets supporting those liabilities. The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. In 2019, Lifeco recognized approximately $108 million of new business losses (losses of approximately $195 million in 2018). 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 fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, Lifeco expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how the financial performance is reported in the statements of earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. Lifeco is also actively monitoring potential impacts on regulatory capital and its associated ratios and disclosures. Lifeco continues to assess all these impacts through its global implementation plan.

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*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The effective date for IFRS 9 has been deferred to align with the effective date for IFRS 17 of January 1, 2023. The standard provides changes to financial instruments accounting for the following: ▪ Classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; ▪ Impairment based on an expected loss model; and ▪ Hedge accounting that incorporates the risk management practices of an entity. 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 proposed effective date of the new insurance contract standard; or ▪ *Overlay Approach:* provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies for the amendment and is applying the deferral approach to allow 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 and Lifeco continue 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.
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 will be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
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 will be applied prospectively for annual periods beginning on or after January 1, 2020.
IFRS 9 – Financial Instruments (IFRS 9) IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39) and IFRS 7 – Financial Instruments: Disclosures (IFRS 7)	In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for periods beginning on or after January 1, 2020. Although adoption of these amendments will not have a significant impact on the Corporation's consolidated financial statements, additional disclosures will be required.

Disclosure Controls and Procedures

Based on their evaluations at December 31, 2019, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective at December 31, 2019.

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 at December 31, 2019, 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 at December 31, 2019.

There have been no changes in the Corporation's internal control over financial reporting during the three-month period ended December 31, 2019 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	2019	2018	2017
Total revenues	48,841	48,098	51,362
Assets under management [in billions]	941	860	854
Assets under administration [in billions]	1,823	1,571	1,527
Net earnings (attributable to participating shareholders)	1,108	1,287	1,286
per share – basic	2.53	2.77	2.77
per share – diluted	2.53	2.76	2.76
Adjusted net earnings (attributable to participating shareholders)[1]	1,313	1,438	1,560
per share – basic	3.00	3.09	3.36
Consolidated assets	477,250	452,303	445,521
Total financial liabilities	26,057	26,056	24,946
Debentures and other debt instruments	9,938	9,977	9,511
Shareholders' equity	14,174	15,118	14,615
Book value per participating share	30.98	30.38	29.40
Number of participating shares outstanding [millions]			
Participating preferred shares	48.9	48.9	48.9
Subordinate voting shares	377.6	417.1	415.4
Dividends per share [declared]			
Participating shares[2]	2.0020	1.5045	1.4105
First preferred shares			
1986 Series[3]	1.3824	1.2390	0.9994
Series A	1.4000	1.4000	1.4000
Series B	1.3375	1.3375	1.3375
Series C	1.4500	1.4500	1.4500
Series D	1.2500	1.2500	1.2500
Series G	1.4000	1.4000	1.4000

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

[2] Includes the dividend declared by the Corporation on December 12, 2019, as part of the Reorganization.

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

Consolidated Balance Sheets

December 31 [in millions of Canadian dollars]	2019	2018
ASSETS		
Cash and cash equivalents [Note 5]	6,805	6,441
Investments [Note 6]		
Bonds	115,245	125,250
Mortgage and other loans	31,775	32,897
Shares	11,549	10,362
Investment properties	5,887	5,218
Loans to policyholders	8,601	8,929
	173,057	182,656
Assets held for sale [Note 4]	–	897
Funds held by ceding insurers [Note 7]	8,714	9,251
Reinsurance assets [Note 13]	20,707	6,126
Derivative financial instruments [Note 26]	474	434
Investments in jointly controlled corporations and associates [Note 8]	5,893	5,087
Owner-occupied properties and capital assets [Note 9]	3,063	1,867
Other assets [Note 10]	10,546	9,390
Deferred tax assets [Note 17]	802	1,098
Intangible assets [Note 11]	5,843	5,787
Goodwill [Note 11]	10,324	10,423
Investments on account of segregated fund policyholders [Note 12]	231,022	209,527
Investments on account of segregated fund policyholders held for sale [Note 4]	–	3,319
Total assets	477,250	452,303
LIABILITIES		
Insurance contract liabilities [Note 13]	174,521	166,720
Investment contract liabilities [Note 13]	1,656	1,711
Liabilities held for sale [Note 4]	–	897
Obligations to securitization entities [Note 14]	6,914	7,370
Debentures and other debt instruments [Note 15]	9,938	9,977
Derivative financial instruments [Note 26]	1,410	1,597
Other liabilities [Note 16]	13,707	11,544
Deferred tax liabilities [Note 17]	1,497	1,595
Insurance and investment contracts on account of segregated fund policyholders [Note 12]	231,022	209,527
Insurance and investment contracts on account of segregated fund policyholders held for sale [Note 4]	–	3,319
Total liabilities	440,665	414,257
EQUITY		
Stated capital [Note 18]		
Non-participating shares	960	962
Participating shares	726	766
Retained earnings	10,780	11,726
Reserves	1,708	1,664
Total shareholders' equity	14,174	15,118
Non-controlling interests [Note 20]	22,411	22,928
Total equity	36,585	38,046
Total liabilities and equity	477,250	452,303

Approved by the Board of Directors

Signed

J. David A. Jackson
Director

Signed

R. Jeffrey Orr
Director

Consolidated Statements of Earnings

For the years ended December 31 [in millions of Canadian dollars, except per share amounts]	2019	2018
REVENUES		
Premium income		
Gross premiums written [Note 13]	43,245	39,963
Ceded premiums	(18,756)	(4,523)
Total net premiums	24,489	35,440
Net investment income [Note 6]		
Regular net investment income	6,455	6,673
Change in fair value through profit or loss	6,987	(3,604)
Net investment income	13,442	3,069
Fee income	10,081	8,776
Other revenues	829	813
Total revenues	48,841	48,098
EXPENSES		
Policyholder benefits		
Gross [Note 13]	37,769	32,357
Ceded	(2,916)	(2,445)
Total net policyholder benefits	34,853	29,912
Changes in insurance and investment contract liabilities		
Gross	10,155	441
Ceded	(13,479)	61
Total net changes in insurance and investment contract liabilities	(3,324)	502
Policyholder dividends and experience refunds	1,562	1,654
Total paid or credited to policyholders	33,091	32,068
Commissions	3,480	3,512
Operating and administrative expenses [Note 23]	8,341	8,175
Financing charges [Note 24]	544	462
Total expenses	45,456	44,217
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,385	3,881
Share of earnings of investments in jointly controlled corporations and associates [Note 8]	212	164
Earnings before income taxes	3,597	4,045
Income taxes [Note 17]	554	578
Net earnings	3,043	3,467
ATTRIBUTABLE TO		
Non-controlling interests [Note 20]	1,883	2,128
Non-participating shareholders	52	52
Participating shareholders	1,108	1,287
	3,043	3,467
EARNINGS PER PARTICIPATING SHARE [Note 29]		
Net earnings attributable to participating shareholders		
– Basic	2.53	2.77
– Diluted	2.53	2.76

Consolidated Statements of Comprehensive Income

For the years ended December 31 [in millions of Canadian dollars]	2019	2018
Net earnings	3,043	3,467
Other comprehensive income (loss)		
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS		
Net unrealized gains (losses) on available-for-sale investments		
Unrealized gains (losses)	498	(135)
Income tax (expense) benefit	(56)	29
Realized (gains) losses transferred to net earnings	(220)	(188)
Income tax expense (benefit)	10	(4)
	232	(298)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	2	13
Income tax (expense) benefit	1	(2)
Realized (gains) losses transferred to net earnings	–	(69)
Income tax expense (benefit)	–	17
	3	(41)
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation	(628)	845
Income tax (expense) benefit	3	–
Realized (gains) losses on translation transferred to net earnings	(13)	(11)
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	100	(50)
Income tax (expense) benefit	(14)	6
	(552)	790
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	448	21
Income tax (expense) benefit	9	(5)
	457	16
Total – items that may be reclassified	140	467
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS		
Actuarial gains (losses) on defined benefit plans [Note 25]	(278)	17
Income tax (expense) benefit	64	1
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	(6)	2
Total – items that will not be reclassified	(220)	20
Other comprehensive income (loss)	(80)	487
Comprehensive income	2,963	3,954
ATTRIBUTABLE TO		
Non-controlling interests	1,754	2,467
Non-participating shareholders	52	52
Participating shareholders	1,157	1,435
	2,963	3,954

Consolidated Statements of Changes in Equity

For the year ended December 31, 2019 [in millions of Canadian dollars]	Stated capital: Non-participating shares	Stated capital: Participating shares	Retained earnings	Reserves: Share-based compensation	Reserves: Other comprehensive income [Note 28]	Reserves: Total	Non-controlling interests	Total equity
Balance, beginning of year								
As previously reported	962	766	11,726	184	1,480	1,664	22,928	38,046
Change in accounting policies [Note 2]								
Impact of IFRS 16	–	–	(2)	–	–	–	(4)	(6)
Impact of IFRIC 23	–	–	(50)	–	–	–	(59)	(109)
Restated balance beginning of year	962	766	11,674	184	1,480	1,664	22,865	37,931
Net earnings	–	–	1,160	–	–	–	1,883	3,043
Other comprehensive income (loss)	–	–	–	–	49	49	(129)	(80)
Comprehensive income	–	–	1,160	–	49	49	1,754	2,963
Substantial issuer bid on subordinate voting shares [Note 18]	–	(73)	(1,277)	–	–	–	–	(1,350)
Dividends to shareholders								
Non-participating	–	–	(52)	–	–	–	–	(52)
Participating	–	–	(868)	–	–	–	–	(868)
Dividends to non-controlling interests	–	–	–	–	–	–	(1,348)	(1,348)
Share-based compensation [Note 19]	–	–	–	32	–	32	29	61
Stock options exercised	–	33	–	(20)	–	(20)	17	30
Repurchase of shares of the Corporation for cancellation	(2)	–	–	–	–	–	–	(2)
Effects of changes in capital and ownership of subsidiaries, and other[1]	–	–	143	16	(33)	(17)	(906)	(780)
Balance, end of year	960	726	10,780	212	1,496	1,708	22,411	36,585

[1] Effects of changes in capital and ownership of subsidiaries relate to the impact of the purchase for cancellation of common shares by Lifeco and Power Financial under their substantial issuer bids and the issuance and the repurchase of common and preferred shares by subsidiaries (Note 20).

For the year ended December 31, 2018 [in millions of Canadian dollars]	Stated capital: Non-participating shares	Stated capital: Participating shares	Retained earnings	Reserves: Share-based compensation	Reserves: Other comprehensive income [Note 28]	Reserves: Total	Non-controlling interests	Total equity
Balance, beginning of year	965	717	11,191	185	1,321	1,506	21,880	36,259
Net earnings	–	–	1,339	–	–	–	2,128	3,467
Other comprehensive income	–	–	–	–	148	148	339	487
Comprehensive income	–	–	1,339	–	148	148	2,467	3,954
Dividends to shareholders								
Non-participating	–	–	(52)	–	–	–	–	(52)
Participating	–	–	(700)	–	–	–	–	(700)
Dividends to non-controlling interests	–	–	–	–	–	–	(1,329)	(1,329)
Share-based compensation [Note 19]	–	–	–	26	–	26	24	50
Stock options exercised	–	49	–	(27)	–	(27)	21	43
Repurchase of shares of the Corporation for cancellation	(3)	–	–	–	–	–	–	(3)
Effects of changes in capital and ownership of subsidiaries, and other	–	–	(52)	–	11	11	(135)	(176)
Balance, end of year	962	766	11,726	184	1,480	1,664	22,928	38,046

Consolidated Statements of Cash Flows

For the years ended December 31 [in millions of Canadian dollars]	2019	2018
OPERATING ACTIVITIES		
Earnings before income taxes	3,597	4,045
Income tax paid, net of refunds	(477)	(612)
Adjusting items		
Change in insurance and investment contract liabilities	10,412	(379)
Change in funds held by ceding insurers	570	663
Change in reinsurance assets	(900)	51
Change in fair value through profit or loss	(6,987)	3,604
Other	406	(256)
	6,621	7,116
FINANCING ACTIVITIES		
Dividends paid		
By subsidiaries to non-controlling interests	(1,349)	(1,323)
Non-participating shares	(52)	(52)
Participating shares	(695)	(700)
	(2,096)	(2,075)
Issue of subordinate voting shares by the Corporation [Note 18]	30	43
Issue of common shares and limited-life fund units by subsidiaries	336	74
Repurchase of subordinate voting shares for cancellation under substantial issuer bid [Note 18]	(1,350)	–
Repurchase of non-participating shares by the Corporation	(2)	(3)
Repurchase of common shares by subsidiaries	(684)	(74)
Redemption of preferred shares by subsidiaries	(150)	–
Issue of debentures and senior notes [Note 15]	250	1,962
Redemption of debentures [Note 15]	(232)	(1,871)
Increase in other debt instruments [Note 15]	146	167
Decrease in other debt instruments [Note 15]	(121)	(38)
Repayment of lease liabilities [Note 16]	(99)	–
Increase in obligations to securitization entities	1,456	1,772
Repayments of obligations to securitization entities and other	(2,115)	(2,111)
	(4,631)	(2,154)
INVESTMENT ACTIVITIES		
Bond sales and maturities	25,860	25,577
Mortgage and other loan repayments	4,778	4,704
Sale of shares	3,959	4,121
Sale of investment properties	5	63
Change in loans to policyholders	16	(208)
Proceeds from assets held for sale [Note 4]	–	169
Business acquisitions, net of disposal of business (net of related cash and cash equivalents) [Note 3]	(49)	(334)
Acquisition of assets, net of cash and cash equivalents [Note 3]	(123)	–
Cash and cash equivalents related to transfer of business [Note 4]	(4)	–
Cash and cash equivalents classified as held for sale [Note 4]	–	(112)
Investment in bonds	(25,621)	(27,031)
Investment in mortgage and other loans	(5,691)	(6,121)
Investment in shares	(3,610)	(5,080)
Investments in jointly controlled corporations and associates [Note 8]	(130)	(76)
Proceeds from investments in jointly controlled corporations and associates	–	199
Investment in investment properties and other	(868)	(479)
	(1,478)	(4,608)
Effect of changes in exchange rates on cash and cash equivalents	(148)	184
Increase in cash and cash equivalents	364	538
Cash and cash equivalents, beginning of year	6,441	5,903
Cash and cash equivalents, end of year	6,805	6,441
NET CASH FROM OPERATING ACTIVITIES INCLUDES		
Interest and dividends received	5,765	5,932
Interest paid	686	681

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

NOTE 1 Corporate Information

Power Corporation of Canada is a publicly listed company (TSX: POW; POW.PR.E) incorporated and domiciled in Canada and located at 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Corporation is an international management and holding company that focuses on financial services in North America, Europe and Asia. Its core holdings are leading insurance, retirement, wealth management and investment businesses, including a portfolio of alternative asset investment platforms.

The Consolidated Financial Statements (financial statements) of Power Corporation as at and for the year ended December 31, 2019 were approved by its Board of Directors on March 18, 2020.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The financial statements of Power Corporation as at December 31, 2019 have been prepared in accordance with International Financial Reporting Standards.

The financial statements include the accounts of Power Corporation and its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances, and certain consolidation adjustments.

Subsidiaries

Subsidiaries are entities the Corporation controls when: (i) the Corporation has power over the entity; (ii) it is exposed or has rights to variable returns from its involvement; and (iii) it has the ability to affect those returns through its use of power over the entity. Subsidiaries of the Corporation are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date such control ceases. The Corporation reassesses whether or not it controls an entity if facts and circumstances indicate there are changes to one or more of the elements of control listed above.

The principal operating subsidiaries of the Corporation are:

		% equity interest	
Corporations	Primary business operation	2019	2018
Power Financial Corporation	Financial services holding company	64.1	65.5
Great-West Lifeco Inc.[1][2]	Financial services holding company with interests in insurance and wealth management companies	70.9	71.8
IGM Financial Inc.[3][4]	Wealth and asset management	66.0	65.2
Portag3 Ventures LP[5]	Backing of innovative financial services companies	100.0	100.0
Portag3 Ventures II LP[6]	Focusing on early stage investments in the global technology sector	27.9	47.0
Wealthsimple Financial Corp.[7]	Technology-driven investment manager	84.9	81.7
Power Energy Corporation	Holding company with interests in sustainable and renewable energy	100.0	100.0

[1] Power Financial holds a 66.9% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco (67.8% and 4.0%, respectively, at December 31, 2018).

[2] Lifeco's principal operating subsidiary companies are Great-West Life, Great-West Life & Annuity, London Life, Canada Life, Irish Life and Putnam. As of January 1, 2020, Great-West Life, London Life and Canada Life amalgamated into a single company: Canada Life.

[3] Power Financial holds a 62.1% equity interest and Great-West Life holds a 3.9% equity interest in IGM Financial (61.4% and 3.8%, respectively, at December 31, 2018).

[4] IGM's principal operating subsidiary companies are IG Wealth Management and Mackenzie.

[5] Power Financial holds a 63.0% equity interest and Lifeco and IGM Financial each hold an equity interest of 18.5% in Portag3 (same at December 31, 2018).

[6] Power Financial, Lifeco and IGM Financial each hold an equal equity interest of 7.7% (15.7% at December 31, 2018) and Sagard Holdings ULC, a wholly owned subsidiary of the Corporation, holds a 4.7% equity interest (nil at December 31, 2018) in Portag3 II.

[7] Power Financial, Portag3 and IGM Financial hold an equity interest of 21.2%, 16.8% and 46.9%, respectively, in Wealthsimple (16.0%, 21.9% and 43.8%, respectively, at December 31, 2018).

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

On April 17, 2019, Lifeco completed a substantial issuer bid (the Lifeco SIB) and purchased for cancellation 59,700,974 of its common shares at a purchase price of $33.50 per common share. Power Financial participated in the Lifeco SIB by tendering its Lifeco common shares on a proportionate basis and on a non-proportionate basis. IGM Financial also participated on a proportionate basis in the Lifeco SIB.

On April 17, 2019, Power Financial completed a substantial issuer bid (the PFC SIB) and purchased for cancellation 49,999,973 of its common shares at a purchase price of $33.00 per common share. The Corporation participated in the PFC SIB by tendering its Power Financial common shares on a proportionate basis and a non-proportionate basis.

The decrease in ownership in Lifeco and Power Financial resulted in dilution gains of $71 million and $66 million, respectively, recorded in retained earnings and other comprehensive income reserve with a corresponding decrease in non-controlling interests in the statements of changes in equity.

The financial statements of Power Corporation include, on a consolidated basis, the results of Power Financial, a Canadian reporting issuer in all of the provinces and territories of Canada, and Lifeco and IGM Financial, which are public companies. The amounts shown on the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are mainly derived from the publicly disclosed consolidated financial statements of Power Financial, Lifeco and IGM Financial, all as at and for the year ended December 31, 2019. Certain notes to Power Corporation's financial statements are derived from the notes to the financial statements of Power Financial.

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. Under the equity method, the Corporation recognizes its share of net earnings (losses), other comprehensive income (loss), the changes in equity of the jointly controlled corporations and associates, and dividends received.

The principal jointly controlled corporations and associates of the Corporation are:

			% equity interest	
Corporations	Classification	Primary business operation	2019	2018
Parjointco N.V.[1][2]	Joint control	Holding company	50.0	50.0
China Asset Management Co., Ltd.[3]	Associate	Asset management company	27.8	27.8

[1] Held by Power Financial.

[2] Parjointco N.V. holds a 55.5% (same at December 31, 2018) equity interest in Pargesa Holding SA.

[3] Power Corporation and IGM Financial each hold an equity interest of 13.9% in China AMC (same at December 31, 2018).

CHANGE IN ACCOUNTING POLICIES

IFRS 16 – Leases (IFRS 16)

Effective January 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, *Leases* (IAS 17) and related interpretations. The standard prescribes new guidance for identifying a lease as well as the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to recognize a right-of-use asset representing its right to use the 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, however an optional exemption is available for short-term and low-value leases.

Impact of transition to IFRS 16

The Corporation has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Corporation elected to measure right-of-use assets on a lease-by-lease basis at either i) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized on the balance sheets immediately before the date of initial application; or ii) at 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. When measuring lease liabilities, the Corporation and its subsidiaries discounted lease payments using their respective incremental borrowing rates at January 1, 2019. The weighted-average incremental borrowing rate was 4.29% at January 1, 2019.

On transition, the Corporation and its subsidiaries elected to apply practical expedients including: i) to not recognize right-of-use assets and lease liabilities for leases for which the remaining lease terms end within twelve months of the date of transition; and ii) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

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

Impact on the balance sheet as at January 1, 2019:

	December 31, 2018 [as previously reported]	Impact of IFRS 16	January 1, 2019 [restated]
Assets			
Investment properties	5,218	29	5,247
Owner-occupied properties and capital assets	1,867	854	2,721
Other assets	9,390	(40)	9,350
		843	
Liabilities and shareholders' equity			
Other liabilities [1]	11,544	851	12,395
Deferred tax liabilities	1,595	(2)	1,593
Retained earnings	11,726	(2)	11,724
Non-controlling interests	22,928	(4)	22,924
		843	

[1] Accrued lease payments of $100 million within other liabilities on the balance sheet at December 31, 2018 were reclassified to decrease right-of-use assets.

The following table reconciles the Corporation and its subsidiaries' operating lease obligations at December 31, 2018, as previously disclosed in the Corporation's consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	1,359
Discounting using the incremental borrowing rate at January 1, 2019	(227)
Non-lease components included in operating lease commitments	(137)
Leases not yet commenced at January 1, 2019 included in operating lease commitments	(59)
Short-term leases included in operating lease commitments	(6)
Low-value leases included in operating lease commitments	(6)
Renewal options not included in operating lease commitments	27
Lease liabilities recognized at January 1, 2019	951

The application of IFRS 16 did not have a material impact on the statement of earnings or the statement of cash flows for the year ended December 31, 2019, except for the classification of lease payments as financing activities instead of operating activities. The adoption of IFRS 16 did not have an impact on net cash flows.

IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)

Effective January 1, 2019, the Corporation adopted IFRIC 23 which clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meets the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties is classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of $109 million to Lifeco's retained earnings. The Corporation's share of this impact is $50 million.

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

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Evaluation of control	Management of the Corporation and of its subsidiaries	Determining if the Corporation has the ability to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Judgment is exercised in evaluating the variable returns and in determining the extent to which the Corporation has the ability to exercise power to affect variable returns.	n/a
Evaluation of significant influence and joint control	Management of the Corporation and of its subsidiaries	Determining if the Corporation exercises significant influence over the entity's operating and financing policies, or if unanimous consent is required for decisions relating to relevant activities.	n/a
Evaluation of disposal group	Management of Lifeco	Determining the assets and liabilities to be included in the disposal group requires judgment and the fair value of the disposal group requires estimation.	4
Classification of insurance and reinsurance contracts	Management of Lifeco	Determining whether arrangements should be accounted for as insurance, investment or service contracts.	13
Valuation of insurance and certain investment contract liabilities in accordance with CALM	Management of Lifeco	Determining the actuarial assumptions, including interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders.	13
Provision for future credit losses within certain insurance contract liabilities	Management of Lifeco	The provision for future credit losses within insurance contract liabilities is based on investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Judgment is required when setting credit ratings for instruments that do not have a third-party rating.	13
Fair value of financial instruments	Management of the Corporation and of its subsidiaries	Determining fair value inputs to establish the fair value of financial instruments, particularly those items categorized within Level 3 of the fair value hierarchy.	27
Fair value of equity-release mortgages	Management of Lifeco	Internal valuation models are used to determine the fair value of equity-release mortgages. These valuations are adjusted by applying management judgments and estimates for material changes in projected asset cash flows and discount rates.	6
Fair value of investment properties	Management of Lifeco	Independent qualified appraisal services are used to determine the fair value of investment properties, which use assumptions that include judgments and estimates. These appraisals are adjusted by applying management's judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions.	6
Initial recognition and measurement of goodwill and intangible assets, as well as subsequent measurement	Management of the Corporation and of its subsidiaries	Evaluating the synergies and future benefits in business combinations for initial recognition and measurement of goodwill and intangible assets as well as determining the recoverable amount. The determination of the recoverable amount of the cash generating units (to which goodwill and intangible assets are assigned) relies upon valuation methodologies that require the use of estimates.	3, 11

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

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Determination of cash generating unit groupings	Management of the Corporation and of its subsidiaries	Determining the cash generating unit groupings as the lowest level at which the assets are monitored for internal reporting purposes.	11
Measurement of the pension and other post-employment benefit obligations	Management of the Corporation and of its subsidiaries	Determining the actuarial assumptions used to determine the expense and defined benefit obligations for pension plans and other post-employment benefits. Management reviews the previous experience of related plan members and market conditions, including interest rates and inflation rates, in evaluating the assumptions used in determining the expense for the current year.	25
Recognition and measurement of tax provisions and tax assets and liabilities	Management of the Corporation and of its subsidiaries	Interpreting the relevant tax laws, regulations and legislation where the Corporation and its subsidiaries operate to determine the tax provisions and the carrying amounts of the tax assets and liabilities.	17
Recoverability of deferred tax asset carrying values	Management of the Corporation and of its subsidiaries	Assessing the recoverability of the deferred tax asset carrying values based on future years' taxable income projections.	17
Recognition and measurement of legal and other provisions	Management of the Corporation and of its subsidiaries	Assessing whether a past event will result in a probable outflow of economic resources to settle the obligation. Judgment is used in evaluating the possible outcomes and risks to determine the best estimate of the provision at the balance sheet date.	31
Derecognition of securitization mortgages	Management of IGM	Determining whether securitized mortgages are derecognized requires judgment with respect to the extent to which the risks and rewards of ownership are transferred.	14
Classification of purchases and sales of portfolio investments in the statements of cash flows	Management of Lifeco	Determining if purchases and sales of portfolio investments are long term in nature, which would result in recording them within investment activities in the consolidated statements of cash flows.	n/a
Classification of revenues and expenses in sub-advisor arrangements	Management of Lifeco	Determining whether Lifeco retains the primary obligation with a client in sub-advisor arrangements. Where Lifeco retains the primary obligation to the client, revenues and expenses are recorded on a gross basis.	n/a
Deferred selling commissions	Management of IGM	Determining whether the client or the fund is the customer, as well as the assessment of the recoverability of the deferred selling commissions.	10
Deferred acquisition costs	Management of Lifeco	Determining whether deferred acquisition costs can be recognized on the consolidated balance sheets. Deferred acquisition costs are recognized if Lifeco's management determines the costs meet the definition of an asset and are incremental and related to the issuance of the investment contract.	10

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

SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

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

Lifeco

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

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

Fee income primarily includes fees earned from the management of segregated fund assets, proprietary mutual fund assets, record keeping, fees earned on administrative services only for Group health contracts, commissions and fees earned from management services. Fee income is recognized on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

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

IGM Financial

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

Other subsidiaries

Revenues from contracts with customers are recognized by other subsidiaries when control of the goods or services are transferred to the customer for the amount that reflects the consideration to which the subsidiary expects to receive in exchange for the goods or services.

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

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

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

Investments in mortgage and other loans are initially classified with respect to the intent of the loan on origination.

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

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

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

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

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

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

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

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 the 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.

Securities lending

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

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

TRANSACTION COSTS

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

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

Owner-occupied properties and capital assets include right-of-use assets.

Owner-occupied properties and capital assets are carried at cost less accumulated depreciation, disposals and impairments. Capital assets include equipment, furniture and fixtures. Owner-occupied properties, equipment, furniture and fixtures are depreciated using the straight-line method, over their estimated useful lives, as follows: i) owner-occupied properties (10 to 50 years); and ii) capital assets (3 to 20 years).

Right-of-use assets are depreciated to the earlier of the end of the estimated useful life of right-of-use asset or the end of the lease term using the straight-line method. Depreciation expense is included within operating and administration expenses.

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

LEASES

At inception of a contract, the Corporation and its subsidiaries assess whether a contract is or contains a lease. The Corporation and its subsidiaries recognize a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. Right-of-use assets are included within owner-occupied properties and capital assets with the exception of right-of-use assets which meet the definition of investment property which are presented within investment properties and subject to the Corporation's associated accounting policy.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's or its subsidiaries' incremental borrowing rate. Generally, the incremental borrowing rate is used. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within financing charges.

The Corporation and its subsidiaries do not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the term within operating and administrative expenses.

For the 2018 comparative figures, leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Corporation and its subsidiaries are the lessee, are recorded in net earnings over the period of use.

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

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

OTHER ASSETS

Other assets include premiums in course of collection, accounts receivable and interest receivable, prepaid expenses, deferred acquisition costs, deferred selling commissions and miscellaneous other assets which are measured at amortized cost.

Deferred acquisition costs

Deferred acquisition costs relating to investment contracts are recognized as assets if the costs are incremental and incurred due to the contract being issued. Deferred acquisition costs are amortized on a straight-line basis over the term of the policy, not exceeding 20 years.

Deferred selling commissions

Commissions are paid on investment product sales where IGM either receives a fee directly from the client or where it receives a fee directly from the investment fund.

Commissions paid on investment product sales where IGM receives a fee directly from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

All other commissions paid on investment product sales are expensed as incurred.

ASSETS AND LIABILITIES HELD FOR SALE

Disposal groups are classified as held for sale when it has been determined that the carrying amount will be recovered through a sale transaction rather than continuing use. The disposal group is measured at the lower of its carrying amount and fair value less cost to sell. Individual assets and liabilities in a disposal group not subject to these measurement requirements include financial assets, investment properties and insurance contract liabilities. These assets and liabilities are measured in accordance with the relevant accounting policies described for those assets and liabilities included in this note before the disposal group as a whole is measured at the lower of its carrying amount and fair value less cost to sell. Any impairment loss for the disposal group is recognized as a reduction to the carrying amount for the portion of the disposal group under the measurement requirements for IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*.

Disposal group assets and liabilities classified as held for sale are presented separately on the balance sheets. Losses from disposal groups held for sale are included in operating and administrative expenses.

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

BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

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

Intangible assets comprise finite life and indefinite life intangible assets. Finite life intangible assets include the value of technology and software, certain customer contracts and power purchase agreements. Finite life intangible assets are reviewed at least annually to determine if there are indicators of impairment and the amortization period and method are reviewed and adjusted if necessary. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows: i) technology and software (3 to 10 years); ii) customer contract-related (7 to 30 years); and iii) power purchase agreements (20 years).

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

Impairment testing

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

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

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

SEGREGATED FUNDS

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Contract classification

When significant insurance risk exists, Lifeco's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Significant insurance risk exists when Lifeco agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to Note 13 for a discussion on Lifeco's insurance risk.

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

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

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 22 for a discussion on Lifeco's risk management.

Measurement

Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's 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 CALM. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

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

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

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

REINSURANCE CONTRACTS

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

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

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

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

FUNDS HELD BY CEDING INSURERS/ FUNDS HELD UNDER REINSURANCE CONTRACTS

On the asset side, funds held by ceding insurers are assets that would normally be paid to Lifeco but are retained by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds-withheld basis supporting the insurance or investment contract liabilities ceded. For the funds-withheld assets where the underlying asset portfolio is managed by Lifeco, the credit risk is retained by Lifeco. The funds-withheld balance where Lifeco assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See Note 7 for funds held by ceding insurers that are managed by Lifeco. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds-withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

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

POLICYHOLDER BENEFITS

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

DERECOGNITION OF SECURITIZED MORTGAGES

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

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

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

OTHER FINANCIAL LIABILITIES

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

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

Provisions are recognized within other liabilities when the Corporation or its subsidiaries have a present obligation, either legal or constructive, as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount. Provisions are measured based on management of the Corporation and of its subsidiaries' best estimate at the balance sheet date. The Corporation recognizes a provision for restructuring when a detailed formal plan for the restructuring has been established and the plan has raised a valid expectation in those affected that the restructuring will occur.

Limited-life fund units represent the interest held by third parties in funds consolidated by the Corporation. These fund units have a defined maximum fixed life where the Corporation has an obligation to distribute the residual interests of the fund to fund partners based on their proportionate share of the fund's equity in the form of cash or other financial assets at the end of the fund's life. Limited-life funds are classified as liabilities and recorded at fair value. Changes in the value are recorded in the statements of earnings in the period of the change.

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 to defined benefit plans

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

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

Contributions to the defined contribution plans are expensed as incurred.

INCOME TAXES

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

Current income tax

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

Deferred income tax

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The Corporation and its subsidiaries generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

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

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

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

Fair value hedges

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

Cash flow hedges

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

Net investment hedges

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

EMBEDDED DERIVATIVES

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

EQUITY

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

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

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

SHARE-BASED PAYMENTS

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

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

FOREIGN CURRENCY TRANSLATION

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

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

Translation of net investment in foreign operations

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

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

EARNINGS PER PARTICIPATING SHARE

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

COMPARATIVE FIGURES

The Corporation reclassified certain comparative figures for disclosure items to conform to the current year's presentation. These reclassifications had no impact on the total equity or net earnings of the Corporation.

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 17 – *Insurance Contracts* (IFRS 17)	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard by one year to January 1, 2022. The IASB is currently in the process of considering the feedback received on the exposure draft and is planning to issue the final amendments in mid-2020. Due to the responses received from stakeholders during the comment period on the exposure draft, on March 17, 2020, the IASB approved the deferral of the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. In addition, the IASB extended to January 1, 2023 the exemption for insurers to apply the financial instruments standard, IFRS 9–*Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The IASB has also confirmed certain amendments proposed in the exposure draft – namely the amendment on the expected recovery of insurance acquisition cash flows – and has also agreed to extend the scope of the amendment related to the recovery of losses on reinsurance contracts to apply to all reinsurance held contracts. 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 assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. These groups are also monitoring developments from the IASB and various industry groups that Lifeco has representation on. Lifeco has made progress in implementing its project plan, with key policy decisions well advanced as well as progression on the implementation of the technology solution. Lifeco continues to evaluate the readiness of technology vendors and their ability to deliver for IFRS 17 implementation. 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 three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment 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. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the CALM, where the discount rate was based on the yield curves of the assets supporting those liabilities (refer to the Corporation's significant accounting policies in Note 2 of these financial statements). The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into 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 fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, Lifeco expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how the financial performance is reported in the statements of earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. Lifeco is also actively monitoring potential impacts on regulatory capital and its associated ratios and disclosures. Lifeco continues to assess all these impacts through its global implementation plan.

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

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 effective date for IFRS 9 has been deferred to align with the effective date for IFRS 17 of January 1, 2023. 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 proposed effective date of the new insurance contract standard; 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 and Lifeco continue 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.
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 will be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
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 will be applied prospectively for annual periods beginning on or after January 1, 2020.
IFRS 9 – *Financial Instruments* (IFRS 9) IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) and IFRS 7 – *Financial Instruments: Disclosures* (IFRS 7)	In September 2019, the IASB issued amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for periods beginning on or after January 1, 2020. Although adoption of these amendments will not have a significant impact on the Corporation's consolidated financial statements, additional disclosures will be required.

NOTE 3 Business Acquisitions and Other Transactions

LIFECO

U.S. individual life insurance and annuity business reinsurance agreement

On January 24, 2019, Great-West Life & Annuity, a wholly owned subsidiary of Lifeco, announced that it had entered into an agreement with Protective Life Insurance Company (Protective Life) to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business in the United States. The transaction was completed on June 1, 2019. As a result of the transaction, the balance sheets were impacted by the transfer of $15,511 million of investments to Protective Life (Note 6), recognition of $15,230 million of reinsurance assets (Note 13) and $985 million of cash received. Within the statements of earnings, Lifeco recognized increases of $13,889 million to ceded premiums, $1,080 million to fee income, $219 million to net investment income (Note 6) and $120 million to operating and administrative expenses (Note 23), as well as a decrease of $12,463 million to total paid or credited to policyholders.

In the second quarter of 2019, Lifeco recognized a loss of $247 million ($199 million after tax) related to this transaction, which included transaction costs of $80 million ($63 million after tax), and $45 million ($36 million after tax) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commissions received at the closing of this transaction are subject to future adjustments. In October 2019, Protective Life provided Lifeco with its listing of proposed adjustments with respect to the liabilities transferred. In December 2019, Lifeco formally objected to these proposed adjustments. The Master Transaction Agreement requires the parties to attempt to resolve these differences in an informal manner and that process is ongoing. Based on the information presently known, it is difficult for Lifeco to predict the outcome of this matter with certainty, but this matter is not expected to materially impact the Corporation's financial position.

Invesco Ltd. (Ireland)

On August 1, 2018, Lifeco, through its indirect wholly owned subsidiary Irish Life, completed its agreement to acquire a controlling interest in Invesco Ltd. (Ireland), an independent financial consultancy firm in Ireland specializing in employee benefit consultancy and private wealth management that manages and administers assets on behalf of clients.

During the second quarter of 2019, Lifeco completed its comprehensive evaluation of the fair value of the net assets acquired, including intangible assets and completion of the final purchase price allocation, with no significant adjustment to goodwill. Revenue and net earnings of Invesco Ltd. (Ireland) were not significant to the results of the Corporation.

POWER ENERGY CORPORATION

Nautilus Solar Energy, LLC

On July 30, 2019, Power Energy Corporation, a wholly owned subsidiary of the Corporation, acquired for a cash consideration of US$25 million a 100% equity interest in Nautilus Solar Energy, LLC (Nautilus), a company that acquires, develops, finances and manages distributed solar projects across community, municipal/utility-scale, commercial and industrial markets.

Acquisition of assets

In 2019, Power Energy Corporation, through its wholly owned subsidiaries, acquired operating wind and solar assets in North America.

The amounts assigned to the assets acquired and liabilities assumed for these acquisitions are as follows:

Assets acquired	
Owner-occupied properties and capital assets	208
Other assets	8
Intangible assets	142
	358
Less: liabilities assumed	
Other debt instruments	153
Other liabilities	61
	214
Net assets acquired	144
Consideration	
Cash, net of cash and cash equivalents acquired	123
Non-controlling interests, at fair value	21
	144

SQUARE VICTORIA COMMUNICATIONS GROUP

On May 8, 2018, La Presse ltée (La Presse), a French-language news media company which provides content on several digital platforms, announced its intention to adopt a not-for-profit structure that would benefit from a financial contribution of $50 million from Power Corporation. The transaction closed on July 14, 2018 and consisted of a transfer of all assets and liabilities of La Presse into the not-for-profit structure with the exception that Power Corporation has retained responsibility for the funding on a going-concern basis of the retirement obligations accrued at the transaction date. As a result, the Corporation recorded a net loss of $54 million, including the financial contribution of $50 million mentioned above, which was included within operating and administrative expenses in the statements of earnings for the year ended December 31, 2018.

NOTE 4 Assets Held for Sale

SALE OF POLICIES TO SCOTTISH FRIENDLY ASSURANCE SOCIETY LIMITED

On June 21, 2018, Canada Life Limited, an indirect wholly owned subsidiary of Lifeco, announced an agreement to sell a heritage block of individual policies to Scottish Friendly of $4,216 million, comprised of unit-linked policies of $3,319 million and non-unit-linked policies of $897 million.

The initial composition of the assets and liabilities of the disposal group classified as assets held for sale at December 31, 2018 was as follows:

December 31, 2018	
Assets	
Cash and cash equivalents	112
Investments	
Bonds	731
Shares	22
Investment properties	29
Loans to policyholders	3
Assets held for sale	897
Investments on account of segregated fund policyholders	3,319
Total assets included in disposal group classified as held for sale	4,216
Liabilities	
Insurance contract liabilities	870
Investment contract liabilities	27
Liabilities held for sale	897
Insurance and investment contracts on account of segregated fund policyholders	3,319
Total liabilities included in disposal group classified as held for sale	4,216

On October 22, 2019, the required court approval for the transfer of these policies was received and the transfer occurred, effective November 1, 2019, as part of Lifeco's United Kingdom Business Transformation (Note 23).

Net earnings from the disposal of these policies will be finalized in the first half of 2020 and are not expected to be material to the financial statements.

NOTE 5 Cash and Cash Equivalents

December 31	2019	2018
Cash	3,643	3,486
Cash equivalents	3,162	2,955
Cash and cash equivalents	6,805	6,441

At December 31, 2019, cash amounting to $591 million was restricted for use by subsidiaries ($432 million at December 31, 2018) primarily in respect of cash held in trust for reinsurance agreements or with regulatory authorities, under certain indemnity arrangements and in escrow.

NOTE 6 Investments

CARRYING VALUES AND FAIR VALUES

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

December 31	2019[1] Carrying value	2019[1] Fair value	2018 Carrying value	2018 Fair value
Bonds				
Designated as fair value through profit or loss[2]	84,128	84,128	89,929	89,929
Classified as fair value through profit or loss[2]	1,717	1,717	1,886	1,886
Available for sale	12,028	12,028	13,713	13,713
Loans and receivables	17,372	19,344	19,722	20,619
	115,245	117,217	125,250	126,147
Mortgage and other loans				
Loans and receivables	30,461	31,420	32,080	32,524
Designated as fair value through profit or loss[2]	1,314	1,314	813	813
Classified as fair value through profit or loss[2]	–	–	4	4
	31,775	32,734	32,897	33,341
Shares				
Designated as fair value through profit or loss[2]	9,752	9,752	8,658	8,658
Classified as fair value through profit or loss[2]	173	173	136	136
Available for sale[3]	1,624	1,624	1,568	1,568
	11,549	11,549	10,362	10,362
Investment properties	5,887	5,887	5,218	5,218
Loans to policyholders	8,601	8,601	8,929	8,929
	173,057	175,988	182,656	183,997

[1] As a result of the reinsurance transaction with Protective Life (Note 3), investments were derecognized and reinsurance assets were recognized (Note 13).

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

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

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

BONDS AND MORTGAGE AND OTHER LOANS

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

	Carrying value			
	Term to maturity			
December 31, 2019	1 year or less	1-5 years	Over 5 years	Total
Bonds	12,351	26,098	76,759	115,208
Mortgage and other loans[1]	2,452	14,124	15,168	31,744
	14,803	40,222	91,927	146,952

	Carrying value			
	Term to maturity			
December 31, 2018	1 year or less	1-5 years	Over 5 years	Total
Bonds	11,944	28,368	84,736	125,048
Mortgage and other loans[1]	2,228	14,499	16,143	32,870
	14,172	42,867	100,879	157,918

[1] Mortgage and other loans include equity-release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on redemption experience.

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

NOTE 6 Investments (continued)

IMPAIRED INVESTMENTS AND ALLOWANCE FOR CREDIT LOSSES

Carrying amount of impaired investments is as follows:

December 31	2019	2018
Impaired amounts by classification		
Fair value through profit or loss	21	178
Available for sale	21	101
Loans and receivables	31	31
Total	73	310

The carrying amount of impaired investments includes bonds, mortgage and other loans and shares. The above carrying values for loans and receivables are net of allowances for credit losses of $53 million as at December 31, 2019 ($21 million as at December 31, 2018). The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

NET INVESTMENT INCOME

Year ended December 31, 2019	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	3,971	992	314	374	548	6,199
Net realized gains						
Available-for-sale	57	–	168	–	–	225
Other classifications [1]	164	175	–	–	–	339
Net allowances for credit losses on loans and receivables	–	(50)	–	–	–	(50)
Other income (expenses)	–	6	20	(117)	(167)	(258)
	4,192	1,123	502	257	381	6,455
Change in fair value through profit or loss	5,785	107	1,446	37	(388)	6,987
Net investment income	9,977	1,230	1,948	294	(7)	13,442

[1] Includes realized gains from invested assets transferred as a result of the reinsurance transaction with Protective Life (Note 3).

Year ended December 31, 2018	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,435	982	285	340	543	6,585
Net realized gains						
Available-for-sale	(7)	–	186	–	–	179
Other classifications	15	82	–	–	21	118
Net allowances for credit losses on loans and receivables	–	(4)	–	–	–	(4)
Other income (expenses)	–	(3)	15	(95)	(122)	(205)
	4,443	1,057	486	245	442	6,673
Change in fair value through profit or loss	(3,040)	(24)	(774)	33	201	(3,604)
Net investment income	1,403	1,033	(288)	278	643	3,069

Investment income earned comprises income from investments that are classified as available for sale, loans and receivables and investments classified or designated as fair value through profit or loss, net of impairment charges. Investment income from bonds and mortgage and other loans includes interest income and premium and discount amortization. Income from shares includes dividends and distributions from equity investment funds. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

NOTE 6 Investments (continued)

TRANSFERRED FINANCIAL ASSETS

Lifeco engages in securities lending to generate additional income. Lifeco's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with Lifeco's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent, who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. Included in the collateral deposited with Lifeco's lending agent is cash collateral of $398 million as of December 31, 2019 ($84 million at December 31, 2018). In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2019, Lifeco had loaned securities (which are included in investments) with a fair value of $7,023 million ($8,847 million at December 31, 2018).

NOTE 7 Funds Held by Ceding Insurers

At December 31, 2019, Lifeco had amounts on deposit of $8,714 million ($9,251 million at December 31, 2018) for funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreements are included in net investment income on the statements of earnings.

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

CARRYING VALUES AND ESTIMATED FAIR VALUES

	2019		2018	
December 31	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	216	216	230	230
Bonds	6,445	6,445	6,925	6,925
Other assets	80	80	91	91
	6,741	6,741	7,246	7,246
Supporting:				
Reinsurance liabilities	6,537	6,537	6,992	6,992
Surplus	204	204	254	254
	6,741	6,741	7,246	7,246

ASSET QUALITY

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

December 31	2019	2018
AAA	601	609
AA	2,670	2,858
A	2,264	2,698
BBB	822	667
BB and lower	88	93
Total bonds	6,445	6,925

NOTE 8 Investments in Jointly Controlled Corporations and Associates

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

	Associates			Jointly controlled corporations		
December 31, 2019	Personal Capital	China AMC	Other	Parjointco	Other	Total
Carrying value, beginning of year	–	1,362	172	3,291	262	5,087
Acquisition	217	–	–	–	–	217
Investments	–	–	57	–	6	63
Share of earnings (losses)	(17)	60	(21)	193	(3)	212
Share of other comprehensive income (loss)	(6)	(81)	(8)	545	(8)	442
Dividends and distributions	–	(20)	–	(80)	(31)	(131)
Effects of changes in ownership and other	–	–	–	5	(2)	3
Carrying value, end of year	194	1,321	200	3,954	224	5,893

	Associates		Jointly controlled corporations		
December 31, 2018	China AMC	Other	Parjointco	Other	Total
Carrying value, beginning of year	1,290	198	3,354	312	5,154
Investments	–	9	–	73	82
Disposal	–	(17)	–	(201)	(218)
Share of earnings (losses)	58	(26)	57	75	164
Share of other comprehensive income (loss)	38	9	(36)	12	23
Dividends and distributions	(24)	–	(75)	(2)	(101)
Effects of changes in ownership and other	–	(1)	(9)	(7)	(17)
Carrying value, end of year	1,362	172	3,291	262	5,087

PARJOINTCO

At December 31, 2019, the Corporation held a 50% interest in Parjointco, a jointly controlled corporation. Parjointco held a 55.5% equity interest in Pargesa (same as at December 31, 2018), representing 75.4% of the voting rights.

At December 31, 2019, the net asset value of the Corporation's indirect interest in Pargesa is approximately $4,085 million. The carrying value of the investment in Pargesa is $3,954 million. For the year ended December 31, 2019, revenue of Pargesa was SF5,690 million (C$7,597 million) (SF6,174 million or C$8,178 million for the year ended December 31, 2018) and net earnings attributable to Pargesa's common shareholders was SF391 million (C$522 million) (SF361 million or C$478 million for the year ended December 31, 2018). Results reported by Pargesa are in accordance with IFRS 9. The Corporation's share of earnings in Parjointco includes an adjustment to account for Pargesa under IAS 39. Other financial information for Pargesa can be obtained from its publicly available information.

NOTE 8 Investments in Jointly Controlled Corporations and Associates (continued)

CHINA AMC

At December 31, 2019, Power Corporation and IGM Financial each held an equity interest of 13.9% in China AMC. China AMC is an asset management company established in Beijing, China. The Corporation and IGM account for its interest in China AMC as an associate using the equity method.

Summarized financial information for China AMC is as follows:

		2019		2018
[in millions]	Canadian dollars	Chinese renminbi	Canadian dollars	Chinese renminbi
Balance sheet at December 31[1]				
Assets	2,171	11,645	2,051	10,342
Liabilities	504	2,701	445	2,242
Comprehensive income for the years ended December 31				
Revenue	763	3,977	733	3,733
Net earnings attributable to common shareholders	230	1,201	224	1,140
Total comprehensive income	234	1,219	235	1,171

[1] Excludes fair value adjustments made at the time of acquisition of $3,248 million (RMB¥16,380 million).

PERSONAL CAPITAL

In January 2019, IGM invested an additional $67 million (US$50 million) in Personal Capital which increased its voting interest to 22.7%. IGM has determined that it has significant influence and therefore accounts for its interest as an associate using the equity method. Significant influence arises from its voting interest and board representation. The interest in Personal Capital was previously accounted for as an available-for-sale investment. The carrying value at the time of the acquisition of significant influence was $217 million. The reclassification of the investment from available for sale to an associate resulted in a gain recorded in net investment income.

As at December 31, 2019, IGM held a 24.8% equity interest in Personal Capital. IGM's equity earnings from Personal Capital include its proportionate share of Personal Capital's net loss adjusted by IGM's amortization of intangible assets that it recognized as a part of its investment in Personal Capital.

Summarized financial information for Personal Capital is as follows:

		2019
	Canadian dollars	U.S. dollars
Balance sheet at December 31		
Assets	86	66
Liabilities	23	18
Comprehensive income for the year ended December 31		
Revenue	100	75
Net loss attributable to common shareholders	(56)	(43)
Total comprehensive loss	(56)	(43)

EAGLE CREEK RENEWABLE ENERGY, LLC

In November 2018, the investment in Eagle Creek Renewable Energy, LLC, a jointly controlled corporation previously held through the Corporation's indirect subsidiary Power Energy Eagle Creek LLP with a carrying value of $104 million, was disposed of by the Corporation resulting in a pre-tax gain of $97 million, recorded in the share of earnings of investments in jointly controlled corporations and associates.

NOTE 9 Owner-Occupied Properties and Capital Assets

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

December 31, 2019	Right-of-use assets[1]	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	–	1,023	2,305	3,328
Adoption of IFRS 16 on January 1, 2019 [Note 2]	854	–	–	854
Business acquisitions and acquisition of assets [Note 3]	60	–	168	228
Additions	141	37	317	495
Modifications	(21)	–	–	(21)
Disposal/retirements	–	(10)	(32)	(42)
Changes in foreign exchange rates and other	12	(20)	(28)	(36)
Cost, end of year	1,046	1,030	2,730	4,806
Accumulated amortization, beginning of year	–	(187)	(1,274)	(1,461)
Amortization and impairment	(132)	(16)	(164)	(312)
Disposal/retirements	–	–	12	12
Changes in foreign exchange rates and other	(5)	1	22	18
Accumulated amortization, end of year	(137)	(202)	(1,404)	(1,743)
Carrying value, end of year	909	828	1,326	3,063

[1] Right-of-use assets include leased properties and leased capital assets.

December 31, 2018	Owner-occupied properties	Capital assets	Total
Cost, beginning of year	981	2,140	3,121
Additions	35	292	327
Business disposals	–	(17)	(17)
Disposal/retirements	(19)	(122)	(141)
Changes in foreign exchange rates and other	26	12	38
Cost, end of year	1,023	2,305	3,328
Accumulated amortization, beginning of year	(163)	(1,224)	(1,387)
Amortization and impairment	(31)	(164)	(195)
Business disposals	–	16	16
Disposal/retirements	7	79	86
Changes in foreign exchange rates and other	–	19	19
Accumulated amortization, end of year	(187)	(1,274)	(1,461)
Carrying value, end of year	836	1,031	1,867

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

December 31	2019	2018
Canada	1,811	1,233
United States	966	416
Europe	286	218
	3,063	1,867

NOTE 10 Other Assets

December 31	2019	2018
Premiums in course of collection, accounts receivable and interest receivable	6,355	5,617
Client funds on deposit	892	618
Deferred acquisition costs and deferred selling commissions	750	705
Pension benefits [Note 25]	231	148
Income taxes receivable	248	235
Trading account assets	1,092	843
Finance leases receivable	405	410
Prepaid expenses	195	225
Other	378	589
	10,546	9,390

Total Other assets of $8,998 million as at December 31, 2019 ($7,949 million as at December 31, 2018) are to be realized within 12 months. This amount excludes deferred acquisition costs and deferred selling commissions, the changes in which are presented below.

DEFERRED ACQUISITION COSTS AND DEFERRED SELLING COMMISSIONS

The changes in the carrying value of the deferred acquisition costs and deferred selling commissions are as follows:

December 31	2019	2018
Balance, beginning of year	705	638
Additions	189	145
Disposals	(36)	(35)
Amortization	(75)	(61)
Changes in foreign exchange rates and other	(33)	18
Balance, end of year	750	705

NOTE 11 Goodwill and Intangible Assets

GOODWILL

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

December 31	2019 Cost	2019 Accumulated impairment	2019 Carrying value	2018 Cost	2018 Accumulated impairment	2018 Carrying value
Balance, beginning of year	11,730	(1,307)	10,423	11,263	(1,178)	10,085
Business acquisitions	46	–	46	345	–	345
Business disposals	–	–	–	(45)	45	–
Impairment [1][2]	–	(66)	(66)	–	(81)	(81)
Changes in foreign exchange rates and other	(131)	52	(79)	167	(93)	74
Balance, end of year	11,645	(1,321)	10,324	11,730	(1,307)	10,423

[1] In 2019, $19 million of the goodwill in Lifeco's Financial Services CGU was impaired as a result of the reinsurance transaction with Protective Life (Note 3).

[2] In 2019, IntegraMed conducted its goodwill impairment test and determined that the carrying value of its CGU was higher than the recoverable amount, which resulted in IntegraMed recording in operating and administrative expenses an impairment charge of $47 million ($81 million in 2018).

INTANGIBLE ASSETS

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

Indefinite life intangible assets

December 31, 2019	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,330	2,665	741	354	5,090
Business acquisitions	1	–	–	–	1
Changes in foreign exchange rates	(34)	(103)	–	–	(137)
Cost, end of year	1,297	2,562	741	354	4,954
Accumulated impairment, beginning of year	(140)	(1,101)	–	–	(1,241)
Changes in foreign exchange rates	7	50	–	–	57
Accumulated impairment, end of year	(133)	(1,051)	–	–	(1,184)
Carrying value, end of year	1,164	1,511	741	354	3,770

December 31, 2018	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
Cost, beginning of year	1,288	2,495	741	354	4,878
Changes in foreign exchange rates	42	170	–	–	212
Cost, end of year	1,330	2,665	741	354	5,090
Accumulated impairment, beginning of year	(132)	(1,019)	–	–	(1,151)
Changes in foreign exchange rates	(8)	(82)	–	–	(90)
Accumulated impairment, end of year	(140)	(1,101)	–	–	(1,241)
Carrying value, end of year	1,190	1,564	741	354	3,849

NOTE 11 Goodwill and Intangible Assets (continued)

Finite life intangible assets

December 31, 2019	Technology and software	Customer contract-related	Power purchase agreements	Other	Total
Cost, beginning of year	1,983	1,226	180	539	3,928
Business acquisitions and acquisition of assets [Note 3]	2	2	165	–	169
Additions	296	11	–	37	344
Disposal	(25)	–	–	(3)	(28)
Changes in foreign exchange rates	(56)	(29)	(1)	(10)	(96)
Other	–	–	–	(10)	(10)
Cost, end of year	2,200	1,210	344	553	4,307
Accumulated amortization, beginning of year	(1,152)	(603)	(39)	(196)	(1,990)
Amortization	(199)	(74)	(11)	(25)	(309)
Disposal	5	–	–	2	7
Changes in foreign exchange rates	41	12	–	5	58
Accumulated amortization, end of year	(1,305)	(665)	(50)	(214)	(2,234)
Carrying value, end of year	895	545	294	339	2,073

December 31, 2018	Technology and software	Customer contract-related	Power purchase agreements	Other	Total
Cost, beginning of year	1,668	1,121	193	477	3,459
Additions	290	66	–	48	404
Disposal	(24)	–	(4)	(12)	(40)
Changes in foreign exchange rates	73	39	–	5	117
Other	(24)	–	(9)	21	(12)
Cost, end of year	1,983	1,226	180	539	3,928
Accumulated amortization, beginning of year	(956)	(511)	(25)	(173)	(1,665)
Amortization	(182)	(68)	(10)	(28)	(288)
Disposal	17	–	–	10	27
Changes in foreign exchange rates	(50)	(24)	–	(4)	(78)
Other	19	–	(4)	(1)	14
Accumulated amortization, end of year	(1,152)	(603)	(39)	(196)	(1,990)
Carrying value, end of year	831	623	141	343	1,938

NOTE 11 Goodwill and Intangible Assets (continued)

ALLOCATION TO CASH GENERATING UNITS

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

			2019			2018
December 31	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
LIFECO						
Canada						
Group Customer	1,632	354	1,986	1,621	354	1,975
Individual Customer	2,808	619	3,427	2,791	619	3,410
Europe						
Insurance and Annuities	2,345	223	2,568	2,388	233	2,621
United States						
Financial Services	180	–	180	208	–	208
Asset Management	–	1,508	1,508	–	1,578	1,578
IGM						
IG Wealth Management	1,443	–	1,443	1,443	–	1,443
Mackenzie	1,251	1,003	2,254	1,251	1,003	2,254
Corporate	143	23	166	143	23	166
OTHER	522	40	562	578	39	617
	10,324	3,770	14,094	10,423	3,849	14,272

RECOVERABLE AMOUNT

Lifeco

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

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

In the fourth quarter of 2019, Lifeco conducted its annual impairment testing of goodwill and indefinite life intangible assets based on the September 30, 2019 asset balances. It was determined that the recoverable amounts of CGUs were in excess of their carrying values and there was no evidence of significant impairment.

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

IGM Financial

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

The fair value less cost of disposal of IGM's CGUs was compared with the carrying amount and it was determined there was no impairment. Changes in assumptions and estimates used in determining the recoverable amounts of the CGUs can result in significant adjustments to the valuation of the CGUs.

NOTE 12 Segregated Funds and Other Structured Entities

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

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

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are $1,147 million at December 31, 2019 ($864 million at December 31, 2018).

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

SEGREGATED FUNDS AND GUARANTEE EXPOSURE

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

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

In the U.S., Lifeco offers group variable annuities with guaranteed minimum death benefits and guaranteed minimum withdrawal benefits through Great-West Life & Annuity. For the standalone guaranteed minimum death benefits business, most are a return of premium on death with the guarantee expiring at age 70.

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

Lifeco also offers guaranteed minimum withdrawal benefits products in Canada, the U.S. and Germany, and previously offered guaranteed minimum withdrawal benefits products in Ireland. Certain guaranteed minimum withdrawal benefits products offered by Lifeco offer levels of death and maturity guarantees. At December 31, 2019, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was $3,332 million ($4,169 million at December 31, 2018). The decrease was primarily due to U.S. business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019.

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

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

December 31	2019	2018
Cash and cash equivalents	12,501	13,458
Bonds	44,973	42,142
Mortgage loans	2,670	2,746
Shares and units in unit trusts	104,330	89,853
Mutual funds	55,779	50,956
Investment properties	12,986	12,319
	233,239	211,474
Accrued income	373	380
Other liabilities	(3,737)	(3,191)
Non-controlling mutual fund interest	1,147	864
	231,022	209,527

NOTE 12 Segregated Funds and Other Structured Entities (continued)

INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

Years ended December 31	2019	2018
Balance, beginning of year	209,527	217,357
Additions (deductions):		
Policyholder deposits	24,685	24,475
Net investment income	3,331	3,611
Net realized capital gains on investments	4,265	4,876
Net unrealized capital gains (losses) on investments	19,658	(16,757)
Unrealized gains (losses) due to changes in foreign exchange rates	(6,539)	5,472
Policyholder withdrawals	(24,721)	(26,271)
Business acquisition	–	950
Segregated fund investment in General Fund	(4)	69
General Fund investment in segregated fund	105	(219)
Net transfer from General Fund	23	21
Non-controlling mutual fund interest	283	(738)
Transfer from assets held for sale	409	–
Assets held for sale [Note 4]	–	(3,319)
	21,495	(7,830)
Balance, end of year	231,022	209,527

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

Years ended December 31	2019	2018
Net investment income	3,331	3,611
Net realized capital gains on investments	4,265	4,876
Net unrealized capital gains (losses) on investments	19,658	(16,757)
Unrealized gains (losses) due to changes in foreign exchange rates	(6,539)	5,472
Total	20,715	(2,798)
Change in insurance and investment contract liabilities on account of segregated fund policyholders	20,715	(2,798)
Net	–	–

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

December 31, 2019	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders[1]	146,861	73,173	13,988	234,022

[1] Excludes other liabilities, net of other assets, of $3,000 million.

December 31, 2018	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders[1]	131,603	67,199	13,235	212,037
Investments on account of segregated fund policyholders held for sale[2]	3,297	5	9	3,311
Total investments on account of segregated fund policyholders measured at fair value	134,900	67,204	13,244	215,348

[1] Excludes other liabilities, net of other assets, of $2,510 million.

[2] Excludes other assets, net of other liabilities, of $8 million.

NOTE 12 Segregated Funds and Other Structured Entities (continued)

In 2019 certain foreign equity holdings valued at $153 million were transferred from Level 1 to Level 2 ($1,842 million were transferred from Level 2 to Level 1 at December 31, 2018), primarily based on Lifeco's change in use of inputs in addition to quoted prices in active markets for certain foreign equity holdings at year-end. Level 2 assets include those assets where fair value is not available from normal market pricing sources where inputs are utilized in addition to quoted prices in active markets and where Lifeco does not have access to the underlying asset details within an investment fund.

As at December 31, 2019, $8,471 million ($7,770 million at December 31, 2018) of the segregated funds were invested in funds managed by IG Wealth Management and Mackenzie Investments, subsidiaries of IGM and related parties.

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

December 31	2019 Investments on account of segregated fund policyholders	2019 Investments on account of segregated fund policyholders held for sale	2019 Total	2018 Investments on account of segregated fund policyholders	2018 Investments on account of segregated fund policyholders held for sale	2018 Total
Balance, beginning of year						
As previously reported	13,235	9	13,244	12,572	–	12,572
Change in accounting policy [1]	136	–	136	–	–	–
Restated balance, beginning of year	13,371	9	13,380	12,572	–	12,572
Total gains (losses) included in segregated fund investment income	141	(1)	140	404	–	404
Purchases	760	–	760	651	–	651
Sales	(284)	(8)	(292)	(425)	–	(425)
Transfers into Level 3	–	–	–	51	–	51
Transfers out of Level 3	–	–	–	(9)	–	(9)
Transfers to assets held for sale	–	–	–	(9)	9	–
Balance, end of year	13,988	–	13,988	13,235	9	13,244

[1] The segregated funds adopted IFRS 16, which resulted in equal and offsetting right-of-use assets and lease liabilities of $136 million being recorded in investment properties and other liabilities within investments on account of segregated fund policyholders as of January 1, 2019. The adoption of IFRS 16 had no net impact on investments on account of segregated fund policyholders as of January 1, 2019.

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

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

Some of these funds are managed by related parties of Lifeco and Lifeco receives management fees related to these services. Management fees can be variable due to the performance of factors, such as markets or industries, in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management, which is affected by prevailing market conditions, and the inflow and outflow of client assets. Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

Fee income earned by Lifeco resulting from Lifeco's interests in segregated funds and other structured entities was $4,919 million for the year ended December 31, 2019 ($4,786 million in 2018).

Included within other assets (Note 10) at December 31, 2019 is $957 million ($733 million at December 31, 2018) of investments by Lifeco in bonds and shares of Putnam-sponsored funds and $135 million ($110 million at December 31, 2018) of investments in shares of sponsored unit trusts in Europe.

NOTE 13 Insurance and Investment Contract Liabilities

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

	2019			2018		
December 31	Gross liability	Reinsurance assets[1]	Net	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	174,521	20,580	153,941	166,720	6,126	160,594
Investment contract liabilities	1,656	127	1,529	1,711	–	1,711
	176,177	20,707	155,470	168,431	6,126	162,305

[1] Includes reinsurance assets recognized upon the completion of the reinsurance transaction with Protective Life (Note 3).

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

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

	2019			2018		
December 31	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Participating						
Canada	42,271	(247)	42,518	38,078	(351)	38,429
United States	11,329	12	11,317	11,871	14	11,857
Europe	1,019	–	1,019	978	–	978
Non-participating						
Canada	32,668	498	32,170	30,174	500	29,674
United States	32,360	15,091	17,269	31,042	271	30,771
Europe	56,530	5,353	51,177	56,288	5,692	50,596
	176,177	20,707	155,470	168,431	6,126	162,305

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

December 31, 2019	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	19,484	9,655	6,142	2,472	4,518	42,271
United States	5,128	626	–	–	5,575	11,329
Europe	716	20	63	12	208	1,019
Non-participating liabilities						
Canada	20,270	4,111	2,237	407	5,643	32,668
United States	14,311	2,678	–	–	15,371	32,360
Europe	35,546	5,442	299	2,672	12,571	56,530
Other, including segregated funds	15,630	902	902	119	231,894	249,447
Total equity	3,943	834	732	205	19,829	25,543
Total carrying value	115,028	24,268	10,375	5,887	295,609	451,167
Fair value	117,000	25,146	10,367	5,887	295,609	454,009

NOTE 13 Insurance and Investment Contract Liabilities (continued)

December 31, 2018	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	18,044	9,145	5,397	1,908	3,584	38,078
United States	5,140	749	–	–	5,982	11,871
Europe	708	24	68	18	160	978
Non-participating liabilities						
Canada	19,204	3,845	1,916	196	5,013	30,174
United States	25,324	4,993	–	–	725	31,042
Europe	35,174	4,511	191	2,795	13,617	56,288
Other, including segregated funds	15,504	1,038	940	99	214,279	231,860
Total equity	5,764	709	778	202	19,945	27,398
Total carrying value	124,862	25,014	9,290	5,218	263,305	427,689
Fair value	125,759	25,411	9,229	5,218	263,305	428,922

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

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

CHANGE IN INSURANCE CONTRACT LIABILITIES

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

	Participating			Non-participating			
December 31, 2019	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
Balance, beginning of year	50,927	(337)	51,264	115,793	6,463	109,330	160,594
Impact of new business	59	–	59	5,339	(266)	5,605	5,664
Normal change in in-force business	4,138	25	4,113	1,784	645	1,139	5,252
Management actions and changes in assumptions	67	77	(10)	(117)	(73)	(44)	(54)
Business movement from/to external parties	–	–	–	(176)	14,802	(14,978)	(14,978)
Impact of foreign exchange rate changes	(572)	–	(572)	(2,721)	(756)	(1,965)	(2,537)
Balance, end of year	54,619	(235)	54,854	119,902	20,815	99,087	153,941

	Participating			Non-participating			
December 31, 2018	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	Total net
Balance, beginning of year	48,856	(341)	49,197	110,668	5,386	105,282	154,479
Impact of new business	24	–	24	6,680	169	6,511	6,535
Normal change in in-force business	1,413	7	1,406	(6,553)	(243)	(6,310)	(4,904)
Management actions and changes in assumptions	(29)	(5)	(24)	(700)	25	(725)	(749)
Business movement from/to external parties	–	–	–	(134)	(2)	(132)	(132)
Retirement Advantage acquisition	–	–	–	2,572	931	1,641	1,641
Transfer of liabilities to held for sale [Note 4]	(281)	–	(281)	(589)	–	(589)	(870)
Impact of foreign exchange rate changes	944	2	942	3,849	197	3,652	4,594
Balance, end of year	50,927	(337)	51,264	115,793	6,463	109,330	160,594

NOTE 13 Insurance and Investment Contract Liabilities (continued)

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

2019

In July 2019, the Canadian Actuarial Standards Board published revised standards for the valuation of insurance contract liabilities, with an effective date of October 15, 2019. The revised standards include decreases to ultimate reinvestment rates and revised calibration criteria for stochastic risk-free interest rates.

In 2019, the major contributor to the decrease in net insurance contract liabilities was the business movement to external parties of $14,978 million, which includes the transfer to Protective Life, and the net impact of foreign exchange rate changes of $2,537 million. This was partially offset by increases due to the impact of new business of $5,664 million, and normal change in the in-force business of $5,252 million.

Net non-participating insurance contract liabilities decreased by $44 million in 2019 due to management actions and assumption changes including a $241 million decrease in Europe and Reinsurance, partially offset by a $145 million increase in Canada and a $52 million increase in the United States.

The increase in Canada was primarily due to updated policyholder behaviour assumptions of $254 million, and updated longevity assumptions of $54 million partially offset by decreases due to updated morbidity assumptions of $169 million and updated economic assumptions of $6 million, which includes the net impact of new standards.

The decrease in Europe was primarily due to updated longevity assumptions of $299 million, and updated economic assumptions of $101 million, which includes the net impact of new standards, partially offset by increases due to updated life mortality assumptions of $80 million, and updated expenses and tax assumptions of $59 million.

The increase in the United States was primarily due to updated expenses and tax assumptions of $45 million, and updated life mortality assumptions of $43 million partially offset by decreases due to updated economic assumptions of $34 million, which includes the net impact of new standards.

Net participating insurance contract liabilities decreased by $10 million in 2019 due to management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends of $2,232 million, updated expenses and tax assumptions of $535 million, and modelling refinements of $198 million. This was partially offset by increases due to updated economic assumptions of $1,884 million, updated policyholder behaviour assumptions of $935 million and updated life mortality assumptions of $153 million.

2018

In 2018, the major contributors to the increase in net insurance contract liabilities were the impact of new business of $6,535 million, the acquisition of Retirement Advantage of $1,641 million and the net impact of foreign exchange rate changes of $4,594 million. This was partially offset by the decrease due to normal change in the in-force business of $4,904 million, the transfer of U.K. heritage business to Scottish Friendly of $870 million and management actions and changes in assumptions of $749 million.

Net non-participating insurance contract liabilities decreased by $725 million in 2018 due to Lifeco's management actions and assumption changes including a $562 million decrease in Europe and Reinsurance, a $107 million decrease in Canada and a $56 million decrease in the United States.

The decrease in Canada was primarily due to updated economic assumptions of $197 million, updated provision for claims of $19 million and updated provision for experience rating refunds of $10 million, partially offset by increases due to updated morbidity assumptions of $62 million, updated policyholder behaviour assumptions of $46 million and updated life mortality assumptions of $10 million.

The decrease in Europe was primarily due to updated longevity assumptions of $372 million, updated life mortality assumptions of $129 million, modelling refinements of $41 million, updated economic assumptions of $39 million, updated morbidity assumptions of $25 million, and updated expense and tax assumptions of $21 million, partially offset by increases due to updated policyholder behaviour assumptions of $65 million.

The decrease in the United States was primarily due to updated policyholder behaviour assumptions of $63 million, updated life mortality assumptions of $16 million and updated longevity assumptions of $15 million, partially offset by increases due to modelling refinements of $21 million and updated economic assumptions of $13 million.

Net participating insurance contract liabilities decreased by $24 million in 2018 due to Lifeco's management actions and assumption changes. The decrease was primarily due to modelling refinements of $229 million, expense and tax assumptions of $133 million and updated life mortality assumptions of $5 million, partially offset by increases due to updated provisions for future policyholder dividends of $232 million, lower investment returns of $101 million and updated policyholder behaviour assumptions of $8 million.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

	2019			2018
December 31	Gross liability	Reinsurance assets	Net	Net
Balance, beginning of year	1,711	–	1,711	1,841
Normal change in in-force business	(87)	38	(125)	(190)
Investment experience	103	(23)	126	(26)
Management actions and changes in assumptions	(4)	–	(4)	15
Business movement from/to external parties	–	116	(116)	–
Transfer of liabilities to held for sale [Note 4]	–	–	–	(27)
Impact of foreign exchange rate changes	(67)	(4)	(63)	98
Balance, end of year	1,656	127	1,529	1,711

The carrying value of investment contract liabilities approximates their fair value. No investment contract liabilities were reinsured in 2018.

GROSS PREMIUM INCOME

December 31	2019	2018
Direct premiums	25,398	26,062
Assumed reinsurance premiums	17,847	13,901
Total	43,245	39,963

GROSS POLICYHOLDER BENEFITS

December 31	2019	2018
Direct	19,643	17,830
Assumed reinsurance	18,126	14,527
Total	37,769	32,357

ACTUARIAL ASSUMPTIONS

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and 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.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

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

Actuarial assumptions	Methods
Mortality	A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Improvement scales for life insurance and annuitant mortality are updated periodically based on population and industry studies, product-specific considerations, as well as professional guidance. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. Annuitant mortality is also studied regularly and the results are used to modify established industry experience annuitant mortality tables.
Morbidity	Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.
Property and casualty reinsurance	Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.
Investment returns	The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 22).
Expenses	Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the CALM as inflation is assumed to be correlated with new money interest rates.
Policy termination	Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Reinsurance. Industry experience has guided Lifeco's assumptions for these products as Lifeco's own experience is very limited.
Utilization of elective policy options	There are a wide range of elective options embedded in the policies issued by Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco or industry experience when it exists and, when not, on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.
Policyholder dividends and adjustable policy features	Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is Lifeco's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability on shareholders' earnings is reflected in the changes in best estimate assumptions above.

NOTE 13 Insurance and Investment Contract Liabilities (continued)

RISK MANAGEMENT

Insurance risk

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

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

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

	Increase (decrease) in net earnings	
	2019	2018
Mortality – 2% increase	(279)	(270)
Annuitant mortality – 2% decrease	(601)	(457)
Morbidity – 5% adverse change	(253)	(271)
Investment returns		
Parallel shift in yield curve		
1% increase	–	–
1% decrease	–	–
Change in interest rates		
1% increase	175	115
1% decrease	(619)	(465)
Change in equity markets		
10% increase	87	73
10% decrease	(129)	(266)
Change in best estimate return assumptions for equities		
1% increase	509	476
1% decrease	(585)	(539)
Expenses – 5% increase	(125)	(128)
Policy termination and renewal – 10% adverse change	(813)	(649)

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

	2019			2018		
December 31	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	74,939	251	74,688	68,252	149	68,103
United States	43,689	15,103	28,586	42,913	285	42,628
Europe	57,549	5,353	52,196	57,266	5,692	51,574
	176,177	20,707	155,470	168,431	6,126	162,305

Reinsurance risk

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

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

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

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

NOTE 14 Obligations to Securitization Entities

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

IGM earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, IGM enters into a swap transaction whereby IGM pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $1 million at December 31, 2019 (a positive fair value of $5 million in 2018).

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

	2019			2018		
December 31	Securitized mortgages	Obligations to securitization entities	Net	Securitized mortgages	Obligations to securitization entities	Net
Carrying value						
NHA MBS and CMB Programs	3,891	3,939	(48)	4,247	4,251	(4)
Bank-sponsored ABCP	2,939	2,975	(36)	3,102	3,119	(17)
Total	6,830	6,914	(84)	7,349	7,370	(21)
Fair value	6,908	6,997	(89)	7,405	7,437	(32)

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

NOTE 15 Debentures and Other Debt Instruments

December 31	2019 Carrying value	2019 Fair value	2018 Carrying value	2018 Fair value
DEBENTURES				
POWER CORPORATION				
8.57% debentures due April 22, 2039, unsecured	150	247	150	231
4.81% debentures due January 31, 2047, unsecured	248	292	248	263
4.455% debentures due July 27, 2048, unsecured	248	280	248	250
POWER FINANCIAL				
6.90% debentures due March 11, 2033, unsecured	250	343	250	327
LIFECO				
4.65% debentures due August 13, 2020, unsecured	500	508	500	516
2.50% debentures due April 18, 2023 (€500 million), unsecured	728	788	778	837
1.75% debentures due December 7, 2026 (€500 million), unsecured	725	785	774	781
3.337% debentures due February 28, 2028, unsecured	498	526	497	502
6.40% subordinated debentures due December 11, 2028, unsecured	100	128	100	126
6.74% debentures due November 24, 2031, unsecured	194	278	194	261
6.67% debentures due March 21, 2033, unsecured	393	557	393	522
6.625% deferrable debentures due November 15, 2034 (US$175 million), unsecured (redeemed during 2019)	–	–	235	266
5.998% debentures due November 16, 2039, unsecured	342	487	342	442
7.529% capital trust debentures due June 30, 2052 (face value of $150 million), unsecured	159	221	159	209
IGM FINANCIAL				
3.44% debentures due January 26, 2027, unsecured	400	413	400	397
6.65% debentures due December 13, 2027, unsecured	125	155	125	153
7.45% debentures due May 9, 2031, unsecured	150	205	150	197
7.00% debentures due December 31, 2032, unsecured	175	236	175	226
7.11% debentures due March 7, 2033, unsecured	150	204	150	195
6.00% debentures due December 10, 2040, unsecured	200	264	200	244
4.56% debentures due January 25, 2047, unsecured	200	227	200	206
4.115% debentures due December 9, 2047, unsecured	250	265	250	239
4.174% debentures due July 13, 2048, unsecured	200	214	200	193
4.206% debentures due March 21, 2050, unsecured	250	271	–	–
Debentures of IGM held by Lifeco as investments	(101)	(119)	(86)	(97)
Total debentures	6,534	7,775	6,632	7,486

NOTE 15 Debentures and Other Debt Instruments (continued)

	2019		2018	
December 31	Carrying value	Fair value	Carrying value	Fair value
OTHER DEBT INSTRUMENTS				
POWER CORPORATION				
Revolving credit facility with interest equal to LIBOR plus 0.65%, unsecured	37	37	–	–
LIFECO				
Commercial paper and other short-term debt instruments with interest rates from 1.828% to 2.089% (2.511% to 2.693% at December 31, 2018), unsecured	130	130	135	135
Revolving credit facility with interest equal to LIBOR plus 0.70% (US$230 million) (US$250 million at December 31, 2018), unsecured	299	299	340	340
Senior notes due May 17, 2028, bearing an interest rate of 4.047% (US$300 million), unsecured	388	430	405	415
Senior notes due June 3, 2047, bearing an interest rate of 4.15% (US$700 million), unsecured	894	993	934	888
Senior notes due May 17, 2048, bearing an interest rate of 4.581% (US$500 million), unsecured	643	749	673	685
OTHER SUBSIDIARIES				
Revolving credit facilities up to US$100 million, with interest equal to LIBOR plus 1.5%, secured[1]	–	–	47	47
Revolving credit facility up to $40 million with interest equal to prime rate plus 1.25% to 3.75%, secured[1]	28	28	25	25
Term loans due January 17, 2020 and revolving facilities, bearing interest at various rates from 9.25% to 15% (US$91 million)(US$96 million at December 31, 2018), secured[1]	118	118	131	131
Term loan facilities due in June and December 2022, bearing interest at various floating rates (an effective rate from 6.38% to 10.09%), secured[1]	129	129	137	137
Mezzanine loans due from January 2, 2035 to June 30, 2035, bearing interest at various rates from 7.36% to 7.5%, secured[1]	102	106	104	106
Project debt				
Construction loan facility up to US$75 million, due December 23, 2021(US$18 million) with interest equal to 6.25%, secured[1]	20	20	–	–
Loan facilities due from March 31, 2024 to December 15, 2037, bearing interest at various rates from 3.33% to 6.00%, secured[1]	466	480	367	378
Loan facilities due from June 2025 to June 2036, bearing interest at various rates from 4.82% to 5.00% (US$69 million)(US$22 million at December 31, 2018) secured[1]	87	90	28	31
Loan facilities due August 31, 2035, bearing interest at various rates from 4.7% to 4.72%, secured[1]	25	27	–	–
Loan facilities due March 15, 2036, bearing interest at a rate of 4.40% (US$23 million), secured[1]	30	32	–	–
Other various debt instruments, secured[1]	8	8	19	19
Total other debt instruments	3,404	3,676	3,345	3,337
	9,938	11,451	9,977	10,823

[1] Secured by the assets of Other subsidiaries; the debt instruments are non-recourse to the Corporation.

POWER CORPORATION

On July 25, 2018, the Corporation issued $250 million of 4.455% debentures maturing July 27, 2048. Interest on the debentures is payable semi-annually in arrears on January 27 and July 27, commencing January 27, 2019 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to January 27, 2048 in whole or in part at the greater of the Canada Yield Price and par, and on or after January 27, 2048 in whole or in part at par, together in each case with accrued and unpaid interest. On September 6, 2018, the net proceeds were used by the Corporation to fund the early redemption of all of its $250 million 7.57% debentures due April 22, 2019. A premium of $7 million was paid on the early redemption and was recognized within financing charges in the statements of earnings.

NOTE 15 Debentures and Other Debt Instruments (continued)

LIFECO

On December 10, 2019, Great-West Life & Annuity Insurance Capital, LP redeemed all $232 million (US$175 million) aggregate principal amount 6.625% deferrable debentures due November 15, 2034 at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest up to but excluding the redemption date.

On February 28, 2018, Lifeco issued $500 million of 10-year 3.337% debentures at par, maturing on February 28, 2028. Interest on the debentures is payable semi-annually in arrears on February 28 and August 28, commencing August 28, 2018 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to November 28, 2027 in whole or in part at the greater of the Canada Yield Price and par, and on or after November 28, 2027 in whole or in part at par, together in each case with accrued and unpaid interest.

On May 17, 2018, Great-West Lifeco Finance 2018, LP 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. The tranches of senior notes are fully and unconditionally guaranteed by Lifeco.

Capital Trust Debentures

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

Distributions and interest on the capital trust debentures are classified as financing charges in the statements of earnings (Note 24). The fair value for capital trust securities is determined by the bid-ask price.

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

IGM FINANCIAL

On March 20, 2019, IGM issued $250 million of 4.206% debentures maturing March 21, 2050. The net proceeds were used by IGM to fund the redemption, on April 30, 2019, of its issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B for $150 million, and for general corporate purposes.

On March 7, 2018, IGM's 6.58% $150 million debentures matured at their principal amount together with accrued interest.

On July 11, 2018, IGM issued $200 million of 4.174% debentures maturing July 13, 2048. Interest on debentures is payable semi-annually in arrears on January 13 and July 13, commencing January 13, 2019, until the date on which the debentures are repaid. The debentures are redeemable at any time prior to January 13, 2048 in whole or in part at the greater of the Canada Yield Price and par, and on or after January 13, 2048 in whole or in part at par, together in each case with accrued and unpaid interest. 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 on the early redemption and was recognized within financing charges in the statements of earnings.

OTHER SUBSIDIARIES

Subsequent event

On February 10, 2020, a wholly owned subsidiary of the Corporation entered into a $254 million non-recourse hybrid construction and term loan facility with floating and fixed rates. Both components will convert to terms with maturities from 7 years to 25 years after commercial operation.

CHANGES IN DEBENTURES AND OTHER DEBT INSTRUMENTS

The table below details changes in the Corporation's debentures and other debt instruments arising from financing activities, including both cash and non-cash changes.

December 31	2019	2018
Balance, beginning of the year	9,977	9,511
Acquisitions [Note 3]	153	–
Issue of debentures and senior notes	250	1,962
Redemption of debentures	(232)	(1,871)
Increase in other debt instruments	146	167
Decrease in other debt instruments	(121)	(38)
Changes in foreign exchange rates and other	(235)	246
Balance, end of year	9,938	9,977

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

2020	1,164
2021	72
2022	150
2023	772
2024	43
Thereafter	7,798

NOTE 16 Other Liabilities

December 31	2019	2018
Accounts payable	3,976	3,816
Bank overdraft	379	457
Dividends and interest payable	468	294
Income taxes payable	468	500
Deferred income reserves	380	441
Deposits and certificates	886	622
Funds held under reinsurance contracts	1,433	1,367
Pension and other post-employment benefits [Note 25]	2,177	1,931
Lease liabilities	1,022	–
Limited-life fund units	358	150
Other	2,160	1,966
	13,707	11,544

Total Other liabilities of $8,291 million as at December 31, 2019 ($7,552 million as at December 31, 2018) are expected to be settled within 12 months.

LEASE LIABILITIES

The table below details changes in the Corporation's lease liabilities for the year ended December 31, 2019.

December 31	2019
Initial lease liabilities, January 1, 2019 [Note 2]	951
Additions	168
Business acquisitions and acquisition of assets [Note 3]	45
Modifications	(22)
Lease payments	(140)
Interest	41
Change in foreign exchange rates and other	(21)
Lease liabilities, end of year	1,022

The table below presents the contractual undiscounted cash flows for lease obligations in each of the next five years and thereafter:

2020	163
2021	146
2022	126
2023	105
2024	96
Thereafter	683
Total undiscounted lease liabilities at December 31, 2019	1,319

NOTE 17 Income Taxes

INCOME TAXES

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

Years ended December 31	2019	2018
Current taxes	356	546
Deferred taxes		
Origination and reversal of temporary differences	(13)	31
Tax expense arising from unrecognized tax losses and tax credits	222	16
Effect of change in tax rates or imposition of new taxes and other	(11)	(15)
	198	32
	554	578

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

	2019		2018	
December 31	Other comprehensive income	Equity	Other comprehensive income	Equity
Current taxes (recovery)	4	78	(2)	–
Deferred taxes (recovery)	(21)	20	(40)	(16)
	(17)	98	(42)	(16)

EFFECTIVE INCOME TAX RATE

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

Years ended December 31	2019	2018
	%	%
Combined statutory Canadian federal and provincial tax rates	26.6	26.7
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(5.2)	(5.9)
Lower effective tax rates on income not subject to tax in Canada	(8.8)	(7.7)
Share of earnings of investments in jointly controlled corporations and associates	(1.5)	(0.6)
Impact of rate changes on deferred taxes	(0.3)	–
Other[1]	4.6	1.8
Effective income tax rate	15.4	14.3

[1] Includes the impact of a decrease in the recognized deferred income tax asset of one of Lifeco's subsidiaries due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses which resulted in a $199 million charge and increased the effective income tax rate by 5.5%. This was partially offset by a $101 million benefit due to the resolution of an outstanding issue with a foreign tax authority which reduced the effective income tax rate by 2.8%.

NOTE 17 Income Taxes (continued)

DEFERRED TAXES

Composition and changes in net deferred taxes are as follows:

For the year ended December 31, 2019	Insurance and investment contract liabilities	Investments	Loss carry forwards	Intangible assets	Defined benefit plans	Tax credits and other	Total
Balance, beginning of year	(1,387)	(387)	1,468	(876)	372	313	(497)
Recognized in statements of earnings	362	(180)	(260)	(40)	(18)	(62)	(198)
Recognized in statements of comprehensive income	–	(28)	–	–	55	(6)	21
Recognized in statements of changes in equity	(20)	–	–	–	–	–	(20)
Business acquisitions	–	–	–	(1)	–	–	(1)
Foreign exchange rate changes and other	62	21	(48)	16	(15)	(36)	–
Balance, end of year	(983)	(574)	1,160	(901)	394	209	(695)

For the year ended December 31, 2018	Insurance and investment contract liabilities	Investments	Loss carry forwards	Intangible assets	Defined benefit plans	Tax credits and other	Total
Balance, beginning of year	(976)	(662)	1,241	(803)	394	249	(557)
Recognized in statements of earnings	(395)	257	144	(58)	(30)	50	(32)
Recognized in statements of comprehensive income	–	42	–	–	(4)	2	40
Recognized in statements of changes in equity	9	–	–	–	–	7	16
Business acquisitions	41	–	–	–	–	(8)	33
Foreign exchange rate changes and other	(66)	(24)	83	(15)	12	13	3
Balance, end of year	(1,387)	(387)	1,468	(876)	372	313	(497)

December 31	2019	2018
Presented on the balance sheets as follows:		
Deferred tax assets	802	1,098
Deferred tax liabilities	(1,497)	(1,595)
	(695)	(497)

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2019 are recoverable.

At December 31, 2019, a deferred tax asset of $1,065 million ($1,357 million at December 31, 2018) is recognized by Lifeco on tax loss carry forwards totalling $6,832 million ($8,568 million in 2018). Of this amount, $5,814 million expires between 2020 and 2039, while $1,018 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

A subsidiary of Lifeco has had a history of losses. The subsidiary has a net deferred tax asset balance of $478 million (US$367 million) as at December 31, 2019 composed principally of net operating losses and future deductions related to goodwill. During the year ended December 31, 2019, management of Lifeco determined that a $199 million (US$151 million) decrease in the recognized deferred income tax asset is appropriate due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses generated in the earliest loss years. The deferred income tax asset decrease resulted in a charge to income tax expense of $199 million (US$151 million) in the statement of earnings. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income to utilize the unused United States losses and deductions for which a deferred tax asset has been recognized.

As at December 31, 2019, the Corporation and its subsidiaries have non-capital losses of $2,297 million ($1,012 million in 2018) available to reduce future taxable income for which the benefits have not been recognized. Of this amount, $2,220 million expires from 2020 to 2039, while $77 million has no expiry date. In addition, the Corporation and its subsidiaries have capital loss carry forwards of $300 million ($307 million in 2018) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

As at December 31, 2019, the Corporation and its subsidiaries have deductible temporary differences of $590 million ($418 million in 2018) for which the benefits have not been recognized. As at December 31, 2019 and 2018, no deferred tax liability was recognized in respect to temporary differences associated with investments in subsidiaries and jointly controlled corporations as the Corporation and its subsidiaries are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE 18 Stated Capital

AUTHORIZED

The authorized capital of Power Corporation consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Participating Preferred Shares; and an unlimited number of Subordinate Voting Shares.

ISSUED AND OUTSTANDING

December 31	2019 Number of shares	2019 Stated capital	2018 Number of shares	2018 Stated capital
		$		$
NON-PARTICIPATING SHARES				
First Preferred Shares				
Cumulative Redeemable				
1986 Series	209,400	10	247,200	12
Non-cumulative Redeemable, fixed rate				
Series A	6,000,000	150	6,000,000	150
Series B	8,000,000	200	8,000,000	200
Series C	6,000,000	150	6,000,000	150
Series D	10,000,000	250	10,000,000	250
Series G	8,000,000	200	8,000,000	200
		960		962
PARTICIPATING SHARES				
Participating Preferred Shares	48,854,772	27	48,854,772	27
Subordinate Voting Shares				
Balance, beginning of year	417,101,146	739	415,443,579	690
Issued under Stock Option Plan	1,422,502	33	1,657,567	49
Purchase for cancellation under substantial issuer bid	(40,909,041)	(73)	–	–
Balance, end of year	377,614,607	699	417,101,146	739
Total Participating Shares		726		766

Non-Participating Shares

The Cumulative Redeemable First Preferred Shares, 1986 Series are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average of the prime rates quoted by two major Canadian chartered banks. The shares are redeemable by the Corporation at $50.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption. The Corporation will make all reasonable efforts to purchase for cancellation, on the open market, 20,000 shares per quarter, at a price not exceeding $50.00 per share. In 2019, 37,800 shares (53,600 shares in 2018) were purchased for cancellation.

The following First Preferred Shares series are entitled to fixed non-cumulative preferential cash dividends payable quarterly. The Corporation may redeem for cash the First Preferred Shares in whole or in part, at the Corporation's option, with all declared and unpaid dividends to, but excluding, the date of redemption. The dividends and redemption terms are as follows:

First Preferred Shares	Cash dividends payable quarterly	Earliest issuer redemption date	Redemption price
	($/share)		($/share)
Non-cumulative, fixed rate			
Series A, 5.60%	0.350000	Currently redeemable	25.00
Series B, 5.35%	0.334375	Currently redeemable	25.00
Series C, 5.80%	0.362500	Currently redeemable	25.00
Series D, 5.00%	0.312500	Currently redeemable	25.00
Series G, 5.60%	0.350000	Currently redeemable	25.50

NOTE 18 Stated Capital (continued)

Participating Shares

Participating Preferred Shares are entitled to ten votes per share; and, subject to the rights of holders of the First Preferred Shares, to a non-cumulative dividend of 0.9375¢ per share per annum before dividends on the Subordinate Voting Shares and have the further right to participate, share and share alike, with the holders of the Subordinate Voting Shares in any dividends that may be paid with respect to the Subordinate Voting Shares.

Subordinate Voting Shares are entitled to one vote per share. In 2019, 1,422,502 Subordinate Voting Shares (1,657,567 in 2018) were issued under the Corporation's Executive Stock Option Plan for a consideration of $30 million ($43 million in 2018).

Dividends declared on the Corporation's participating shares in 2019 were $2.002 per share ($1.5045 per share in 2018).

Substantial Issuer Bid

On April 17, 2019, the Corporation completed its substantial issuer bid (the PCC SIB) and purchased for cancellation 40,909,041 of its Subordinate Voting Shares at a purchase price of $33.00 per Subordinate Voting Share for an aggregate amount of $1.35 billion. The excess paid under the PCC SIB over the stated capital of $1.28 billion was recognized as a reduction to retained earnings. Transaction costs incurred in connection with the PCC SIB of $5 million were recorded in retained earnings.

NOTE 19 Share-Based Compensation

STOCK OPTION PLAN

Under Power Corporation's Executive Stock Option Plan, 21,908,356 Subordinate Voting Shares are reserved for issuance. The plan requires that the exercise price of the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on the basis of [i] the first 50%, three years from the date of grant and [ii] the remaining 50%, four years from the date of grant, except for a grant of 37,142 options in 2015 and grants of 96,291 options in 2016 which vest equally over a period of five years.

A summary of the status of Power Corporation's Executive Stock Option Plan as at December 31, 2019 and 2018, and changes during the respective years ended is as follows:

	2019		2018	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		$		$
Outstanding, beginning of year	16,453,341	28.43	17,630,666	28.38
Granted	1,325,223	31.84	1,350,172	28.51
Exercised	(1,422,502)	21.09	(1,657,567)	25.74
Forfeited and expired	–	–	(869,930)	32.66
Outstanding, end of year	16,356,062	29.35	16,453,341	28.43
Options exercisable, end of year	11,873,872	28.96	11,994,650	27.75

The following table summarizes information about stock options outstanding at December 31, 2019:

		Options outstanding			Options exercisable	
Range of exercise prices	Expiry date	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
$			(yrs)	$		$
30.07	2020	1,496,115	0.2	30.07	1,496,115	30.07
23.54 – 27.60	2021	1,577,241	1.2	27.55	1,577,241	27.55
23.73 – 33.82	2022	2,979,245	2.2	27.26	2,979,245	27.26
28.24	2023	2,549,897	3.4	28.24	2,549,897	28.24
29.91 – 31.48	2024	1,399,014	4.4	29.89	1,379,581	29.90
33.66 – 33.82	2025	1,210,620	5.2	33.81	1,203,192	33.81
27.30 – 29.73	2026	1,364,664	6.2	29.45	688,601	29.43
29.61 – 31.48	2027	1,106,184	7.2	31.46	–	–
28.51	2028	1,347,859	8.2	28.51	–	–
31.84	2029	1,325,223	9.3	31.84	–	–
		16,356,062	4.3	29.35	11,873,872	28.96

NOTE 19 Share-Based Compensation (continued)

Subsequent event

As a part of the Reorganization (Note 33) completed on February 13, 2020, Power Corporation assumed the Power Financial stock option plan. The 13,079,888 options outstanding at February 13, 2020 under Power Financial's Employee Stock Option Plan were exchanged for options to acquire 13,733,876 Subordinate Voting Shares of Power Corporation.

COMPENSATION EXPENSE

During the year ended December 31, 2019, Power Corporation granted 1,325,223 options (1,350,172 options in 2018) under its Executive Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2019	2018
Dividend yield	4.9%	4.5%
Expected volatility	15.6%	16.5%
Risk-free interest rate	1.8%	2.1%
Expected life (years)	8.6	8.3
Fair value per stock option ($/option)	1.87	2.29
Weighted-average exercise price ($/option)	31.84	28.51

Expected volatility has been estimated based on the historical volatility of the Corporation's share price over the expected option life.

Power Financial, Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity instruments at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to $61 million in 2019 ($50 million in 2018) and is recorded in operating and administrative expenses in the statements of earnings.

PERFORMANCE SHARE UNIT PLAN

Power Corporation established a Performance Share Unit (PSU) Plan for selected employees and officers (participants) to assist in retaining and further aligning the interests of participants with those of the shareholders. Under the terms of the Plan, PSUs may be awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Corporation's Subordinate Voting Shares. The PSUs are cash settled and vest over a three-year period. Participants can elect at the time of grant to receive a portion of their PSUs in the form of performance deferred share units (PDSUs) which also vest over a three-year period. PDSUs are redeemable when a participant is no longer an employee of the Corporation or any of its affiliates, or in the event of the death of the participant, by a lump-sum cash payment based on the value of the PDSU at that time. Additional PSUs and PDSUs are issued in respect of dividends payable on Subordinate Voting Shares based on the value of the PSU or PDSU at the dividend payment date. The carrying value of the PSU liability of $13 million ($6 million in 2018) is recorded within other liabilities.

DEFERRED SHARE UNIT PLAN

Power Corporation established a Deferred Share Unit Plan for its Directors to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this Plan, Directors participating in the Plan will receive half of their annual retainer in the form of deferred share units and may elect to receive the remainder of their annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Subordinate Voting Shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director will receive additional deferred share units in respect of dividends payable on the Subordinate Voting Shares, based on the value of a deferred share unit on the date on which the dividends were paid on the Subordinate Voting Shares. A deferred share unit is payable, at the time a Director's membership on the Board is terminated (provided the Director is not then a director, officer or employee of an affiliate of the Corporation), or in the event of the death of a Director, by a lump-sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2019, the value of the deferred share units outstanding was $23 million ($15 million in 2018) and is recorded within other liabilities. Alternatively, directors may participate in a Share Purchase Plan for Directors.

EMPLOYEE SHARE PURCHASE PROGRAM

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

OTHER SHARE-BASED AWARDS OF SUBSIDIARIES

Power Financial and the other subsidiaries of the Corporation have also established other share-based awards and performance share unit plans (plans) for their directors, management and employees. Some of these plans are cash settled and included within other liabilities. Total compensation expense related to these subsidiary plans amounted to $125 million in 2019 ($70 million in 2018) and is recorded in operating and administrative expenses on the statements of earnings.

NOTE 20 Non-Controlling Interests

The non-controlling interests of Power Financial and other subsidiaries reflected in the balance sheets are as follows:

			2019			2018
December 31	Power Financial	Other subsidiaries	Total	Power Financial	Other subsidiaries	Total
Non-controlling interests, beginning of year						
As previously reported	22,680	248	22,928	21,630	250	21,880
Change in accounting policies [Note 2]	(63)	–	(63)	–	–	–
Restated non-controlling interests beginning of year	22,617	248	22,865	21,630	250	21,880
Net earnings (losses) attributable to non-controlling interests	1,899	(16)	1,883	2,110	18	2,128
Other comprehensive income (loss) attributable to non-controlling interests	(127)	(2)	(129)	337	2	339
Dividends	(1,348)	–	(1,348)	(1,329)	–	(1,329)
Repurchase of common shares and redemption of preferred shares, net of issuance of equity instruments[1]	(703)	(4)	(707)	(12)	(42)	(54)
Effect of changes in ownership interest and other[1]	(134)	(19)	(153)	(56)	20	(36)
Non-controlling interests, end of year	22,204	207	22,411	22,680	248	22,928

[1] Includes the impact of the purchase for cancellation of common shares by Power Financial and Lifeco under their substantial issuer bids.

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

December 31	2019	2018
Common shareholders	14,108	14,497
Preferred shareholders	5,544	5,694
Participating account surplus	2,759	2,737
	22,411	22,928

Summarized financial information for Power Financial is as follows:

	2019	2018
Balance sheet		
Assets	471,372	447,055
Liabilities	437,660	412,106
Equity	33,712	34,949
Comprehensive income		
Net earnings	3,169	3,580
Other comprehensive income (loss)	(58)	645
Cash flows		
Operating activities	6,708	7,129
Financing activities	(4,872)	(2,278)
Investing activities	(1,058)	(4,714)

NOTE 21 Capital Management

POWER CORPORATION

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

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

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

The capital structure of the Corporation consists of debentures, non-participating shares, participating shareholders' equity and non-controlling interests. The Corporation views non-participating shares as a cost-effective source of permanent capital. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes.

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

On April 17, 2019, the Corporation completed the PCC SIB and repurchased for cancellation $1.35 billion of its subordinate voting shares. The PCC SIB facilitated the repurchase of subordinate voting shares at attractive market valuations and returned capital to shareholders while maintaining the financial resources to pursue its strategy for long-term value creation across its well-diversified portfolio of investments.

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

LIFECO

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

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

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

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

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

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries known as the Life Insurance Capital Adequacy Test (LICAT). The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer, defined by OSFI, is the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of available capital, surplus allowance and eligible deposits. OSFI has established a supervisory target total ratio of 100%, and a supervisory minimum total ratio of 90%. Great-West Life's consolidated LICAT ratio at December 31, 2019 was 135% (140% at December 31, 2018).
- For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2019 and 2018, all Lifeco's European regulated entities met the capital and solvency requirements as prescribed under Solvency II.
- Great-West Life & Annuity is subject to the risk-based capital regulatory regime in the U.S.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2019 and 2018, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

NOTE 21 Capital Management (continued)

IGM FINANCIAL

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

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

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. At December 31, 2019 and 2018, IGM subsidiaries have complied with all regulatory capital requirements.

OTHER SUBSIDIARIES

Certain other subsidiaries are subject to regulatory capital requirements, including a mutual fund dealer, portfolio managers, asset managers and an order-execution-only broker. These other subsidiaries are required to maintain levels of capital based on their working capital, liquidity or shareholders' equity. At December 31, 2019 and 2018, these other subsidiaries have complied with all regulatory capital requirements.

NOTE 22 Risk Management

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

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

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

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

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

NOTE 22 Risk Management (continued)

POWER CORPORATION, POWER FINANCIAL AND OTHER SUBSIDIARIES

Liquidity risk, credit risk and market risk of Power Corporation, Power Financial and the Corporation's other subsidiaries are discussed in the first section of this note. In subsequent sections, risks related to Lifeco and IGM are discussed.

LIQUIDITY RISK

Power Corporation is a holding company. As such, corporate cash flows are principally derived from dividends received from its subsidiaries and income from investments, less operating expenses, financing charges, income taxes and payment of dividends to its participating and non-participating shareholders. Dividends received from Power Financial, which is also a holding company, represent a significant component of Power Corporation's corporate cash flows. The ability of Power Financial's subsidiaries (Lifeco and IGM) and jointly controlled corporation (Parjointco), which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their own subsidiaries.

Power Corporation and Power Financial regularly review their liquidity requirements and seek to maintain sufficient levels of liquidities to meet their operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time, as defined in their policies. The ability of Power Corporation, Power Financial and other subsidiaries to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance and risk profile of Power Corporation, Power Financial and their subsidiaries.

Liquidity is also available through the Corporation's lines of credit with Canadian banks. The Corporation has a committed line of credit of $250 million. The Corporation also maintains an uncommitted line of credit of $100 million, and any advances are at the bank's sole discretion. At December 31, 2019, the Corporation utilized $37 million of its committed line of credit and the uncommitted line of credit was not utilized.

Other subsidiaries also have committed lines of credit of $211 million and uncommitted lines of credit of $65 million with Canadian banks ($239 million was undrawn at December 31, 2019).

Principal repayments on debentures and other debt instruments, and pension funding (other than those of Lifeco and IGM discussed below) represent the only significant contractual liquidity requirements.

	Payments due by period			
December 31, 2019	Less than 1 year	1–5 years	After 5 years	Total
Debentures and other debt instruments	235	307	1,425	1,967
Future lease payments	54	166	242	462
Pension contributions	16	–	–	16
	305	473	1,667	2,445

Power Corporation, Power Financial and other subsidiaries' management of liquidity risk has not changed materially since December 31, 2018.

CREDIT RISK

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

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

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

Other subsidiaries' financial instruments include other loans and are subject to credit risk. Other subsidiaries regularly review the credit ratings of their counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Power Corporation, Power Financial and other subsidiaries' 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, 2018.

MARKET RISK

Power Corporation and Power Financial and other subsidiaries' financial instruments are comprised of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, other loans, investment funds and hedge funds), derivatives and debentures and other debt instruments.

Foreign exchange risk

In managing their own cash and cash equivalents as well as fixed income securities, Power Corporation, Power Financial and other subsidiaries may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation and Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2019, approximately 82% (69% as at December 31, 2018) of Power Corporation, Power Financial and other subsidiaries' cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

NOTE 22 Risk Management (continued)

Most of Power Corporation's other investments are classified as available for sale. As such, unrealized gains and losses on these investments, resulting from foreign exchange rate variations, are recorded in other comprehensive income until realized. As at December 31, 2019, the impact of a 5% strengthening of the Canadian dollar against foreign currencies would result in an unrealized loss recorded in other comprehensive income of approximately $89 million ($76 million as at December 31, 2018). Power Corporation's and Power Financial's debentures are denominated in Canadian dollars. Certain subsidiaries of the Corporation have debt instruments in foreign currencies. Unrealized gains or losses on these debt instruments resulting from foreign exchange variations are recorded in other comprehensive income.

Power Corporation has net investments in foreign operations. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar and Chinese renminbi spot rates impacts the Corporation's total equity.

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

Interest rate risk

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

Equity risk

Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

During the year, the Corporation recorded investment impairment charges amounting to $40 million ($81 million in 2018). As at December 31, 2019, the impact of a 5% decrease in the value of other investments would have resulted in an approximate $82 million ($62 million as at December 31, 2018) unrealized loss to be recorded in other comprehensive income.

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

Other subsidiaries' financial instruments do not have significant exposure to equity risk.

LIFECO

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

LIQUIDITY RISK

Lifeco has the following policies and procedures in place to manage liquidity risk:

- Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 57% (approximately 53% in 2018) of insurance and investment contract liabilities are non-cashable prior to maturity or claim, with a further approximately 14% (13% in 2018) of insurance and investment contract liabilities subject to fair value adjustments under certain conditions.
- Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. Lifeco maintains $350 million of liquidity at its level through committed lines of credit with Canadian chartered banks. As well, Lifeco maintains a $150 million liquidity facility at Great-West Life, a US$500 million revolving credit agreement with a syndicate of banks for use by Putnam, and a US$50 million line of credit at Great-West Life & Annuity.

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

	Payments due by period						
December 31, 2019	1 year	2 years	3 years	4 years	5 years	After 5 years	Total
Debentures and other debt instruments	929	–	–	730	–	4,224	5,883
Capital trust debentures[1]	–	–	–	–	–	150	150
Purchase obligations	125	57	29	13	8	84	316
Future lease payments	83	78	66	56	53	417	753
Pension contributions	280	–	–	–	–	–	280
	1,417	135	95	799	61	4,875	7,382

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of $37 million principal amount ($53 million carrying value).

NOTE 22 Risk Management (continued)

CREDIT RISK

Lifeco has the following policies and procedures in place to manage credit risk:

- Investment policies aim to minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the risk committee and the investment committee of the board of directors of Lifeco.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators. Lifeco manages derivative credit risk by including derivative exposure to aggregate credit exposures measured against rating-based obligor limits and through collateral arrangements where possible.
- Counterparties providing reinsurance to Lifeco are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in Lifeco's Reinsurance Risk Management Policy. Lifeco seeks to minimize reinsurance credit risk by setting rating-based limits on net ceded exposure by counterparty as well as by seeking protection in the form of collateral or funds-withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

Maximum exposure to credit risk

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

December 31	2019	2018
Cash and cash equivalents	4,628	4,168
Bonds		
Fair value through profit or loss	85,946	91,901
Available for sale	11,710	13,239
Loans and receivables	17,372	19,722
Mortgage loans	24,268	25,014
Loans to policyholders	8,601	8,929
Funds held by ceding insurers [1]	8,714	9,251
Reinsurance assets	20,707	6,126
Interest due and accrued	1,196	1,388
Accounts receivable	3,256	2,502
Premiums in course of collection	1,429	1,312
Trading account assets	1,092	843
Finance leases receivable	405	410
Other financial assets [2]	444	672
Derivative assets	451	417
Total balance sheet maximum credit exposure	190,219	185,894

[1] Includes $6,741 million as at December 31, 2019 ($7,246 million as at December 31, 2018) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 7).

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

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has $156 million of collateral received from counterparties as at December 31, 2019 ($109 million as at December 31, 2018) relating to derivative assets.

Concentrations of credit risk

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

NOTE 22 Risk Management (continued)

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

December 31, 2019	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	479	72	11,186	11,737
Government-related	19,307	1,795	8,814	29,916
Agency securitized	110	1,111	10	1,231
Non-agency securitized	2,159	4,664	1,738	8,561
Financials	4,119	3,011	6,346	13,476
Communications	888	617	1,120	2,625
Consumer products	3,761	2,738	3,504	10,003
Energy	2,173	1,071	906	4,150
Industrials	1,764	2,057	1,735	5,556
Technology	552	727	567	1,846
Transportation	2,897	546	1,197	4,640
Utilities	9,145	2,377	4,953	16,475
Short-term bonds	2,680	720	1,412	4,812
	50,034	21,506	43,488	115,028

December 31, 2018	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	654	103	12,492	13,249
Government-related	17,947	3,605	8,499	30,051
Agency securitized	80	1,531	14	1,625
Non-agency securitized	2,191	5,701	1,830	9,722
Financials	3,986	4,666	6,068	14,720
Communications	788	1,357	1,211	3,356
Consumer products	3,660	4,073	3,412	11,145
Energy	1,805	2,241	868	4,914
Industrials	1,606	3,932	1,757	7,295
Technology	611	1,105	470	2,186
Transportation	2,622	968	1,131	4,721
Utilities	8,525	4,201	4,686	17,412
Short-term bonds	2,790	74	1,602	4,466
	47,265	33,557	44,040	124,862

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

December 31, 2019	Single-family residential	Multi-family residential	Equity-release	Commercial	Total
Canada	2,069	4,496	374	7,871	14,810
United States	–	1,798	–	2,198	3,996
Europe	–	710	940	3,812	5,462
	2,069	7,004	1,314	13,881	24,268

December 31, 2018	Single-family residential	Multi-family residential	Equity-release	Commercial	Total
Canada	2,104	4,686	26	7,223	14,039
United States	–	2,434	–	4,006	6,440
Europe	–	497	787	3,251	4,535
	2,104	7,617	813	14,480	25,014

NOTE 22 Risk Management (continued)

Asset quality

Bond Portfolio Quality December 31	2019	2018
AAA	22,083	23,558
AA	33,272	33,793
A	37,233	41,008
BBB	21,922	25,553
BB and lower	518	950
Total bonds	115,028	124,862

Derivative Portfolio Quality December 31	2019	2018
Over-the-counter contracts (counterparty credit ratings):		
AA	271	252
A	146	110
BBB	34	47
Exchange-traded	–	8
Total	451	417

Loans past due, but not impaired

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

December 31	2019	2018
Less than 30 days	28	1
30–90 days	1	2
Greater than 90 days	4	–
Total	33	3

Future asset credit losses

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

December 31	2019	2018
Participating	1,175	885
Non-participating	1,400	1,710
	2,575	2,595

MARKET RISK

Foreign exchange risk

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

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

- Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented investment guidelines include maximum tolerances for unhedged currency mismatch exposures.
- For assets backing liabilities not matched by currency, Lifeco normally converts the assets back to the currency of the liability using foreign exchange contracts.

NOTE 22 Risk Management (continued)

- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.
- A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.

Interest rate risk

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

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

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

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.10% (0.10% in 2018). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

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

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

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

- At December 31, 2019 and 2018, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At December 31, 2019 and 2018, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

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

	2019		2018	
December 31	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	(230)	811	(165)	639
Increase (decrease) in net earnings	175	(619)	115	(465)

NOTE 22 Risk Management (continued)

Equity risk

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

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

Some insurance and investment contract liabilities are supported by investment properties, common shares and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity values. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	2019		2018	
December 31	10% increase	10% decrease	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	(107)	162	(87)	338
Increase (decrease) in net earnings	87	(129)	73	(266)

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

	2019		2018	
December 31	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	(645)	752	(591)	680
Increase (decrease) in net earnings	509	(585)	476	(539)

IGM FINANCIAL

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

LIQUIDITY RISK

IGM's liquidity management practices include:

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

A key liquidity requirement for IGM is the funding of consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

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

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

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

NOTE 22 Risk Management (continued)

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

December 31, 2019	Payments due by period Demand	Less than 1 year	1–5 years	After 5 years	Total
Derivative financial instruments	–	7	10	–	17
Deposits and certificates	573	6	4	1	584
Obligations to securitization entities	–	1,474	5,431	9	6,914
Future lease payments	–	26	54	24	104
Debentures	–	–	–	2,100	2,100
Pension contributions	–	26	–	–	26
Total contractual maturities	573	1,539	5,499	2,134	9,745

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's lines of credit. IGM's lines of credit with various Schedule I Canadian chartered banks totalled $825 million as at December 31, 2019, unchanged from December 31, 2018. The lines of credit as at December 31, 2019 consisted of committed lines of $650 million and uncommitted lines of $175 million. IGM has accessed its uncommitted lines of credit in the past; however, any advances made by the banks under the uncommitted lines are at the banks' sole discretion. As at December 31, 2019 and 2018, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity risk have not changed materially since December 31, 2018.

CREDIT RISK

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

At December 31, 2019, IGM's cash and cash equivalents of $720 million ($650 million in 2018) consisted of cash balances of $68 million ($82 million in 2018) on deposit with Canadian chartered banks and cash equivalents of $652 million ($568 million in 2018). IGM manages credit risk related to cash and cash equivalents by adhering to its investment policy that outlines credit risk parameters and concentration limits. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2019, residential mortgages, recorded on IGM's balance sheet, of $7.2 billion ($7.7 billion in 2018) consisted of $6.8 billion sold to securitization programs ($7.3 billion in 2018), $345 million held pending sale or securitization ($364 million in 2018) and $24 million related to IGM's intermediary operations ($26 million in 2018).

IGM manages credit risk related to residential mortgages through:

- adhering to its lending policy and underwriting standards;
- its loan servicing capabilities;
- use of client-insured mortgage default insurance and mortgage portfolio default insurance held by IGM; and
- its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan™.

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

- Under the NHA MBS program totalling $3.9 billion ($4.2 billion in 2018), IGM is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling $2.9 billion ($3.1 billion in 2018) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were $72 million ($74 million in 2018) and $38 million ($36 million in 2018), respectively, at December 31, 2019. Cash reserve accounts are reflected on the balance sheets, whereas rights to future net interest income are not reflected on the balance sheets and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 4.6% of mortgages held in ABCP trusts insured at December 31, 2019 (8.3% in 2018).

NOTE 22 Risk Management (continued)

At December 31, 2019, residential mortgages recorded on the balance sheet were 59.1% insured (61.5% in 2018). At December 31, 2019, impaired mortgages on these portfolios were $2 million ($3 million in 2018). Uninsured non-performing mortgages over 90 days on these portfolios were $2 million at December 31, 2019 ($2 million in 2018).

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

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

IGM's allowance for credit losses was $1 million at December 31, 2019 ($1 million in 2018), and is considered adequate by IGM's management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2018.

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

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

IGM's derivative activities are managed in accordance with its investment policy, which includes counterparty limits and other parameters to manage counterparty risk. Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that its overall credit risk related to derivatives was not significant at December 31, 2019. Management of credit risk related to derivatives has not changed materially since December 31, 2018.

MARKET RISK

Foreign exchange risk

IGM is exposed to foreign exchange risk on its investments in China AMC and Personal Capital. Changes to the carrying value due to changes in foreign exchange rates on both of these investments are recognized in other comprehensive income. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investment by approximately $41 million ($45 million in 2018).

IGM's proportionate share of China AMC's and Personal Capital's earnings (losses), recorded in share of earnings (losses) of investments in jointly controlled corporations and associates in the statement of earnings, is also affected by changes in foreign exchange rates. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the proportionate share of China AMC's and Personal Capital's earnings by approximately $1 million ($1 million in 2018).

Interest rate risk

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

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

- IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, IGM is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of $1 million (positive $5 million in 2018) and an outstanding notional value of $0.8 billion at December 31, 2019 ($0.9 billion in 2018). IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The negative fair value of these swaps totalled $5 million ($11 million in 2018), on an outstanding notional amount of $1.6 billion at December 31, 2019 ($1.7 billion in 2018). The negative net fair value of these swaps recorded on the balance sheet was $6 million at December 31, 2019 ($6 million in 2018) and has an outstanding notional amount of $2.4 billion at December 31, 2019 ($2.6 billion in 2018).
- IGM is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. IGM enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by IGM pending sale or securitization. The fair value of these swaps was $1 million (negative $2 million in 2018) on an outstanding notional amount of $180 million at December 31, 2019 ($250 million in 2018).

As at December 31, 2019, the impact to net earnings of a 100-basis-point increase in interest rates would have been a decrease of approximately $2 million (decrease of $1 million in 2018). IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2018.

Equity risk

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

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

RISKS RELATED TO ASSETS UNDER MANAGEMENT

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

NOTE 23 Operating and Administrative Expenses

Years ended December 31	2019[1]	2018
Salaries and other employee benefits	4,567	4,365
General and administrative expenses[2]	2,516	2,643
Amortization, depreciation and impairment	687	564
Premium taxes	506	495
Restructuring and other	65	108
	8,341	8,175

[1] Includes operating and administrative expenses recognized upon the completion of the reinsurance transaction with Protective Life (Note 3).

[2] Expenses related to short-term leases of $10 million and low-value leases of $3 million are included within general and administrative expenses.

RESTRUCTURING AND OTHER

Lifeco

In 2019, Putnam recorded a restructuring provision of $52 million ($36 million after tax). This restructuring is in respect of expense reductions and a realignment of its resources to best position itself for current and future opportunities. The expense reductions will be achieved through a reduction in staff, consolidation of certain mutual funds, digital technology modernization and facilities downsizing. Lifeco expects to pay out a significant portion of these remaining amounts during 2020.

In 2018, Lifeco recorded a restructuring provision of $67 million pre tax ($56 million after tax) in relation to its United Kingdom Business Transformation. This restructuring is in respect to activities aimed at achieving planned expense reductions and an organizational realignment. The expense reductions will be achieved through system exit costs, reduction in staff and other costs as a result of the integration of Retirement Advantage into Canada Life along with the sale of a heritage block of individual policies to Scottish Friendly.

IGM Financial

In 2018, IGM recorded a restructuring provision of $23 million pre tax ($17 million after tax) related to the re-engineering of its North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.

These restructuring charges are recorded within operating and administrative expenses in the statements of earnings. At December 31, 2019, the balance of restructuring provisions, including those above, of $109 million ($139 million in 2018) is recorded in other liabilities.

NOTE 24 Financing Charges

Years ended December 31	2019	2018
Interest on debentures and other debt instruments	474	415
Interest on lease liabilities	41	–
Interest on capital trust debentures	11	11
Other	18	36
	544	462

NOTE 25 Pension Plans and Other Post-Employment Benefits

CHARACTERISTICS, FUNDING AND RISKS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for certain employees. The Corporation 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. For most plans, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits, in accordance with the terms of the plans, and assuming the plans are not terminated. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are supported by assets of the Corporation or its subsidiaries, as applicable.

The defined benefit plans of the Corporation, Power Financial, Lifeco's subsidiaries and IGM are closed to new entrants with plans in several geographies also closed to future defined benefit accruals. New hires are only eligible for defined contribution benefits. As a result, defined benefit plan exposure will continue to be reduced in future years.

On July 14, 2018, La Presse transferred its assets and liabilities into a new not-for-profit structure with the exception that the Corporation retained responsibility for the funding on a going concern basis of the retirement obligations accrued as at the date of transfer. As a result, the defined benefit plan exposure will be reduced going forward as there is no future service.

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

The Corporation and its subsidiaries also provide unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Lifeco's subsidiaries plans are closed to new hires and were previously amended to limit which employees could become eligible to receive benefits. The obligations for these benefits are supported by assets of the Corporation or its subsidiaries, as applicable.

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

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

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

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

PLAN ASSETS, BENEFIT OBLIGATION AND FUNDED STATUS

December 31	2019 Defined benefit pension plans	2019 Other post-employment benefits	2018 Defined benefit pension plans	2018 Other post-employment benefits
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets, beginning of year	7,452	–	7,697	–
Interest income	247	–	241	–
Employee contributions	22	–	16	–
Employer contributions	223	22	234	22
Actual return on assets greater (lower) than interest income	762	–	(401)	–
Benefits paid	(352)	(22)	(432)	(22)
Settlement	(113)	–	(11)	–
Administrative expenses	(10)	–	(9)	–
Foreign exchange and other	(186)	–	117	–
Fair value of plan assets, end of year	8,045	–	7,452	–
CHANGE IN DEFINED BENEFIT OBLIGATION				
Defined benefit obligation, beginning of year	8,704	428	8,945	511
Current service cost	108	3	144	6
Employee contributions	22	–	16	–
Interest cost	290	17	281	17
Actuarial (gains) losses on:				
Financial assumption changes	1,102	32	(339)	(23)
Demographic assumption changes	(26)	(5)	(69)	(15)
Arising from member experience	11	(4)	27	(7)
Benefits paid	(352)	(22)	(432)	(22)
Past service cost and plan amendments	(1)	–	8	–
Settlement	(150)	–	(12)	–
Curtailment [1]	(3)	–	(5)	(41)
Foreign exchange and other	(199)	(1)	140	2
Defined benefit obligation, end of year	9,506	448	8,704	428
FUNDED STATUS				
Fund deficit	(1,461)	(448)	(1,252)	(428)
Unrecognized amount due to asset ceiling (see below)	(37)	–	(103)	–
Accrued benefit liability	(1,498)	(448)	(1,355)	(428)

[1] The impact of the curtailment resulting from the transfer of certain other post-employment benefits of La Presse to the new not-for-profit structure on July 14, 2018 was recognized as part of the loss on the disposition and was not included in pension and other post-employment benefits expense for the year ended December 31, 2018.

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

December 31	2019	2018
Wholly or partly funded plans	8,792	8,045
Wholly unfunded plans	714	659

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

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

	2019			2018		
December 31	Defined benefit pension plans	Other post-employment benefits	Total	Defined benefit pension plans	Other post-employment benefits	Total
Pension benefit assets [Note 10]	231	–	231	148	–	148
Pension and other post-employment benefit liabilities [Note 16]	(1,729)	(448)	(2,177)	(1,503)	(428)	(1,931)
Accrued benefit liability	(1,498)	(448)	(1,946)	(1,355)	(428)	(1,783)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Corporation and its subsidiaries must assess whether the pension asset has economic benefit to the Corporation and its subsidiaries through future contribution reductions, the present value of future expenses to be paid from the plan, or surplus refunds; in the event the Corporation and its subsidiaries are not entitled to a benefit, a limit or "asset ceiling" is required on the balance sheet. The following provides a breakdown of the changes in the asset ceiling.

December 31	2019	2018
Asset ceiling, beginning of year	103	92
Interest on beginning-of-period asset ceiling	4	3
Change in asset ceiling	(70)	8
Asset ceiling, end of year	37	103

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

	2019		2018	
December 31	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Defined benefit current service cost	108	3	144	6
Net interest cost	47	17	43	17
Past service cost, plan amendments, curtailments and settlements	(41)	–	2	–
Administration fees	10	–	9	–
Defined contribution current service cost	124	–	111	–
Expense recognized in net earnings	248	20	309	23
Actuarial (gains) losses recognized	1,087	23	(381)	(45)
Return on assets (greater) lower than interest income	(762)	–	401	–
Change in asset ceiling	(70)	–	8	–
Expense (recovery) recognized in other comprehensive income (loss)	255	23	28	(45)
Total expense (income)	503	43	337	(22)

In 2019, the Corporation and its subsidiaries incurred $6 million of actuarial losses ($2 million of actuarial gains in 2018) for pension plan remeasurements not included in the table shown above. This relates to the share of actuarial gains (losses) for investments in jointly controlled corporations and associates.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

December 31 Percentage [%]	Defined benefit pension plans 2019	2018
Equity securities	44	42
Debt securities	46	48
All other assets	10	10
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated and other funds managed by subsidiaries of Lifeco of $6,031 million at December 31, 2019 ($5,501 million at December 31, 2018) of which $5,961 million ($5,431 million at December 31, 2018) are included in the balance sheets. Plan assets do not include any property occupied or other assets used by Lifeco. IGM's plan assets are invested in IGM's mutual funds. A portion of Power Corporation and Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

DETAILS OF DEFINED BENEFIT OBLIGATION

Portion of defined benefit obligation subject to future salary increases

	2019		2018	
December 31	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Benefit obligation without future salary increases	8,752	448	7,981	428
Effect of assumed future salary increases	754	–	723	–
Defined benefit obligation	9,506	448	8,704	428

Allocation of defined benefit obligation by membership

	2019		2018	
December 31 Percentage [%]	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Actives	40	21	38	24
Deferred vesteds	17	–	20	–
Retirees	43	79	42	76
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	17.9	11.9	17.3	11.5

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

CASH FLOW INFORMATION

The expected employer contributions for the year 2020 are as follows:

	Pension plans	Other post-employment benefits
Funded (wholly or partly) defined benefit plans	154	–
Unfunded defined benefit plans	30	24
Defined contribution plans	125	–
Total	309	24

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

Actuarial assumptions

December 31 Percentage [%]	2019 Defined benefit pension plans	2019 Other post-employment benefits	2018 Defined benefit pension plans	2018 Other post-employment benefits
Range of discount rates				
To determine benefit cost	3.4 – 3.9	3.7 – 4.4	3.1 – 3.7	3.5 – 3.8
To determine accrued benefit obligation at year-end	2.6 – 3.2	3.1 – 3.2	3.4 – 3.9	3.7 – 4.4
Weighted average assumptions used to determine benefit cost [1]				
Discount rate	3.6	3.9	3.2	3.6
Rate of compensation increase	3.1	–	3.1	–
Weighted average assumptions used to determine accrued benefit obligation at year-end [1]				
Discount rate	2.9	3.1	3.6	3.9
Rate of compensation increase	3.0	–	3.1	–
Weighted average healthcare trend rates [1]				
Initial healthcare trend rate		4.7		4.9
Ultimate healthcare trend rate		4.1		4.1
Year ultimate trend rate is reached		2039		2040

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

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

Sample life expectancies based on mortality assumptions

December 31	2019 Defined benefit pension plans	2019 Other post-employment benefits	2018 Defined benefit pension plans	2018 Other post-employment benefits
Weighted average life expectancies based on mortality assumptions[1]:				
Male				
Age 65 in fiscal year	22.6	22.4	22.6	22.3
Age 65 for those age 35 in the fiscal year	24.5	23.9	24.6	24.0
Female				
Age 65 in fiscal year	24.8	24.7	24.8	24.8
Age 65 for those age 35 in the fiscal year	26.6	26.2	26.7	26.3

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

Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption. The mortality assumptions applied by the Corporation and its subsidiaries take into consideration average life expectancy, including allowances for future longevity improvements as appropriate, and reflect variations in such factors as age, gender and geographic location.

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

Impact of changes to assumptions on defined benefit obligation

December 31, 2019	1% increase	1% decrease
Defined benefit pension plans:		
Impact of a change to the discount rate	(1,480)	1,909
Impact of a change to the rate of compensation increase	356	(327)
Impact of a change to the rate of inflation	696	(637)
Other post-employment benefits:		
Impact of a change to the discount rate	(48)	58
Impact of a change to assumed medical cost trend rates	37	(31)

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

NOTE 26 Derivative Financial Instruments

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

The following tables summarize the portfolio of derivative financial instruments of the Corporation and its subsidiaries:

	Notional amount					
December 31, 2019	1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Swaps	1,075	2,131	2,493	5,699	198	151
Options purchased	35	184	25	244	–	–
Futures – long	9	3	–	12	–	–
Futures – short	10	7	–	17	–	–
	1,129	2,325	2,518	5,972	198	151
Foreign exchange contracts						
Forward contracts	1,342	–	–	1,342	17	15
Cross-currency swaps	299	2,395	10,345	13,039	209	(1,135)
	1,641	2,395	10,345	14,381	226	(1,120)
Other derivative contracts						
Equity contracts	106	–	–	106	2	2
Futures – long	13	–	–	13	–	–
Futures – short	774	–	–	774	–	(2)
Other forward contracts	1,709	–	–	1,709	2	2
	2,602	–	–	2,602	4	2
	5,372	4,720	12,863	22,955	428	(967)
FAIR VALUE HEDGES						
Foreign exchange contracts						
Forward contracts	74	–	–	74	2	2
CASH FLOW HEDGES						
Interest rate contracts						
Forward contracts	122	–	–	122	–	(7)
Swaps	–	60	117	177	11	10
Other derivative contracts						
Equity contracts	20	51	–	71	9	9
	142	111	117	370	20	12
NET INVESTMENT HEDGES						
Foreign exchange contracts						
Forward contracts	641	524	–	1,165	24	17
	6,229	5,355	12,980	24,564	474	(936)

NOTE 26 Derivative Financial Instruments (continued)

December 31, 2018	Notional amount 1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total fair value
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Swaps	1,007	2,255	2,209	5,471	127	72
Options purchased	47	225	79	351	43	43
Futures – long	46	26	–	72	–	–
	1,100	2,506	2,288	5,894	170	115
Foreign exchange contracts						
Forward contracts	1,066	–	–	1,066	3	(16)
Cross-currency swaps	560	1,968	9,209	11,737	219	(1,224)
	1,626	1,968	9,209	12,803	222	(1,240)
Other derivative contracts						
Equity contracts	637	–	–	637	8	(8)
Futures – long	12	–	–	12	–	–
Futures – short	1,059	–	–	1,059	8	6
Other forward contracts	951	–	–	951	13	13
	2,659	–	–	2,659	29	11
	5,385	4,474	11,497	21,356	421	(1,114)
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	122	73	195	8	7
Other derivative contracts						
Equity contracts	22	44	–	66	–	(8)
	22	166	73	261	8	(1)
NET INVESTMENT HEDGES						
Foreign exchange contracts						
Forward contracts	634	516	–	1,150	5	(48)
	6,041	5,156	11,570	22,767	434	(1,163)

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

NOTE 26 Derivative Financial Instruments (continued)

The Corporation and its subsidiaries use the following derivatives:

Type	Purpose
Interest rate contracts	Interest rate swaps, forward contracts, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations, intermediary operations and debt instruments. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixed rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.
Foreign exchange contracts	Cross-currency swaps are used in combination with other investments to manage foreign exchange risk associated with investment activities and insurance and investment contract liabilities. Under these swaps, principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Corporation and its subsidiaries may also enter into certain foreign exchange forward contracts to hedge certain product liabilities, cash and cash equivalents and cash flows.
Other derivative contracts	Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets. Equity forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges.

The ineffective portion of the cash flow hedges during 2019, which includes interest rate contracts and foreign exchange contracts, and the anticipated net gains (losses) reclassified out of other comprehensive income within the next twelve months is nil. The maximum time frame for which variable cash flows are hedged is 50 years.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

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

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

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

NOTE 26 Derivative Financial Instruments (continued)

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

December 31, 2019	Gross amount of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet: Offsetting counterparty position[1]	Related amounts not set off in the balance sheet: Financial collateral received/ pledged[2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	474	(324)	(107)	43
Reverse repurchase agreements[3]	4	–	(4)	–
	478	(324)	(111)	43
Financial instruments (liabilities)				
Derivative financial instruments	1,410	(324)	(556)	530
	1,410	(324)	(556)	530

December 31, 2018	Gross amount of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet: Offsetting counterparty position[1]	Related amounts not set off in the balance sheet: Financial collateral received/ pledged[2]	Net exposure
Financial instruments (assets)				
Derivative financial instruments	434	(292)	(101)	41
Reverse repurchase agreements[3]	15	–	(15)	–
	449	(292)	(116)	41
Financial instruments (liabilities)				
Derivative financial instruments	1,597	(292)	(599)	706
	1,597	(292)	(599)	706

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

[2] Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $156 million ($113 million at December 31, 2018), received on reverse repurchase agreements was $4 million ($15 million at December 31, 2018), and pledged on derivative liabilities was $634 million ($691 million at December 31, 2018).

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

NOTE 27 Fair Value Measurement

The following tables present the carrying amounts and fair value of the Corporation's assets and liabilities recorded or disclosed at fair value, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies (Note 2) and below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment. The following tables distinguish between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed.

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

December 31, 2019	Carrying value	Level 1	Level 2	Level 3	Total fair value
ASSETS					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	85,845	–	85,778	67	85,845
Available for sale	12,028	–	12,028	–	12,028
Mortgage and other loans					
Fair value through profit or loss	1,314	–	–	1,314	1,314
Shares					
Fair value through profit or loss	9,925	9,011	118	796	9,925
Available for sale	1,474	743	42	689	1,474
Investment properties	5,887	–	–	5,887	5,887
Funds held by ceding insurers	6,661	216	6,445	–	6,661
Derivative instruments	474	–	470	4	474
Reinsurance assets	127	–	127	–	127
Other assets	1,490	375	1,115	–	1,490
	125,225	10,345	106,123	8,757	125,225
Assets disclosed at fair value					
Bonds					
Loans and receivables	17,372	–	19,281	63	19,344
Mortgage and other loans					
Loans and receivables	30,461	–	24,177	7,243	31,420
Shares					
Available for sale[1]	150	–	–	150	150
Funds held by ceding insurers	80	–	–	80	80
	48,063	–	43,458	7,536	50,994
Total	173,288	10,345	149,581	16,293	176,219
LIABILITIES					
Liabilities recorded at fair value					
Investment contract liabilities	1,656	–	1,656	–	1,656
Derivative instruments	1,410	3	1,402	5	1,410
Other liabilities	430	43	355	32	430
	3,496	46	3,413	37	3,496
Liabilities disclosed at fair value					
Obligations to securitization entities	6,914	–	–	6,997	6,997
Debentures and other debt instruments	9,938	533	10,918	–	11,451
Deposits and certificates	886	–	887	–	887
	17,738	533	11,805	6,997	19,335
Total	21,234	579	15,218	7,034	22,831

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

NOTE 27 Fair Value Measurement (continued)

December 31, 2018	Carrying value	Level 1	Level 2	Level 3	Total fair value
ASSETS					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	91,815	–	91,748	67	91,815
Available for sale	13,713	–	13,713	–	13,713
Mortgage and other loans					
Fair value through profit or loss	817	–	4	813	817
Shares					
Fair value through profit or loss	8,794	8,341	–	453	8,794
Available for sale	1,329	560	1	768	1,329
Investment properties	5,218	–	–	5,218	5,218
Funds held by ceding insurers	7,155	230	6,925	–	7,155
Derivative instruments	434	8	417	9	434
Assets held for sale [1]	782	22	731	29	782
Other assets	927	597	330	–	927
	130,984	9,758	113,869	7,357	130,984
Assets disclosed at fair value					
Bonds					
Loans and receivables	19,722	–	20,524	95	20,619
Mortgage and other loans					
Loans and receivables	32,080	–	25,119	7,405	32,524
Shares					
Available for sale [2]	239	–	–	239	239
Funds held by ceding insurers	91	–	–	91	91
	52,132	–	45,643	7,830	53,473
Total	183,116	9,758	159,512	15,187	184,457
LIABILITIES					
Liabilities recorded at fair value					
Investment contract liabilities	1,711	–	1,711	–	1,711
Investment contract liabilities held for sale	27	–	1	26	27
Derivative instruments	1,597	2	1,591	4	1,597
Other liabilities	185	8	84	93	185
	3,520	10	3,387	123	3,520
Liabilities disclosed at fair value					
Obligations to securitization entities	7,370	–	–	7,437	7,437
Debentures and other debt instruments	9,977	567	10,256	–	10,823
Deposits and certificates	622	–	622	–	622
	17,969	567	10,878	7,437	18,882
Total	21,489	577	14,265	7,560	22,402

[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.

There were no significant transfers between Level 1 and Level 2 in 2019 and 2018.

NOTE 27 Fair Value Measurement (continued)

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

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

NOTE 27 Fair Value Measurement (continued)

The following tables present additional information about assets and liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the years ended December 31, 2019 and 2018.

	Bonds	Mortgages and other loans	Shares						
December 31, 2019	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss[2]	Available for sale	Investment properties	Derivatives net	Assets (liabilities) held for sale and other assets (liabilities)	Investment contract liabilities	Total
Balance, beginning of year									
As previously reported	67	813	453	768	5,218	5	(90)	–	7,234
Change in accounting policy [Note 2]	–	–	–	–	29	–	–	–	29
Restated balance, beginning of year	67	813	453	768	5,247	5	(90)	–	7,263
Total gains (losses)									
In net earnings	4	109	64	42	37	(5)	(1)	–	250
In other comprehensive income[1]	(4)	(5)	–	(15)	(36)	–	(1)	–	(61)
Purchases	–	–	346	103	644	(2)	–	–	1,091
Issues	–	469	–	–	–	–	–	–	469
Sales	–	–	(67)	(59)	(5)	–	(26)	–	(157)
Settlements	–	(72)	–	–	–	1	45	–	(26)
Other[3]	–	–	–	(150)	–	–	41	–	(109)
Balance, end of year	67	1,314	796	689	5,887	(1)	(32)	–	8,720

[1] Amount of other comprehensive income for fair value through profit or loss bonds, mortgage and other loans and investment properties represents the unrealized gains (losses) on foreign exchange.

[2] Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

[3] In January 2019, the investment in Personal Capital was reclassified from available for sale to an investment in an associate (Note 8).

	Bonds	Mortgages and other loans	Shares						
December 31, 2018	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss[2]	Available for sale	Investment properties	Derivatives net	Assets (liabilities) held for sale and other assets (liabilities)	Investment contract liabilities	Total
Balance, beginning of year	65	–	244	832	4,851	4	(88)	(22)	5,886
Total gains (losses)									
In net earnings	–	(24)	28	204	33	(12)	20	–	249
In other comprehensive income[1]	2	20	–	(90)	70	–	–	–	2
Business acquisition	–	799	–	–	–	–	(17)	–	782
Purchases	–	–	249	129	356	–	–	–	734
Issues	–	76	–	–	–	–	–	–	76
Sales	–	–	(68)	(311)	(63)	–	–	–	(442)
Settlements	–	(58)	–	–	–	13	–	–	(45)
Transferred to held for sale	–	–	–	–	(29)	–	3	26	–
Transfers into Level 3	–	–	–	4	–	–	–	–	4
Other	–	–	–	–	–	–	(8)	(4)	(12)
Balance, end of year	67	813	453	768	5,218	5	(90)	–	7,234

[1] Amount of other comprehensive income for fair value through profit or loss bonds, mortgage and other loans and investment properties represents the unrealized gains (losses) on foreign exchange.

[2] Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

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

NOTE 27 Fair Value Measurement (continued)

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

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.6% – 10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.3% – 6.8%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 2.4%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage and other loans (fair value through profit or loss)	The valuation approach for equity-release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no-negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/ entering into long-term care of the loanholders.	Discount rate	Range of 3.6% – 4.8%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
Shares	The determination of the fair value of shares requires the use of estimates such as future cash flows, discount rates, projected earnings multiples, or recent transactions.	Discount rate	Various	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

NOTE 28 Other Comprehensive Income

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		
Year ended December 31, 2019	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	Total
Balance, beginning of year	201	1,015	763	(488)	(11)	1,480
Other comprehensive income (loss)	160	(293)	284	(98)	(4)	49
Other	–	(28)	(16)	11	–	(33)
Balance, end of year	361	694	1,031	(575)	(15)	1,496

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		
Year ended December 31, 2018	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	Total
Balance, beginning of year	483	617	742	(509)	(12)	1,321
Other comprehensive income (loss)	(282)	398	21	10	1	148
Other	–	–	–	11	–	11
Balance, end of year	201	1,015	763	(488)	(11)	1,480

NOTE 29 Earnings Per Share

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

Years ended December 31	2019	2018
EARNINGS		
Net earnings attributable to shareholders	1,160	1,339
Dividends on non-participating shares	(52)	(52)
Net earnings attributable to participating shareholders	1,108	1,287
Dilutive effect of subsidiaries' outstanding stock options	–	(2)
Net earnings adjusted for dilutive effect	1,108	1,285
NUMBER OF PARTICIPATING SHARES [millions]		
Weighted average number of participating shares outstanding – Basic	437.5	465.4
Potential exercise of outstanding stock options	0.4	0.7
Weighted average number of participating shares outstanding – Diluted	437.9	466.1
NET EARNINGS PER PARTICIPATING SHARE		
Basic	2.53	2.77
Diluted	2.53	2.76

For 2019, 9.2 million stock options (8.1 million in 2018) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

NOTE 30 Related Parties

PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

The financial statements of Power Corporation include the operations of the following direct and indirect subsidiaries and investments in jointly controlled corporations and associates:

			% equity interest	
Corporations	Incorporated in	Primary business operation	2019	2018
Power Financial Corporation	Canada	Financial services holding company	64.1	65.5
Great-West Lifeco Inc.[1]	Canada	Financial services holding company	70.9	71.8
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100.0	100.0
London Life Insurance Company	Canada	Insurance and wealth management	100.0	100.0
The Canada Life Assurance Company	Canada	Insurance and wealth management	100.0	100.0
Irish Life Group Limited	Ireland	Insurance and wealth management	100.0	100.0
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100.0	100.0
Putnam Investments, LLC[2]	United States	Financial services	96.5	96.7
IGM Financial Inc.[3]	Canada	Wealth and asset management	66.0	65.2
IG Wealth Management	Canada	Financial services	100.0	100.0
Mackenzie Financial Corporation	Canada	Investment manager	100.0	100.0
Parjointco N.V.	Netherlands	Holding company	50.0	50.0
Pargesa Holding SA	Switzerland	Holding company	55.5	55.5
Portag3 Ventures LP[4]	Canada	Investment fund	100.0	100.0
Portag3 Ventures II LP[5]	Canada	Investment fund	27.9	47.0
Wealthsimple Financial Corp.[6]	Canada	Financial services	84.9	81.7
Koho Financial Inc.[7]	Canada	Financial services	54.4	63.4
China Asset Management Co., Ltd.[8]	China	Asset management company	27.8	27.8
Power Energy Corporation	Canada	Holding company	100.0	100.0
Potentia Renewables Inc.	Canada	Renewable energy	100.0	100.0
Nautilus Solar Energy, LLC	United States	Renewable energy	100.0	–
Lumenpulse Group Inc.	Canada	Sustainable energy	60.5	60.5
The Lion Electric Co.	Canada	Sustainable energy	44.2	43.8
Square Victoria Communications Group Inc.	Canada	Holding company	100.0	100.0
Sagard SAS	France	Asset manager	100.0	100.0
152245 Canada Inc.	Canada	Holding company	100.0	100.0
Sagard Capital Partners Management Corp.	United States	Holding company	100.0	100.0
Sagard Holdings ULC	Canada	Alternative asset manager	100.0	100.0
Peak Achievement Athletics Inc.	Canada	Manufacturer of sports equipment and apparel	42.6	42.6
Sagard Capital Partners, LP	United States	Investment fund	100.0	100.0
IntegraMed America, Inc.	United States	Healthcare services	91.6	91.6
Sagard Credit Partners, LP	Canada	Credit fund	18.0	18.0

[1] Power Financial holds a 66.9% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco.

[2] Lifeco holds 100% of the voting shares and 96.5% of the total outstanding shares.

[3] Power Financial holds a 62.1% equity interest and The Great-West Life Assurance Company holds a 3.9% equity interest in IGM Financial.

[4] Power Financial holds a 63.0% equity interest and Lifeco and IGM Financial each hold an equity interest of 18.5% in Portag3.

[5] Power Financial, Lifeco and IGM Financial each hold an equal equity interest of 7.7% in Portag3 II and Sagard Holdings ULC, holds 4.7% equity interest in Portag3 II.

[6] Power Financial, Portag3 and IGM Financial hold an equity interest of 21.2%, 16.8% and 46.9%, respectively, in Wealthsimple.

[7] Power Financial, Lifeco and IGM Financial hold equal interests of 6.5% and Portag3 and Portag3 II hold interests of 2.7% and 32.1%, respectively, in Koho.

[8] Power Corporation and Mackenzie Investments each hold an equity interest of 13.9% in China AMC.

NOTE 30 Related Parties (continued)

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Power Corporation and its subsidiaries enter into various transactions: subsidiaries provide insurance benefits, sub-advisory services, distribution of insurance products and/or other administrative services to other subsidiaries of the group and to the Corporation; loans to employees; as well as capital commitments to investment funds, performance fees and base management fees paid to subsidiaries of the group. In all cases, these transactions are in the normal course of operations and have been recorded at fair value. Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of other transactions between the Corporation and related parties are disclosed below.

In 2019, IGM sold residential mortgage loans to Great-West Life and London Life for $11 million ($61 million in 2018).

In October 2017, IGM and a subsidiary of Power Corporation obtained advanced tax rulings which permitted tax loss consolidation transactions, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM in each year up to and including 2020. The Corporation recognized the benefit of the tax losses to be realized throughout this program. The program was renewed and extended to 2020.

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

KEY MANAGEMENT COMPENSATION

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

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

Years ended December 31	2019	2018
Compensation and employee benefits	31	25
Post-employment benefits	5	3
Share-based payments	26	23
	62	51

NOTE 31 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. Provisions are established if, in management of the Corporation and of its subsidiaries' judgment, it is probable a payment will be required and the amount can be reliably estimated. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. Actual results could differ from the best estimates of the Corporation's and its subsidiaries' management.

LIFECO

A subsidiary of Lifeco in the United States is a defendant in an action in relation to its role as collateral manager of a collateralized debt obligation brought by an institution involved in the collateralized debt obligation. Lifeco's management believes the resolution of this matter will not have a material adverse effect on Lifeco's consolidated financial position.

Subsidiaries of Lifeco in the United States are defendants in legal actions, including class actions, relating to the administration of their staff retirement plans, or to the costs and features of certain of their retirement or fund products. Management of Lifeco believes the claims are without merit and will be aggressively defending these actions. Based on the information presently known Lifeco's management believes these actions will not have a material adverse effect on Lifeco's consolidated financial position.

A subsidiary of Lifeco, as reinsurer, is involved in an arbitration relating to the interpretation of certain provisions of a reinsurance treaty and the alleged underreporting of claims and overpayment of premium. Based on information presently known, it is difficult for Lifeco to predict the outcome of this matter with certainty, but this matter is not expected to have a material adverse effect on Lifeco's consolidated financial position.

IGM FINANCIAL

In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie Financial Corporation, a subsidiary of IGM, which alleges that Mackenzie should not have paid mutual fund trailing commissions to order-execution-only dealers. Although it is difficult to predict the outcome of any such legal action, based on current knowledge of IGM's management and their consultation with their legal counsel, they do not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on IGM's consolidated financial position.

NOTE 32 Commitments and Guarantees

GUARANTEES

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

LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities at Lifeco is US$2.3 billion, of which US$1.8 billion were issued as of December 31, 2019.

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

Potentia Renewables Inc. (Potentia) has issued letters of credit totalling $83 million with one-year terms to support required lender reserves and performance guarantees for operating solar assets and awarded wind power purchase agreements.

INVESTMENT COMMITMENTS

With respect to Lifeco, commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were $1,042 million as at December 31, 2019, with $1,006 million maturing within one year and $19 million maturing within two years and $17 million maturing within three years.

The Corporation and other subsidiaries have outstanding commitments of $231 million representing future capital contributions to investment funds. Subsequent to year-end, the Corporation committed to invest $219 million in an investment fund.

PLEDGING OF ASSETS FOR REINSURANCE AGREEMENTS

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

[i] The amount of assets included in the Corporation's balance sheet which have a security interest by way of pledging is $1,456 million ($1,464 million at December 31, 2018) in respect of reinsurance agreements.

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

[ii] Lifeco has pledged, in the normal course of business, $75 million ($76 million at December 31, 2018) of its assets for the purpose of providing collateral for the counterparty.

ENERGY SALES CONTRACTS

Potentia, a wholly owned subsidiary of Power Energy, has entered into various power purchase agreements (PPA) to sell substantially all electricity produced from its solar and wind projects to credit-rated counterparties. The contract rates are fixed for a period of 20 to 25 years.

In 2018, Potentia signed a 25-year PPA for 200MW of wind electricity with Saskatchewan Power Corporation and three 20-year PPAs for 307MW of wind electricity in Alberta. Contracts will be effective when the wind farms are commissioned. Commercial operations are expected to commence as early as 2021.

Potentia has entered into construction and turbine purchase contracts related to the Saskatchewan and Alberta wind projects under development of $188 million.

The Corporation have issued certain performance guarantees in relation to these agreements.

NOTE 33 Subsequent Events

POWER CORPORATION

Reorganization

On December 13, 2019, the Corporation and Power Financial announced the execution of a definitive agreement to effect a reorganization transaction (Reorganization) pursuant to which each common share of Power Financial held by holders of Power Financial Common Shares other than the Corporation and certain of its affiliates (PFC Minority Shareholders), will be exchanged for 1.05 Subordinate Voting Shares of the Corporation and $0.01 in cash.

On February 13, 2020, the Corporation successfully completed the Reorganization. The Corporation acquired 238,693,580 Power Financial Common Shares and issued 250,628,173 Subordinate Voting Shares at a price of $34.66 per Subordinate Voting Share, representing a consideration of $8.7 billion. Subsequent to the Reorganization, the Corporation holds 100% of the issued and outstanding Power Financial Common Shares. The increase in ownership in Power Financial will result in a dilution loss to be recorded in retained earnings and reserves and a decrease in non-controlling interests in the statements of changes in equity. Costs related to the transaction will be recognized in the statements of changes in equity in retained earnings at the closing of the transaction.

In accordance with the Pre-emptive Right in favour of holders of Participating Preferred Shares included in the Corporation's articles, the Corporation provided a notice of offer (the Offer) dated January 10, 2020 to the holders of the Participating Preferred Shares. The Offer provided for, among other things, the right of such holders to acquire from the Corporation, on a pro rata basis, such number of Participating Preferred Shares that is equal to 12% of the number of Subordinate Voting Shares expected to be issued in connection with the Reorganization for a consideration per Participating Preferred Share that is equal to the stated capital amount per share for which any such Subordinate Voting Shares were issued.

On February 12, 2020, in connection with the Reorganization, and in accordance with the Pre-emptive Right, the Corporation issued 6,006,094 Participating Preferred Shares to holders who duly exercised the Pre-Emptive Right at a price of $34.27 per Participating Preferred Share. Pansolo Holding Inc., a holding company controlled by the Desmarais Family Residuary Trust, purchased 6 million Participating Preferred Shares on February 12, 2020.

Stock Option Plan

As part of the Reorganization, the Corporation assumes the Power Financial stock option plan. The 13,079,888 options outstanding at February 13, 2020 under the Power Financial Employee Stock Option Plan (Existing Options) were exchanged for options to acquire Subordinate Voting Shares of the Corporation (Replacement Options).

The Replacement Options entitle the option holders to receive 1.05 Subordinate Voting Shares of Power Corporation (PCC Shares) for each common share of Power Financial (PFC Shares) at a subscription price per PCC Share equal to the subscription price per PFC Share, under the existing Stock Option Plan, divided by 1.05. The other terms of the Replacement Options are the same as the terms of the Existing Options, including terms with respect to vesting and expiry of options and termination of employment. A total of 13,733,876 Subordinate Voting Shares are reserved for issuance upon the exercise of the Replacement Options.

Normal Course Issuer Bid

The Corporation commenced a Normal Course Issuer Bid (NCIB) on February 20, 2020 which is effective until the earlier of February 19, 2021 and the date on which the Corporation has purchased the maximum permitted number of Subordinate Voting Shares. Pursuant to this bid, the Corporation may purchase up to 30 million of its Subordinate Voting Shares outstanding as at February 20, 2020 (representing approximately 5.2% of the public float of Subordinate Voting Shares outstanding).

In connection with its NCIB, the Corporation entered into an automatic securities purchase plan for its Subordinate Voting Shares. The automatic securities purchase plan provides standard instructions regarding how the Corporation's Subordinate Voting Shares are to be purchased under its NCIB during certain predetermined trading blackout periods. Outside of these predetermined trading blackout periods, purchases under the Corporation's NCIB will be completed based upon management's discretion.

LIFECO

Irish Progressive Services International Limited

On February 10, 2020, Irish Life announced the sale of Irish Progressive Services International Limited, a wholly owned subsidiary of Lifeco whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The proposed transaction will be subject to customary closing conditions including receipt of required regulatory approvals and is expected to be completed in the second half of 2020. Lifeco expects to recognize a gain related to this transaction. The carrying value and earnings of the business are immaterial to the Corporation.

PARGESA

On March 11, 2020 Parjointco and Pargesa announced an agreement for a proposed transaction that would simplify the group structure. As per the agreement, a public exchange offer will be initiated by Parjointco for all Pargesa shares not already owned by Parjointco under which Pargesa shareholders will be entitled to receive 0.93 shares of GBL for each Pargesa bearer share they hold. Following the proposed transaction, it is anticipated that Pargesa will be delisted from the SIX and Parjointco is expected to retain de facto control and maintain approximately the same economic equity interest in GBL of 28%. The proposed transaction will be subject to Parjointco holding or having received shareholder acceptances with respect to at least 90% of Pargesa's total voting rights and is conditional upon GBL shareholders approving the implementation of double-voting rights at GBL's extraordinary shareholders meeting to be held on April 28, 2020.

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

NOTE 34 Segmented Information

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

- Lifeco is a financial services holding company with interests in life insurance, health insurance, retirement and investment management services, asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- IGM Financial is a leading wealth and asset management company operating in Canada primarily within the advice segment of the financial services market. IGM earns revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenues from fees charged to its mutual funds for administrative services.
- Pargesa is held through Parjointco. Pargesa is a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialty solutions for industry; testing, inspection and certification; cement, aggregates and concrete; wines and spirits; design and distribution of sportswear; materials technology and recycling of precious metals; oil, gas and chemical industries; disposable hygiene products; supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors; operation of regional leisure parks; and provider of customer experience and business process outsourcing.

The column entitled "Corporate" is comprised of corporate activities of Power Financial and the results of Wealthsimple, Portag3 and Portag3 II. This column also includes consolidation elimination entries.

The column entitled "Other" is comprised of corporate and investment activities of Power Corporation. It includes the results of Power Energy, IntegraMed and Square Victoria Communications Group (up to July 14, 2018). This column also includes Power Corporation's consolidation elimination entries.

Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets.

The contribution to earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other as well as certain consolidation adjustments.

CONSOLIDATED NET EARNINGS

	Power Financial						
For the year ended December 31, 2019	Lifeco[1]	IGM[2]	Pargesa	Corporate	Sub-total	Other	Total
REVENUES							
Total net premiums	24,510	–	–	(21)	24,489	–	24,489
Net investment income	13,107	169	–	(29)	13,247	195	13,442
Fee income	7,081	3,051	–	(66)	10,066	15	10,081
Other revenues	–	–	–	–	–	829	829
Total revenues	44,698	3,220	–	(116)	47,802	1,039	48,841
EXPENSES							
Total paid or credited to policyholders	33,091	–	–	–	33,091	–	33,091
Commissions	2,429	1,101	–	(50)	3,480	–	3,480
Operating and administrative expenses	6,013	1,055	–	169	7,237	1,104	8,341
Financing charges	285	108	–	42	435	109	544
Total expenses	41,818	2,264	–	161	44,243	1,213	45,456
Earnings before investments in jointly controlled corporations and associates and income taxes	2,880	956	–	(277)	3,559	(174)	3,385
Share of earnings of investments in jointly controlled corporations and associates	–	13	193	5	211	1	212
Earnings before income taxes	2,880	969	193	(272)	3,770	(173)	3,597
Income taxes	373	220	–	8	601	(47)	554
Net earnings	2,507	749	193	(280)	3,169	(126)	3,043
ATTRIBUTABLE TO							
Non-controlling interests	1,489	458	68	(111)	1,904	(21)	1,883
Non-participating shareholders	–	–	–	–	–	52	52
Participating shareholders	1,018	291	125	(169)	1,265	(157)	1,108
	2,507	749	193	(280)	3,169	(126)	3,043

[1] Includes the loss on the reinsurance transaction with Protective Life of $247 million ($199 million after tax) (Note 3) and the impact of the $199 million decrease in the deferred income tax asset (Note 17).

[2] Results reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

NOTE 34 Segmented Information (continued)

TOTAL ASSETS AND LIABILITIES

				Power Financial			
December 31, 2019	Lifeco	IGM[2]	Pargesa	Corporate	Sub-total	Other	Total
Investments and cash and cash equivalents	168,229	7,984	–	1,307	177,520	2,342	179,862
Investments in jointly controlled corporations and associates	53	857	3,954	38	4,902	991	5,893
Other assets	40,974	1,472	–	400	42,846	1,460	44,306
Goodwill and intangible assets	10,844	4,067	–	171	15,082	1,085	16,167
Investments on account of segregated fund policyholders	231,022	–	–	–	231,022	–	231,022
Total assets[1]	451,122	14,380	3,954	1,916	471,372	5,878	477,250
Total liabilities	425,624	10,892	–	1,144	437,660	3,005	440,665

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

[2] Assets reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in “Corporate”.

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2019	Canada	United States	Europe	Total
Investments and cash and cash equivalents	90,917	33,072	55,873	179,862
Investments in jointly controlled corporations and associates	1,420	471	4,002	5,893
Other assets	6,746	19,911	17,649	44,306
Goodwill and intangible assets	11,049	2,183	2,935	16,167
Investments on account of segregated fund policyholders	85,612	31,433	113,977	231,022
Total assets	195,744	87,070	194,436	477,250
Total revenues	24,601	(2,042)	26,282	48,841

NOTE 34 Segmented Information (continued)

CONSOLIDATED NET EARNINGS

For the year ended December 31, 2018	Lifeco	IGM[1]	Pargesa	Power Financial Corporate	Power Financial Sub-total	Other	Total
REVENUES							
Total net premiums	35,461	–	–	(21)	35,440	–	35,440
Net investment income	2,752	183	–	(113)	2,822	247	3,069
Fee income	5,819	3,037	–	(93)	8,763	13	8,776
Other revenues	–	–	–	–	–	813	813
Total revenues	44,032	3,220	–	(227)	47,025	1,073	48,098
EXPENSES							
Total paid or credited to policyholders	32,068	–	–	–	32,068	–	32,068
Commissions	2,474	1,099	–	(61)	3,512	–	3,512
Operating and administrative expenses	5,807	1,043	–	147	6,997	1,178	8,175
Financing charges	221	121	–	18	360	102	462
Total expenses	40,570	2,263	–	104	42,937	1,280	44,217
Earnings before investments in jointly controlled corporations and associates and income taxes	3,462	957	–	(331)	4,088	(207)	3,881
Share of earnings of investments in jointly controlled corporations and associates	–	29	57	8	94	70	164
Earnings before income taxes	3,462	986	57	(323)	4,182	(137)	4,045
Income taxes	387	210	–	5	602	(24)	578
Net earnings	3,075	776	57	(328)	3,580	(113)	3,467
ATTRIBUTABLE TO							
Non-controlling interests	1,763	481	20	(158)	2,106	22	2,128
Non-participating shareholders	–	–	–	–	–	52	52
Participating shareholders	1,312	295	37	(170)	1,474	(187)	1,287
	3,075	776	57	(328)	3,580	(113)	3,467

[1] Results reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

NOTE 34 Segmented Information (continued)

TOTAL ASSETS AND LIABILITIES

					Power Financial		
December 31, 2018	Lifeco	IGM[2]	Pargesa	Corporate	Sub-total	Other	Total
Investments and cash and cash equivalents	177,013	8,639	–	1,151	186,803	2,294	189,097
Assets held for sale	897	–	–	–	897	–	897
Investments in jointly controlled corporations and associates	8	683	3,291	27	4,009	1,078	5,087
Other assets	25,941	1,259	–	125	27,325	841	28,166
Goodwill and intangible assets	10,984	4,028	–	163	15,175	1,035	16,210
Investments on account of segregated fund policyholders	209,527	–	–	–	209,527	–	209,527
Investments on account of segregated fund policyholders held for sale	3,319	–	–	–	3,319	–	3,319
Total assets[1]	427,689	14,609	3,291	1,466	447,055	5,248	452,303
Total liabilities	400,291	11,007	–	808	412,106	2,151	414,257

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

[2] Assets reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2018	Canada	United States	Europe	Total
Investments and cash and cash equivalents	86,103	47,775	55,219	189,097
Assets held for sale	–	–	897	897
Investments in jointly controlled corporations and associates	1,447	347	3,293	5,087
Other assets	5,172	4,623	18,371	28,166
Goodwill and intangible assets	10,890	2,346	2,974	16,210
Investments on account of segregated fund policyholders	76,633	31,816	101,078	209,527
Investments on account of segregated fund policyholders held for sale	–	–	3,319	3,319
Total assets	180,245	86,907	185,151	452,303
Total revenues	19,345	8,406	20,347	48,098

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Power Corporation of Canada

OPINION

We have audited the consolidated financial statements of Power Corporation of Canada (the "Corporation"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis, and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Benoit B. Patry.

Signed
Deloitte LLP[1]

March 18, 2020
Montréal, Québec

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

Five-Year Financial Summary

December 31 [in millions of Canadian dollars, except per share amounts] (unaudited)	2019	2018	2017	2016	2015
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	6,805	6,441	5,903	5,182	5,085
Total assets	477,250	452,303	445,521	422,724	422,859
Shareholders' equity	14,174	15,118	14,615	13,864	13,978
CONSOLIDATED STATEMENTS OF EARNINGS					
REVENUES					
Total net premiums	24,489	35,440	33,880	31,125	24,501
Net investment income	13,442	3,069	8,074	10,335	4,869
Fee income	10,081	8,776	8,510	7,794	7,692
Other revenues	829	813	898	1,496	1,203
Total revenues	48,841	48,098	51,362	50,750	38,265
EXPENSES					
Total paid or credited to policyholders	33,091	32,068	35,643	34,675	22,842
Commissions	3,480	3,512	3,712	3,590	3,133
Operating and administrative expenses	8,341	8,175	8,132	8,023	7,239
Financing charges	544	462	512	490	480
Total expenses	45,456	44,217	47,999	46,778	33,694
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,385	3,881	3,363	3,972	4,571
Share of earnings (losses) of investments in jointly controlled corporations and associates	212	164	214	(122)	213
Earnings before income taxes	3,597	4,045	3,577	3,850	4,784
Income taxes	554	578	543	587	685
Net earnings	3,043	3,467	3,034	3,263	4,099
ATTRIBUTABLE TO					
Non-controlling interests	1,883	2,128	1,696	2,129	2,261
Non-participating shareholders	52	52	52	52	52
Participating shareholders	1,108	1,287	1,286	1,082	1,786
	3,043	3,467	3,034	3,263	4,099
PER SHARE					
Net earnings attributable to participating shareholders	2.53	2.77	2.77	2.33	3.86
Adjusted net earnings attributable to participating shareholders[1]	3.00	3.09	3.36	2.64	3.40
Dividends declared on participating shares	2.00	1.50	1.41	1.32	1.22
Book value per participating share	30.98	30.38	29.40	27.84	28.08
MARKET PRICE (Participating shares)					
High	34.42	32.56	33.68	31.03	34.57
Low	24.47	23.57	28.65	26.77	27.15
Year-end	33.45	24.53	32.37	30.05	28.94

[1] Please refer to the annual MD&A for non-IFRS financial measure definition.

Quarterly Financial Information

[in millions of Canadian dollars, except per share amounts] (unaudited)	Fourth quarter	Third quarter	Second quarter	First quarter
2019				
Total revenues	11,729	15,422	3,824	17,866
Net earnings	570	971	710	792
Net earnings attributable to participating shareholders	179	359	278	292
Earnings per share attributable to participating shareholders				
– Basic	0.42	0.84	0.64	0.63
– Diluted	0.42	0.84	0.64	0.63
2018				
Total revenues	12,661	12,972	11,609	10,856
Net earnings	742	688	969	1,068
Net earnings attributable to participating shareholders	229	186	347	525
Earnings per share attributable to participating shareholders				
– Basic	0.49	0.40	0.75	1.13
– Diluted	0.49	0.40	0.74	1.13

BOARD OF DIRECTORS

Pierre Beaudoin [5]
Chairman of the Board,
Bombardier Inc.

Marcel R. Coutu [2][3]
Company Director

André Desmarais, O.C., O.Q. [4]
Deputy Chairman of the Corporation

Paul Desmarais, Jr., O.C., O.Q. [4]
Chairman of the Corporation

Gary A. Doer, O.M. [2]
Senior Business Advisor,
Dentons Canada LLP

Anthony R. Graham, LL.D. [1][3][4]
Chairman and Chief Executive Officer,
Sumarria Inc.

J. David A. Jackson, LL.B. [2]
Senior Counsel,
Blake, Cassels & Graydon LLP

Isabelle Marcoux [3][4]
Chair of the Board,
Transcontinental Inc.

Christian Noyer [4][5]
Company Director

R. Jeffrey Orr
President and Chief Executive Officer of the Corporation

T. Timothy Ryan, Jr. [2]
Company Director

Emőke J.E. Szathmáry, C.M., O.M., PH.D., FRSC [2][5] *
President Emeritus,
University of Manitoba

[1] LEAD DIRECTOR OF THE CORPORATION
[2] MEMBER OF THE AUDIT COMMITTEE
[3] MEMBER OF THE HUMAN RESSOURCES COMMITTEE
[4] MEMBER OF THE GOVERNANCE AND NOMINATING COMMITTEE
[5] MEMBER OF THE RELATED PARTY AND CONDUCT REVIEW COMMITTEE
* NOT STANDING FOR RE-ELECTION

OFFICERS

R. Jeffrey Orr
President and
Chief Executive Officer

Michel Plessis-Bélair, FCPA, FCA
Vice-Chairman

Gregory D. Tretiak, FCPA, FCA
Executive Vice-President
and Chief Financial Officer

Claude Généreux
Executive Vice-President

Olivier Desmarais
Senior Vice-President

Paul Desmarais III
Senior Vice-President

Paul C. Genest
Senior Vice-President

Arnaud Bellens
Vice-President

Hugo Breton
Vice-President

Mei Dong
Vice-President

Denis Le Vasseur, FCPA, FCA
Vice-President and Controller

Stéphane Lemay
Vice-President, General Counsel and Secretary

Yuhong Liu (Henry), CFA
Vice-President

Eoin Ó hÓgáin, CFA
Vice-President

Richard Pan
Vice-President

Pierre Piché
Vice-President

Luc Reny, CFA
Vice-President

Samuel Robinson
Vice-President

Adam D. Vigna
Vice-President

HONORARY DEPUTY CHAIRMAN

Robert Gratton

CORPORATE INFORMATION

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Montréal, Québec, Canada H2Y 2J3
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1-800-890-7440

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416-607-2250

www.powercorporation.com

This document is also available on the Corporation's website and on SEDAR at www.sedar.com.

STOCK LISTINGS

Shares of Power Corporation of Canada are listed on the Toronto Stock Exchange:

Subordinate Voting Shares: POW
Participating Preferred Shares: POW.PR.E

First Preferred Shares, 1986 Series: POW.PR.F
First Preferred Shares, Series A: POW.PR.A
First Preferred Shares, Series B: POW.PR.B
First Preferred Shares, Series C: POW.PR.C
First Preferred Shares, Series D: POW.PR.D
First Preferred Shares, Series G: POW.PR.G

Power Corporation of Canada is recognized as an Imagine Canada Caring Company for leadership and excellence in community investment.

To learn more about the organizations we support, visit
www.PowerCorporationCommunity.com

The Caring Company Program Trustmark is a mark of Imagine Canada used under licence by Power Corporation of Canada.

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

Offices in:
Montréal, Québec; Toronto, Ontario;
Vancouver, British Columbia
www.investorcentre.com

SHAREHOLDER SERVICES

Shareholders with questions relating to the payment of dividends, change of address, share certificates, direct registration and estate transfers should contact the Transfer Agent:

Computershare Investor Services Inc.
Shareholder Services
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