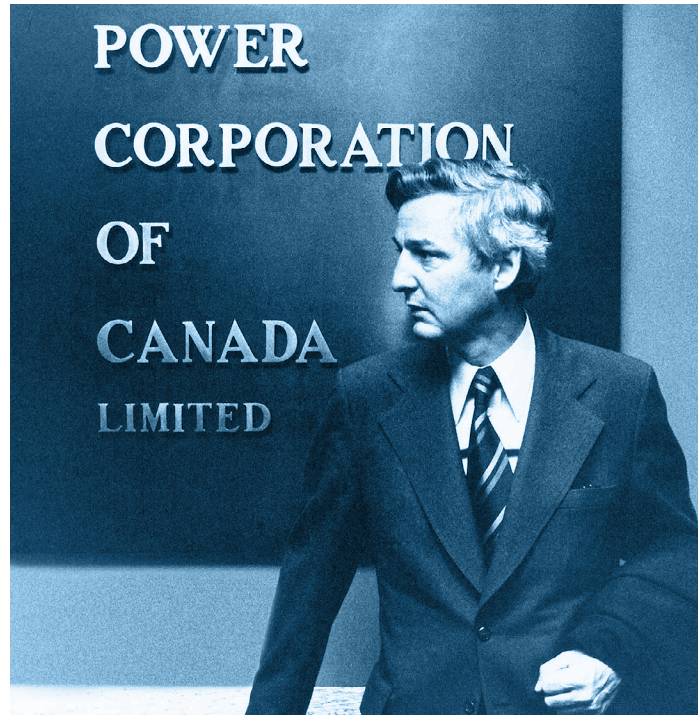


2018
Annual Report



POWER CORPORATION
OF CANADA

POWER
CORPORATION
OF
CANADA
LIMITED



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 2018 annual MD&As of Great-West Lifeco and IGM Financial, as filed under their respective profiles at www.sedar.com.

All figures mentioned in this report are in Canadian dollars and as of December 31, 2018, 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;
- Adjusted return on equity, which is the calculation of adjusted net earnings divided by average participating shareholders' equity.

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.

Adjusted net earnings attributable to participating shareholders, adjusted net earnings per share and adjusted return on equity 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)
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 Financial or Great-West Life & Annuity (Great-West Life & Annuity Insurance Company)
Great-West Life (The Great-West Life Assurance 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)
LafargeHolcim (LafargeHolcim Ltd)
La Presse (La Presse, Itée)
Lifeco or Great-West Lifeco (Great-West Lifeco Inc.)
Lion Electric (The Lion Electric Co.)
London Life (London Life Insurance Company)
Lumenpulse (Lumenpulse Group Inc.)
Mackenzie or Mackenzie Investments (Mackenzie Financial Corporation)
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.)
Portag3 (Portag3 Ventures Limited Partnership)
Potentia or Potentia Renewables (Potentia Renewables Inc.)
Power Energy (Power Energy Corporation)
Power Energy Eagle Creek (Power Energy Eagle Creek LLP)
Power Financial (Power Financial Corporation)
Putnam (Putnam Investments, LLC)
Retirement Advantage (MGM Advantage Holdings Ltd.)
Sagard Holdings (Sagard Holdings ULC)
Sagard Investment Funds (Sagard Europe, Sagard Holdings and Sagard China)
SGS (SGS SA)
SIX (Swiss Stock Exchange)
Square Victoria Communications Group or SVCG (Square Victoria Communications Group Inc.)
Total (Total SA)
Umicore (Umicore, NV/SA)
Vein Clinics (Vein Clinics of America, Inc.)
Wealthsimple (Wealthsimple Financial Corp.)
XETR (XETRA Stock Exchange)

Financial Highlights

Net Earnings^[1]

\$1,287
MILLION

Adjusted Net Earnings^{[1][2]}

\$1,438
MILLION

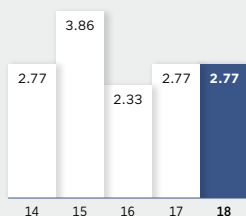
Total Dividends Declared

\$752
MILLION

Net Earnings per Participating Share

In dollars

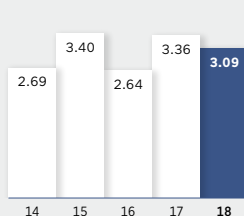
\$2.77



Adjusted Net Earnings per Participating Share^[2]

In dollars

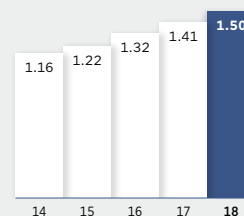
\$3.09



Dividends Declared per Participating Share

In dollars

\$1.50



FOR THE YEARS ENDED DECEMBER 31
[IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS]

	2018	2017
Net earnings ^[1]	1,287	1,286
Net earnings – per participating share	2.77	2.77
Adjusted net earnings ^{[1][2]}	1,438	1,560
Adjusted net earnings ^[2] – per participating share	3.09	3.36
Dividends declared – per participating share	1.50	1.41
Consolidated assets	452,303	445,521
Shareholders' equity ^[3]	15,118	14,615
Book value per participating share	30.38	29.40
Participating shares outstanding [in millions]	466.0	464.3

[1] Attributable to participating shareholders.

[2] Adjusted net earnings is a non-IFRS financial measure. Please refer to the reconciliation of IFRS and non-IFRS financial measures in the Review of Financial Performance.

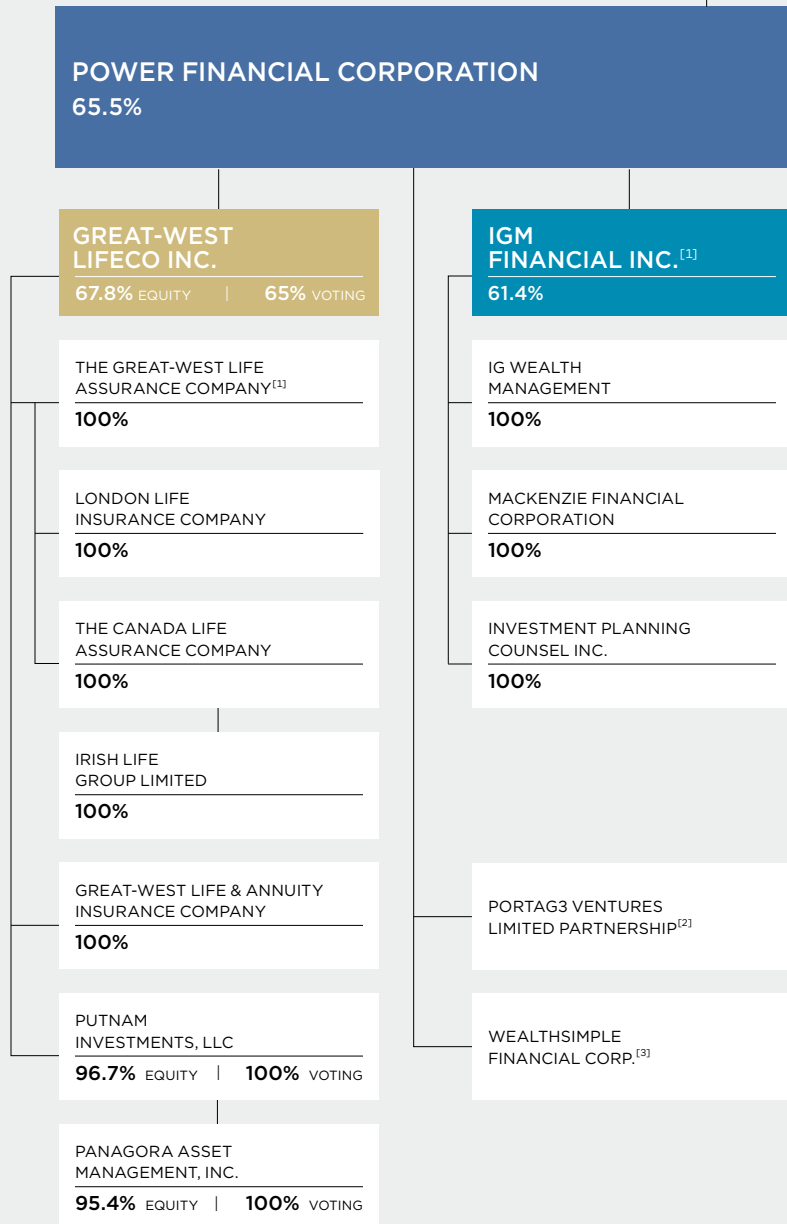
[3] Represents non-participating and participating shareholders' equity.

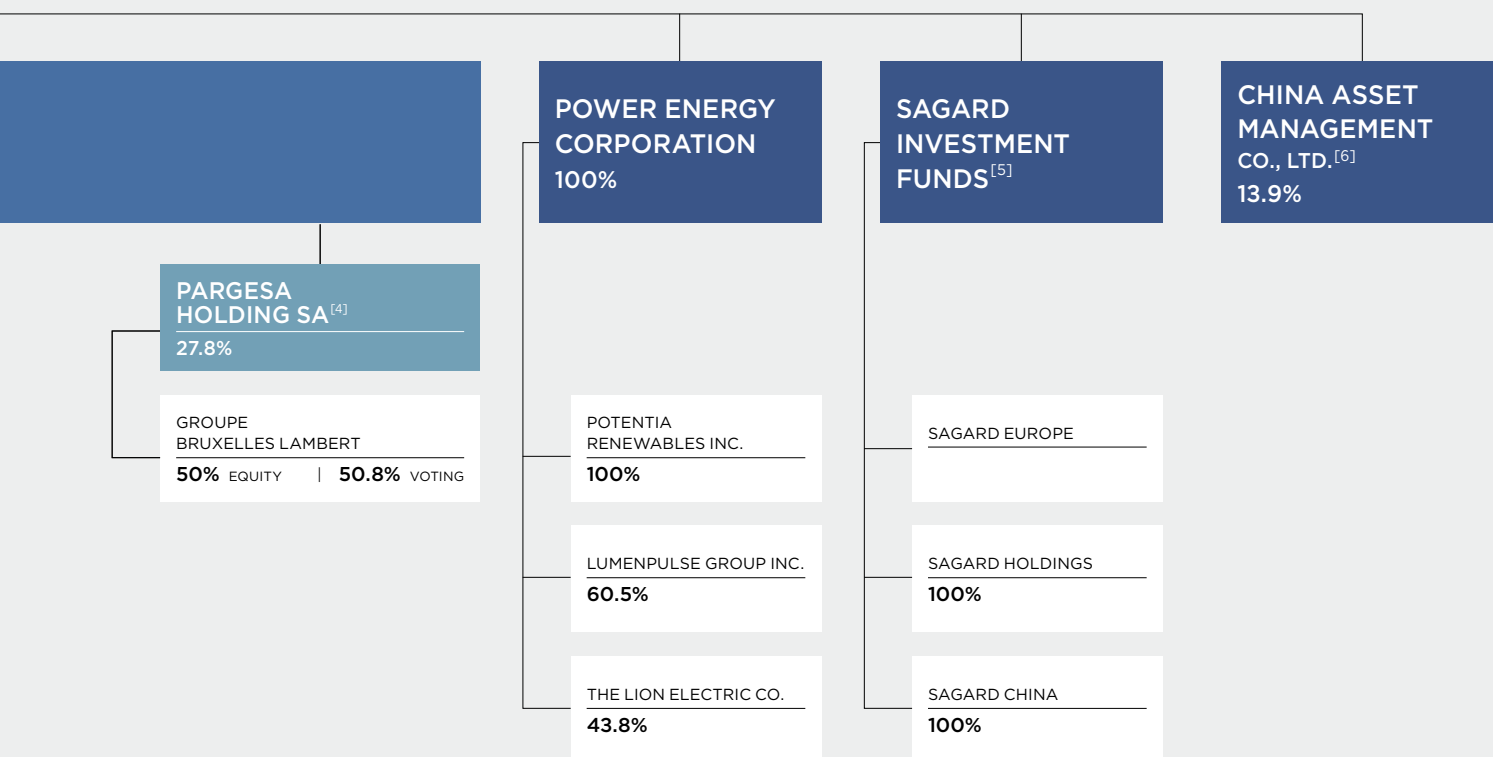


POWER CORPORATION
OF CANADA

Incorporated in 1925, Power Corporation is a diversified international management and holding company with interests in companies in the financial services, asset management, sustainable and renewable energy and other business sectors in North America, Europe and Asia.

Group Organization Chart





Percentages represent participating equity interest and voting interest (unless otherwise indicated) at December 31, 2018.

[1] IGM Financial holds a 4.0% interest in Great-West Lifeco and Great-West Life holds a 3.8% interest in IGM Financial.

[2] Power Financial directly holds 63% of Portag3, and both Great-West Lifeco and IGM Financial hold equal interests of 18.5%.

[3] Power Financial directly holds 16.0% of Wealthsimple, and Portag3 and IGM Financial also hold 21.9% and 43.8%, respectively, representing a combined voting interest of 83.2%.

[4] Power Financial holds a 50% interest in Parjointco. Parjointco holds an equity interest of 55.5% and a voting interest of 75.4% in Pargesa.

[5] Refer to the Sagard Investment Funds section in this report for the Corporation's interest in the Sagard Europe funds, and investments held by Sagard Holdings including a controlling interest in IntegraMed.

[6] IGM Financial also holds a 13.9% interest in China AMC. Power Corporation and IGM Financial hold a combined 27.8% interest in China AMC.



POWER FINANCIAL CORPORATION

Power Financial holds a controlling interest in both Great-West Lifeco and IGM Financial. Power Financial and the Frère Group each hold a 50 per cent interest in Parjointco, through which their 55.5 per cent interest in Pargesa is held.

Power Financial, together with Great-West Lifeco and IGM Financial, are anchor investors in funds managed by Portag3 Ventures, which operates investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. Power Financial also has a controlling interest in WealtheSimple, a technology-driven investment manager.

GREAT-WEST
LIFECO INC.

Great-West Lifeco is an international financial services holding company with interests in life insurance, health insurance, retirement savings, investment management and reinsurance businesses. Great-West Lifeco has operations in Canada, the United States and Europe through Great-West Life, London Life, Canada Life, Irish Life, Great-West Financial, Putnam Investments and PanAgora. Great-West Lifeco and its companies have approximately \$1.4 trillion in consolidated assets under administration.

THE
Great-West Life
ASSURANCE COMPANY

London
Life

Canada Life™

GREAT-WEST
FINANCIAL™

Putnam
INVESTMENTS

PanAgora

Great-West Life is a leading Canadian insurer, with interests in life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada and Europe. In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, serve the financial security needs of more than 13 million people and are a leading provider of individual life insurance with nearly three million individual life insurance policies in force. In Europe, Great-West Life has operations through Canada Life and Irish Life.

London Life provides financial solutions for any stage of life through an array of products including individual insurance, wealth management and retirement planning and savings. London Life offers financial security advice and planning choices that work for the customer through its Freedom 55 Financial™ division, which focuses on meeting the complex needs of Canadians.

Canada Life provides insurance and wealth management products and services in Canada, the United Kingdom, Isle of Man and Germany, and in Ireland through Irish Life. Canada Life is a leading provider of traditional mortality, structured and longevity reinsurance solutions for life insurers in the U.S. and in international markets.

Great-West Financial provides a range of offerings. Its Empower Retirement arm is the second-largest retirement services provider in the U.S. by participants. Serving the corporate, government, non-profit and institutional sectors, Empower also offers individual retirement accounts. The company's Great-West Investments unit offers fund management, investment and advisory services. Great-West Financial recently announced the disposition of its individual life and annuity business via reinsurance. The transaction is expected to close in the second quarter of 2019.

Putnam Investments is a U.S.-based global asset manager with over 80 years of investment experience. In addition to nearly 100 mutual funds, the firm offers a full range of investment products and services for financial advisors, institutional investors and retirement plan sponsors.

PanAgora, a Putnam affiliate, offers a broad range of investment solutions using sophisticated quantitative techniques.



IGM Financial is a leading wealth and asset management company with \$149 billion in total assets under management at December 31, 2018. The company serves the financial needs of Canadians through multiple distinct businesses, including IG Wealth Management, Mackenzie Investments and Investment Planning Counsel.



IG Wealth Management is a leading provider of comprehensive, personal financial planning and wealth management through its network of consultants to over one million individuals, families and business owners in Canada.

Mackenzie Investments is a diversified asset management solutions provider with 14 distinct boutique investment managers providing 86 different investment mandates to over 30,000 external advisors serving more than one million clients, including retail and institutional investors.

Investment Planning Counsel is an integrated financial services company focused on providing Canadians with high-quality financial products, services and advice through its network of approximately 750 independent financial advisors.



Pargesa is a holding company which focuses on a limited number of global industrial and services companies, held through its subsidiary, Groupe Bruxelles Lambert.



Groupe Bruxelles Lambert

Groupe Bruxelles Lambert is an established investment holding company based in Europe, with a net asset value of €16 billion and a market capitalization of €12 billion at the end of 2018. GBL is a leading investor in Europe, focused on long-term value creation, with a stable and supportive family shareholder base. GBL strives to maintain a diversified high-quality portfolio composed of global companies, leaders in their sector, in which it can contribute to value creation by being an active professional investor. GBL seeks to provide attractive returns to its shareholders through a combination of a sustainable dividend and growth in its net asset value.

SAGARD INVESTMENT FUNDS

The Corporation has developed and operates equity investment funds in three geographies under the Sagard name: Sagard Europe, Sagard Holdings in North America and Sagard China.



Power Energy actively manages investments in the sustainable and renewable energy sector. Power Energy invests in companies that benefit from the global energy transformation. It currently has invested in Potentia Renewables – a renewable energy generation company active in North America and the Caribbean; Lumenpulse – a leading manufacturer of high-performance, specification-grade LED lighting solutions; and Lion Electric – a manufacturer of zero-emission vehicles sold throughout North America.



Power Corporation holds an interest in China AMC. A leader in the Chinese asset management sector, China AMC was one of the first asset management companies approved by the China Securities Regulatory Commission.



FIFTY YEARS OF GRATITUDE

The Desmarais family became the controlling shareholder of Power Corporation in 1968. While their investments have changed significantly, their fundamental values have not. For half a century, the family's belief in a sound investment philosophy, long-term relationships, and personal commitment to communities have remained constant. They have been fortunate to find generations of like-minded women and men who have shared their values, their vision, and their passion.



Any company's success depends upon the talent it attracts. It has been our privilege and good fortune to work with our employees to shape Power Corporation and its subsidiaries into a group of solid and sustainable companies. On the strength of their efforts, we have been able to maintain an unwavering commitment to the company's fundamental values.

Our people conduct themselves with integrity, working tirelessly to ensure that Power Corporation always operates in an honest and principled manner. Our teams conduct themselves responsibly and honourably, treating clients, colleagues, and members of their communities with respect.

“We are grateful for our employees’ continuous hard work and contributions to Power’s success.”

Power's leaders demonstrate courage in their business decisions. They perform their work with conviction and a focus on long-term value creation, resisting trends and short-term imperatives, which are often misguided. All our employees recognize that there is tremendous equity in the value of hard work – the key ingredient that has made Power Corporation a world-leading financial services organization.

As our family marks 50 years at the helm of Power Corporation, we wanted to formally thank all those who have contributed to the success of Power and its group companies. We are humbled by and grateful for our employees' efforts in pursuit of Power's success.

Strengthened by the remarkable quality of our team, we look forward to celebrating Power Corporation's 100th anniversary in 2025.

With sincere thanks,

Signed,

André Desmarais, o.c., o.g.
Deputy Chairman, President and
Co-Chief Executive Officer

Signed,

Paul Desmarais, Jr., o.c., o.g.
Chairman and
Co-Chief Executive Officer

Directors' Report to Shareholders

Amidst a challenging market, Power Corporation remained focused on its key principles to create long-term shareholder value. Anchored by its core investment in Power Financial, the Corporation delivered consistent earnings despite the impact of equity market declines in the third and fourth quarters of 2018. The Corporation continued to invest in and develop its diversified investment platforms as part of its focus to deliver sustainable long-term value.

During the year, the Corporation and its operating companies continued to reallocate capital and resources to further their value creation objectives:

- Sagard Holdings introduced new asset classes to its line-up of managed assets and exited its U.S. mid-cap public equity strategy;
- Power Energy realized a gain on the disposal of its hydro electric business and redirected capital to its burgeoning solar and wind operations;
- The Corporation also ended its nearly 50-year association with La Presse.

In March 2019, Power Corporation announced its intention to repurchase up to \$1.35 billion of its Subordinate Voting Shares through a substantial issuer bid. Great-West Lifeco and Power Financial also launched substantial issuer bids to purchase up to \$2 billion and \$1.65 billion of their common shares, respectively. Power Corporation believes that the bid to repurchase shares in the current market environment at attractive market valuations is an opportune use of its capital resources.

The Corporation and its subsidiaries continued to maintain their strong capital positions and have the financial resources required to pursue their long-term strategies.

During 2018, Great-West Lifeco increased its dividend by 6 per cent in February, Power Financial increased its dividend by 5 per cent in March, and Pargesa approved a 2.5 per cent dividend increase in May. Power Corporation followed, announcing a 6.6 per cent increase in the quarterly dividend in May.

Financial Results

Power Corporation's net earnings^[1] were \$1,287 million or \$2.77 per share for the year ended December 31, 2018, comparable with the 2017 results. Adjusted net earnings^{[1][2]} were \$1,438 million or \$3.09 per share, compared with \$1,560 million or \$3.36 per share in 2017.

Contributions from Power Financial and investment activities to Power Corporation's net earnings and adjusted net earnings were:

In millions	2018		2017	
	Net Earnings	Adjusted Net Earnings ^[2]	Net Earnings	Adjusted Net Earnings ^[2]
Power Financial	\$1,474	\$1,498	\$1,126	\$1,400
Sagard Investment Funds, China AMC and Other investments	\$164	\$164	\$445	\$445
Corporate and Other subsidiaries	\$(351)	\$(224)	\$(285)	\$(285)
	\$1,287	\$1,438	\$1,286	\$1,560

Contributions from investments including the Sagard Investment Funds, China AMC and Other investments were lower in 2018, reflecting the impact of the decline in the global equity markets in the third and fourth quarters of 2018.

Dividends declared on the Corporation's participating shares totalled \$1.50 per share, compared with \$1.41 per share in 2017.

[1] Attributable to participating shareholders.

[2] Adjusted net earnings is a non-IFRS financial measure. Please refer to the reconciliation of IFRS and non-IFRS financial measures in the Review of Financial Performance.

Results of Group Companies

POWER FINANCIAL

Rapid change is occurring within the financial services industry, driven by the same forces that are sweeping across other industries and our society at large. The ease of doing business in one industry very quickly becomes the expected norm in another, while at the same time technology is blurring the lines between industries and redefining who companies in the Power Financial group will need to compete with. The companies in our group are embracing the opportunities and the challenges presented by this rapid pace of change. They are investing in enhancing their current business models to better serve existing clients and to appeal to a broader set of new ones. They are also investing in emerging new business models that will drive our success in the future. While many of these investments come at a cost to shorter-term financial returns, our group companies are striving to maintain an appropriate balance between near-term profitability and long-term growth. The group is intently focused on the goal of creating shareholder value by pursuing a combination of internal strategies and external capital deployment and redeployment opportunities.

At December 31, 2018, Power Corporation held a 65.5 per cent economic interest in Power Financial.

Power Financial's net earnings were \$2,245 million or \$3.15 per share for the year ended December 31, 2018, compared with \$1,717 million or \$2.41 per share in 2017.

Adjusted net earnings^[1] were \$2,282 million or \$3.20 per share in 2018, compared with \$2,135 million or \$2.99 per share in 2017. Adjusted net earnings^[1] were the highest in the company's history.

At December 31, 2018, Power Financial's assets under administration were \$1.57 trillion and assets under management were \$854 billion.

Dividends declared by Power Financial totalled \$1.73 per common share, compared with \$1.65 per common share in 2017.

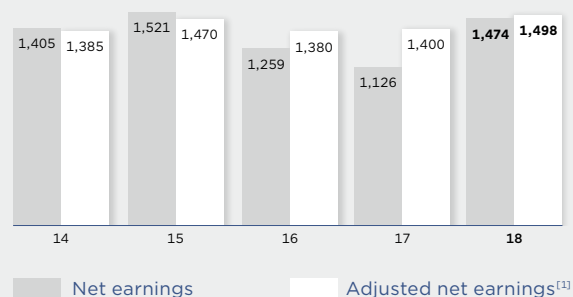
On March 20, 2019, Power Financial announced a 5.2 per cent increase in the quarterly dividend on its common shares, from \$0.4330 to \$0.4555 per share.

EARNINGS (as reported by):

In millions		2018	2017
Great-West Lifeco	Net earnings	\$2,961	\$2,149
	Adjusted net earnings ^[1]	\$3,017	\$2,647
IGM Financial	Net earnings	\$767	\$602
	Adjusted net earnings ^[1]	\$792	\$728
Pargesa	Net earnings	SF361	SF382
	Adjusted net earnings ^{[1] [2]}	SF317	SF384

Power Financial's Contribution to Power Corporation's Earnings

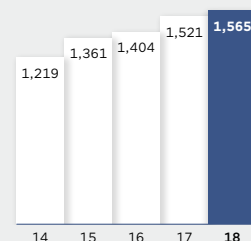
In millions of dollars



Power Financial's Assets under Administration

In billions of dollars

**\$1,565
BILLION**



[1] Adjusted net earnings is a non-IFRS financial measure. Please refer to the reconciliation of IFRS and non-IFRS financial measures in the Review of Financial Performance in each of the Power Financial, Great-West Lifeco, IGM Financial and Pargesa sections.

[2] Described as Economic operating income by Pargesa.

GREAT-WEST LIFE CO

Great-West Lifeco's operating companies continue to respond to changing customer expectations which are being reshaped by generational shifts, advances in technology and evolving regulation. At the heart of this change is a focus on making it easier for customers and advisors to work with its companies to achieve their goals.

\$3.0 BILLION
NET EARNINGS
AND ADJUSTED
NET EARNINGS

The company delivered solid results across all of its businesses in 2018 and maintained its strong capital position and industry-leading credit ratings. This strength and stability positions Lifeco to extend and grow its business. Lifeco's clear purpose to meet the diverse and changing needs of its customers and advisors along with disciplined execution of its strategy is the key to building long-term shareholder value. As the company moves forward with its strategy, it will deploy capital to both strengthen and extend existing businesses and to capture new and emerging growth opportunities.

Capital is being deployed through both strategic investments in existing businesses and mergers and acquisitions (M&A) to reshape the growth profile. M&A activities are focused on deploying capital in businesses that better align with Lifeco's strategic and shareholder growth objectives. A great example of this is the acquisition of Retirement Advantage in the U.K. where Lifeco increased scale in an existing business while expanding its business model to include high-growth equity-release mortgage products, new to the group. Another example is the recently announced

disposition of Lifeco's individual life insurance and annuity business in the United States via reinsurance. This transaction, expected to close in the second quarter of 2019, will further strengthen Lifeco's capital position and will allow it to focus on the U.S. retirement and asset management markets.

Lifeco's net earnings were \$3.0 billion in 2018, an increase of 38 per cent compared to 2017. Adjusted net earnings were \$3.0 billion or \$3.05 per common share in 2018, compared with \$2.6 billion or \$2.68 per common share in 2017. The 2017 adjusted net earnings included a loss of \$175 million related to estimated hurricane claims reflected in the third quarter 2017 results.

Lifeco reported return on equity based on net earnings of 14.0 per cent and on adjusted net earnings (a non-IFRS financial measure) of 14.3 per cent.

Total assets under administration at December 31, 2018 were \$1.4 trillion, a 3.6 per cent increase from December 31, 2017.

In February of 2019, Lifeco announced a 6 per cent increase in its quarterly dividend.

IGM FINANCIAL

IGM Financial is one of Canada's leading diversified wealth management firms. 2018 was a strong year for IGM, one that included increased net earnings and market share gains in a challenging environment.

\$767 MILLION
NET EARNINGS

\$792 MILLION
ADJUSTED
NET EARNINGS

Throughout the year, volatile financial markets—caused by global trade tensions, political uncertainty, and concerns of market cycle slowdown tested investor and advisor confidence. In these types of environments, clients need the confidence that comes from working with a financial advisor and having well-developed plans to achieve their financial goals. And advisors need the right product solutions and support to meet the needs of investors' increasingly complex financial lives.

In 2018, IGM continued its transformation, which began at Mackenzie Investments in 2013 and at IG Wealth Management in 2016. In 2018, their teams settled into the new IGM Financial shared services model, while senior executives focused on creating a high-performance and agile culture, with a strong

emphasis on talent development and recruiting. The company also began to transform, digitize and automate its back office, while establishing an enterprise-wide data platform that will deliver further improvements to its clients. At the end of 2017, IGM introduced its "One IGM approach" which improved efficiencies and reduced non-commission expense growth in 2018. IGM's overall strategy was reaffirmed through two consecutive years of market share gains.

Net earnings were \$767 million in 2018, an increase of 27 per cent from 2017. Adjusted net earnings were \$792 million or \$3.29 per share in 2018, compared with \$728 million or \$3.02 per share in 2017.

Total assets under management at December 31, 2018 were \$149 billion, compared with \$157 billion at December 31, 2017.

PARGESA

The Pargesa group, through Belgian holding company Groupe Bruxelles Lambert, holds significant positions in global industrial and services companies based in Europe: Imerys, adidas, Pernod Ricard, SGS, LafargeHolcim, Umicore, Total, GEA, Ontex and Parques.

GBL seeks to invest in companies with leading positions in their sector and robust business models. As an active investor, it believes in the importance of its influence and role as a creative, challenging and supportive board member.

Since the launch of the portfolio rebalancing strategy in 2012, GBL has completed €16 billion of divestments and acquisitions. This has led to a more diversified portfolio, from both a sector and geographic standpoint, with well-positioned exposure to resilient counter-cyclical assets.

In the Eurozone, the domestic factors having supported the 2017 cyclical upswing, notably the strong labor market performance and accommodative monetary policy, were not sufficient to support growth acceleration in 2018. In the U.K., the political difficulties encountered throughout the negotiations with the European Union and the persistently high uncertainties related to the Brexit outcome have weighed on markets.

During 2018, capitalizing on both their experience as long-term investor and the in-depth knowledge of the industries represented in their portfolio, the GBL team remained active in this turbulent environment. Throughout the year GBL deployed €1.2 billion while maintaining its focus on:

- developing influence with portfolio companies as an active and engaged director, and contributing to improving governance when appropriate;
- seizing appropriate market windows in order to continue to implement the asset rotation strategy and to strengthen positions in certain portfolio assets whose valuation, impacted by the general market trend, became undervalued compared to their fundamentals;
- continuing to pursue the strategic objective of value creation over the long term.

In 2018's volatile market environment, in addition to deploying capital, GBL took advantage of the favourable stock market in the second quarter and sold its entire stake of £498 million in Burberry, generating a capital gain of approximately £83 million.

SF361 MILLION
NET EARNINGS

SF317 MILLION
ADJUSTED
NET EARNINGS

GBL's net asset value was €16.2 billion at December 31, 2018, compared with €18.9 billion at the end of 2017. As at March 14, 2019, GBL's net asset value increased to €18.6 billion.

In November 2018, the GBL board of directors authorized GBL management to implement a buyback of €250 million in treasury shares. GBL's financial flexibility provides capacity to execute this program, seize new quality investment opportunities and, if necessary, support the development of existing investments.

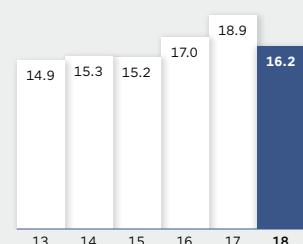
Pargesa reported net earnings of SF361 million in 2018, compared with SF382 million in 2017. Net earnings do not include SF58 million of realized gains on private equity fund investments, due to the adoption of a new accounting standard which changed the way realized gains are reported.

In December 2018, GBL announced changes to its governance which will be effective immediately after its shareholders' meeting of April 23, 2019. Paul Desmarais, Jr. will become Chairman of the Board of Directors and will succeed Gérald Frère who is appointed Vice-Chairman of the Board of Directors and Chairman of the Standing Committee. Ian Gallienne will assume sole operational management of the company as CEO.

At its annual general meeting in April, GBL is expected to propose that its dividend be increased by 2.3 per cent, to €3.07 per share. At its upcoming annual meeting in May, the board of directors of Pargesa is expected to propose a dividend of SF2.56 per bearer share for the 2018 financial year, an increase of 2.4 per cent.

GBL Net Asset Value
In billions of euros

€16.2
BILLION



INVESTMENT ACTIVITIES

Power Corporation's value creation strategy is designed to capitalize on its long-term relationships to achieve superior investment returns and stable cash flows. As part of the Corporation's diversification strategy, significant investments have 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 and it has continued to focus on the development of investment platforms and funds in 2018.

SAGARD INVESTMENT FUNDS

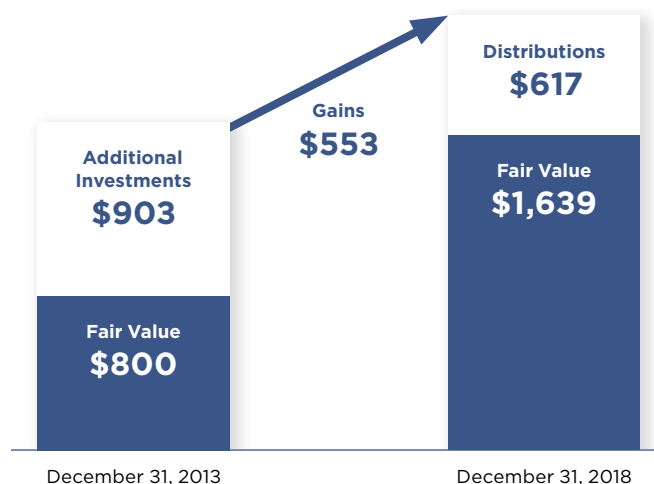
Since the launch of its first Sagard fund in 2002 in Europe, Power Corporation has continued to support and develop its investment funds. Currently, the Corporation operates equity investment funds in three geographical regions under the Sagard name – Sagard Europe, Sagard Holdings (North America) and Sagard China. The Sagard investment platforms also act as investment managers for certain investment funds in which third-party investors, the Corporation and associated companies can participate. The Sagard platforms are managed locally by experienced investment professionals who have an in-depth knowledge of the local public and private markets and who benefit from the collaboration within the Power group of companies.

Power Corporation's investment fund activities: leverage its extensive global network and business relationships, aim to achieve long-term capital appreciation through fundamental investment analysis, and seek opportunities to acquire controlling interests in its most promising investments. Each of the Sagard funds adheres to Power Corporation's investment philosophy and governance model.

Sagard Europe

The Sagard Europe funds invest in mid-sized private companies based in France, Belgium, Luxembourg and Switzerland. As at December 31, 2018, Power Corporation had invested a total of \$776 million in the Sagard Europe funds. The Corporation has received distributions from these funds totalling \$929 million since inception, and the fair value of the investments was \$391 million at December 31, 2018, compared with \$499 million in 2017. The decrease in fair value of the funds was a result of distributions in 2018. Pargesa, GBL and third parties also invest in the Sagard Europe funds.

Sagard Investment Funds
Value Creation since December 31, 2013
In millions



Sagard Holdings

Sagard Holdings 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 invests across four asset classes: equity, private credit, royalties and venture capital.

In 2017, Sagard Holdings launched Sagard Credit Partners LP, a fund which provides credit capital directly to public and private middle-market companies across the U.S. and Canada. In 2018, the fund's committed capital has increased to US\$557 million, of which Sagard Holdings has committed US\$100 million.

In January 2019, Sagard Holdings announced the launch of Sagard Healthcare Royalty Partners which will invest in the life sciences sector with a focus on investments protected by strong intellectual property. Sagard Healthcare Royalty Partners will invest in various structures including traditional healthcare royalties, royalty securitizations and credit.

Since the fourth quarter of 2018, Sagard Holdings has managed, through Portag3 Ventures, investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. Portag3 has invested in more than 30 fintech companies and investment funds.

Subsequent to year-end, Sagard Holdings liquidated its public equities portfolio, a strategic decision to redeploy capital within the fund.

At December 31, 2018, the fair value of Sagard Holdings was \$579 million, compared with \$824 million in 2017; the decrease in fair value is mainly due to the decline in U.S. equity markets and the impairment of one controlled portfolio investment.

Sagard China

Sagard China, based in Shanghai, holds a selective portfolio of minority positions in Chinese companies publicly listed on the Shanghai, Shenzhen, Hong Kong and New York markets, and seeks absolute returns with low volatility. It began participating in Chinese equities through the Chinese stock market in 2005 and in the Hong Kong stock market in 2010. The fair value of Sagard China's investment portfolio was \$669 million at December 31, 2018, compared with \$784 million in 2017; the decrease in the fair value of the portfolio was due to a significant decline in the Chinese equity markets in the third and fourth quarters of 2018. At March 20, 2019, the CSI 300 has increased by 27 per cent since December 31, 2018.

CHINA ASSET MANAGEMENT

Power Corporation and IGM Financial each hold a 13.9 per cent interest in China AMC, for a combined 27.8 per cent interest.

China AMC is the premier asset management firm in the world's second-largest economy, with more retail clients than the population of Canada. The Corporation's and IGM Financial's combined stake offers the potential to diversify and accelerate earnings growth by participating in a high-growth market that also provides the group with the opportunity to enhance the group's distribution and product capabilities.

In 2018, IGM Financial expanded its international reach, entering the Hong Kong market with the launch of the China AMC Mackenzie Global Strategic Income Fund in partnership with China AMC.

The investment in China AMC provides Power Corporation with an opportunity to leverage the Power group's extensive experience in wealth management and distribution as it works with China AMC. Companies within the group will continue to benefit from the strategic relationship by identifying opportunities to work together on product development and future sub-advisory relationships.

POWER ENERGY

Power Energy was established based upon the Corporation's principles of collaboration and has built trusted relationships in industries that benefit from the global energy transformation. Since 2012, Power Energy has been actively managing 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 has invested in companies that develop, own and operate solar and wind generating facilities in North America as well as leading manufacturers of sustainable product solutions. In 2018, Power Energy continued to develop its rapidly expanding footprint and seized on investment opportunities.

Potentia owns and operates rooftop solar generation facilities in Ontario with approximately 150 megawatts of operating solar assets, and manages a pipeline of over 2 gigawatts of solar and wind development projects in Western Canada. In the second half of 2018, Potentia announced that it was selected in four large energy procurement processes in Western Canada to supply a total of 506 megawatts of wind electricity over 20-25 year contracts.

Lumenpulse, a leading manufacturer of high-performance, specification-grade LED lighting solutions, continued to expand and acquired an 80 per cent equity interest in Sternberg Lanterns Inc., an Illinois-based, employee-owned manufacturer of architectural outdoor and area LED lighting solutions. Power Energy invested an additional \$41 million in Lumenpulse in 2018, increasing its ownership to 60.5 per cent.

Lion has sold more than 150 electric Type C school buses in North America and, in May 2018, launched an electric minibus to meet customer needs for paratransit, school and public transportation. Lion is also broadening its vehicle offering by developing an all-electric Class 8 truck in 2019.

Power Energy was presented with an opportunity to sell its interest in Eagle Creek Renewable Energy, a U.S.-based owner and operator of hydroelectric facilities. Power Energy closed the sale of its interest in November 2018 and recognized a pre-tax gain of \$62 million on disposal.

Power Energy remains focused on its objective of seeking an annual return of 12 per cent.

Communications and Media

On July 14, 2018, La Presse, a subsidiary, transferred its net assets to a new not-for-profit structure. The change in structure required the repeal of a provision of a Private Act adopted in 1967 regarding the ownership of La Presse.

With the collaboration of the unions, Power Corporation retained responsibility for the funding, on a going-concern basis, of the retirement obligations accrued at the transaction date, which will notably reduce La Presse's future financial burden while benefiting retirees as well as active and inactive employees who have accumulated pensions. La Presse is also benefiting from a financial contribution of \$50 million from Power Corporation.

Shareholder Engagement

Power Corporation, along with Power Financial and the companies in our group, continued their efforts to communicate their strategies and their financial and operating results with investors and analysts. Our objective is to continue to enhance the level of engagement and quality of our shareholder communications. A key challenge remains to effectively demonstrate how our ongoing investments relate to value creation. This is particularly important given the increased amount of effort and investment being made in areas where value creation metrics can be different than in our incumbent businesses. We are committed to an active dialogue to continue to enhance our engagement with shareholders.

In Memoriam

Earlier in 2019, we were saddened by the death of Jim Burns. Mr. Burns began his career at Great-West Life in 1953 and served as its President and Chief Executive Officer for many years. He was named President of Power Corporation in 1979 and was the founding President and Chief Executive Officer of Power Financial. An icon of Canadian business and a key architect of the modern insurance business, Mr. Burns laid the groundwork that allowed Power Financial to become the financial services leader it is today. He was instrumental in the first foray of Great-West Life into the United States, establishing a solid beach head in the country upon which he and his successors greatly expanded the business.

In December 2018, we were saddened by the news of the passing of Albert Frère. Mr. Frère was Honorary Chairman and co-controlling shareholder of GBL and former Vice-Chairman of Pargesa, and also served on the Board of Directors of Power Corporation from 1985 to 1995. Established in 1990 by the Honourable Paul G. Desmarais and Mr. Frère, the partnership between the Desmarais and Frère families is one of the hallmarks of Albert Frère's legacy. He played an instrumental role in the development of GBL and Pargesa.

The Corporation is forever grateful to both these men for their invaluable contribution to the group.

The Power Group

Power Corporation closely adheres to principles which have been developed over multiple decades. We invest in companies that have a long-term perspective and maintain a prudent financial structure, a capacity for sustaining earnings and an expectation for growing earnings and dividends. A core tenet of our governance model is active ownership, which is exercised through our presence on the boards of directors of our controlled companies and through our influence as significant shareholders in our non-controlled holdings.

We invest in high-quality, socially responsible companies with sustainable franchises in diverse industries and geographies. Our companies have a long and proud history of contributing to the well-being of the communities in which they operate. The principles underlying our approach to responsible management are outlined later in this report and on www.PowerCorporationCSR.com.

As we look forward, we do so with a conviction that the need for the financial services offered by Power Financial's companies will continue to grow and evolve. Power Financial is well positioned to respond to opportunities ahead.

We also expect that the ability to act on investment opportunities having acceptable risk-adjusted returns will increasingly require local capabilities throughout the world. Our investment activities around the globe, which have

been developed through our extensive network of long-term relationships, will provide us with a unique and valuable lens to allocate our capital having regard for our risk appetite.

Your Directors and management seek to deliver attractive long-term shareholder returns. In most any environment, companies with strong balance sheets, sound financial management and prudent liquidity will be best positioned to seize upon the most attractive opportunities. At the Power group of companies, we seek opportunities to grow our business organically and capitalize on acquisitions that are strategic as well as accretive.

Your Directors wish to express gratitude, on behalf of the shareholders, for the important contribution made by the management and the employees of our Corporation and our group companies to the strong results achieved in 2018, and we look forward to 2019.

On behalf of the Board of Directors,

Signed,

Paul Desmarais, Jr., o.c., o.q.
Chairman and
Co-Chief Executive Officer

March 20, 2019

Signed,

André Desmarais, o.c., o.q.
Deputy Chairman, President and
Co-Chief Executive Officer

Responsible Management

SHAPING OUR SUSTAINABLE FUTURE

We firmly believe that for our business to prosper, so too must the societies within which we live and work. Employing diverse talented people and investing in high-quality and responsibly managed businesses is helping us build and strengthen our business for the future, while enabling more sustainable outcomes for our customers, communities and people.

OUR PROGRESS IS BEING RECOGNIZED

Over the past few years, our efforts to strengthen our CSR programs, initiatives and disclosure have been recognized by well-regarded external organizations. This is true at the Power Corporation level, but also at our subsidiaries.



Both Power Corporation and Power Financial are among an elite group of 127 companies worldwide that received the top score of “A” from the CDP, an organization working with investors, companies and cities on taking urgent action to build a truly sustainable economy by measuring and understanding their environmental impact. With IGM Financial also obtaining an “A” score, earning a place on the A list, and Great-West Lifeco scoring “A-”, four of the five top ranked Canadian financial services companies are members of the Power group.



FTSE4Good

Power Corporation and Power Financial have maintained their listing status on the FTSE4Good Global Index for the third consecutive year. The FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong ESG practices.

The FTSE4Good indices are used by a variety of market participants to create and assess responsible investment funds. IGM Financial has also been listed on the FTSE4Good Index Series since June 2016.



Power Corporation has been added to the Euronext Vigeo Eiris World 120 Index as of December 2018. This index distinguishes 120 companies from Europe, North America and the Asia-Pacific region having achieved the most advanced ESG performances. Companies included in this index have achieved the highest scores as part of the review of up to 330 sustainability indicators grouped into six categories: environment, human resources, human rights, community involvement, business behavior and corporate governance.



In 2018, GWL Realty Advisors, Great-West Lifeco's Canadian real estate arm, was recognized as a leader in sustainability by GRESB, earning a “Green Star” ranking for the fourth consecutive year as well as a second consecutive GRESB “5 star”, positioning itself among the top three participants in Canada. GRESB assesses and benchmarks the ESG performance of real asset investments, providing standardized and validated data to capital markets.



Since 2015, IGM Financial has maintained its listing on the Jantzi Social Index, a leading Canadian sustainability index, and was rated as one of the top performing Canadian diversified financial services companies.

OUR COMMITMENT

Our commitment to be a responsible company underpins everything we do. As a signatory to the United Nations (UN) Global Compact, we are committed to upholding the principles on human rights, labour, the environment and anti-corruption. Our group companies' activities also contribute to the 17 UN Sustainable Development Goals (SDGs) whose aim is to end extreme poverty, protect the planet and ensure prosperity for all. In addition, many of our group companies are signatories to the Principles for Responsible Investment (PRI), integrating ESG factors into their investment processes as a way to identify both risks and opportunities to enhance long-term returns for investors.

We continuously monitor the major trends shaping our operating environment, including changing legislation, economic transformations, digitization, shifting demographics, talent attraction, changing climate and reputation. In 2018, we continued our collaboration with our group companies and third parties to learn from each other and exchange on CSR-related best practices.

SHARED VALUE CREATION

In addition to creating positive economic and societal impacts, we are also creating direct value for our stakeholders. The following are some examples of our group's impact in 2018:

CUSTOMERS \$32+ billion in benefits paid	As our business has grown, in 2018, we have increased our customer base, which now exceeds 31 million customers globally and paid direct and indirect benefits worth more than \$32 billion.
EMPLOYEES/ADVISORS \$7.9 billion in salaries and other benefits, and commissions	Our group companies employ approximately 30,000 diverse and talented people. In 2018, our group paid out \$7.9 billion in salaries and other benefits and commissions. Our investments in training and new technologies continue to develop local talent and the intellectual capital of our people.
SUPPLIERS/GOVERNMENTS \$4.4 billion for goods and services, and taxes paid to various levels of government	Payments made by companies of our group to suppliers for services and goods, as well as payments to various levels of government amounted to approximately \$4.4 billion in 2018, generating indirect benefits for all the companies in our supply chain and enabling governments to benefit from personal taxes paid by our employees and through the corporate taxes levied on our suppliers.
SHAREHOLDERS \$2.1 billion in dividends paid	We paid \$2.1 billion in dividends to our shareholders in 2018 and to those of our main subsidiaries, Power Financial, Great-West Lifeco and IGM Financial. Major pension funds, mutual funds and insurance companies being amongst our shareholders, these dividends benefit millions of individuals who rely on them for their income.
COMMUNITIES \$47.7 million in charitable contributions	In 2018, our group contributions to the communities where we operate totalled \$47.7 million, to approximately 2,000 community organizations in Canada alone. We are helping to break down barriers to social inclusion, while contributing to better health and education, community development, environmental protection, and access to arts and culture. This impact is multiplied through the active involvement of our employees, whom we encourage to volunteer for causes that speak to them.

To learn more about our Corporate Social Responsibility programs and initiatives:

www.PowerCorporationCSR.com

Table of Contents

REVIEW OF FINANCIAL PERFORMANCE	2	CONSOLIDATED FINANCIAL STATEMENTS	46
Overview of Power Corporation	3	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	
Basis of Presentation	8	Note 1 Corporate Information	51
IFRS Financial Measures and Presentation	8	Note 2 Basis of Presentation and Summary of Significant Accounting Policies	51
Non-IFRS Financial Measures and Presentation	10	Note 3 Business Acquisitions and Disposals	64
Reconciliation of IFRS and non-IFRS Financial Measures	11	Note 4 Assets Held for Sale	66
Results of Power Corporation	12	Note 5 Cash and Cash Equivalents	66
Consolidated Statements of Earnings	12	Note 6 Investments	67
Non-Consolidated Statements of Earnings	13	Note 7 Funds Held by Ceding Insurers	69
Contribution to Net Earnings and Adjusted Net Earnings	14	Note 8 Investments in Jointly Controlled Corporations and Associates	69
Financial Position	24	Note 9 Owner-Occupied Properties and Capital Assets	71
Cash Flows	28	Note 10 Other Assets	72
Capital Management	30	Note 11 Goodwill and Intangible Assets	73
Risk Management	32	Note 12 Segregated Funds and Other Structured Entities	76
Financial Instruments and Other Instruments	35	Note 13 Insurance and Investment Contract Liabilities	78
Off-Balance Sheet Arrangements	37	Note 14 Obligations to Securitization Entities	84
Contingent Liabilities	37	Note 15 Debentures and Other Debt Instruments	85
Commitments and Contractual Obligations	38	Note 16 Other Liabilities	87
Income Taxes	38	Note 17 Income Taxes	88
Transactions with Related Parties	39	Note 18 Stated Capital	90
Summary of Critical Accounting Estimates and Judgments	39	Note 19 Share-Based Compensation	91
Changes in Accounting Policies	42	Note 20 Non-Controlling Interests	93
Future Accounting Changes	43	Note 21 Capital Management	94
Disclosure Controls and Procedures	45	Note 22 Risk Management	95
Internal Control over Financial Reporting	45	Note 23 Operating and Administrative Expenses	104
Selected Annual Information	45	Note 24 Financing Charges	105
		Note 25 Pension Plans and Other Post-Employment Benefits	105
		Note 26 Derivative Financial Instruments	110
		Note 27 Fair Value Measurement	114
		Note 28 Other Comprehensive Income	119
		Note 29 Earnings Per Share	119
		Note 30 Related Parties	120
		Note 31 Contingent Liabilities	121
		Note 32 Commitments and Guarantees	122
		Note 33 Segmented Information	123
		INDEPENDENT AUDITOR'S REPORT	127
		FIVE-YEAR FINANCIAL SUMMARY	129

REVIEW OF FINANCIAL PERFORMANCE

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

MARCH 20, 2019

This Annual Report is intended to provide interested shareholders and others with selected information concerning Power 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 MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, the outlook for North American and international economies for the current fiscal year and subsequent periods as well as statements or information related to the substantial issuer bids of the Corporation, Power Financial and Lifeco whose terms were announced on March 8, 2019. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, fluctuations in interest rates, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and

capital markets, management of market liquidity and funding risks, risks related to investments in private companies and illiquid securities, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), the effect of applying future accounting changes, business competition, operational and reputational risks, technological changes, cybersecurity risks, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

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

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

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

Readers are reminded that a list of the abbreviations used throughout can be found on the inside front cover of this Annual Report. In addition, the following abbreviation is used in the Review of Financial Performance and in the Financial Statements and Notes thereto: Audited Consolidated Financial Statements of Power Corporation and Notes thereto for the year ended December 31, 2018 (the 2018 Consolidated Financial Statements or the Financial Statements).

Overview

POWER CORPORATION OF CANADA

Incorporated in 1925, Power Corporation, a family-controlled public company, is a diversified international management and holding company with interests in the financial services, asset management, sustainable and renewable energy, and other business sectors in North America, Europe and Asia. Its principal asset is a controlling interest in Power Financial, which in turn controls Lifeco and IGM. Power Financial 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. The investment activities include the Sagard Investment Funds and interests in China resulting from more than 40 years of engagement.

Power Corporation adheres to four overriding investing principles with the objective of achieving sound long-term investment diversification and sustainable value-creation for its shareholders:

- 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. As part of Power Corporation's diversification strategy, significant investments have 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.
- Sagard China holds minority positions in Chinese companies publicly listed in Shanghai, Shenzhen, Hong Kong and New York, and seeks absolute returns with low volatility. It is a long-term investor and holds a portfolio of selected stocks.
- Power Energy actively manages investments by applying 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 allowed access to further 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 asset base. It also creates strategic investment opportunities with other asset managers within the Power group of companies.

SUBSEQUENT EVENTS

DISPOSAL OF LIFECO'S U.S. INDIVIDUAL LIFE INSURANCE AND ANNUITY BUSINESS

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

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

SUBSTANTIAL ISSUER BIDS

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

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

On March 8, 2019, Power Corporation also announced that it intends to support the PFC Offer and that, through its participation in the PFC Offer, the Corporation expects its ownership interest in Power Financial will be marginally reduced, depending on the tendering activity of other Power Financial shareholders. Power Corporation expects to use the proceeds from its participation in the PFC Offer, along with other available resources, to fund its own substantial issuer bid to repurchase for cancellation up to \$1.35 billion of its subordinate voting shares by way of a modified Dutch auction within a price range of not less than \$28.50 per share and not more than \$33.00 per share (the PCC Offer). The PCC Offer facilitates the repurchase of Power Corporation shares at currently attractive valuations while maintaining the financial resources to pursue its strategy for long-term value creation across its well-diversified portfolio of investments. The PCC Offer was launched on March 8, 2019 and is scheduled to expire on April 13, 2019, unless extended or withdrawn.

POWER FINANCIAL

Power Financial, TSX: PWF; market capitalization of \$18.4 billion, is a diversified international management and holding company with interests substantially in the financial services sector in Canada, the U.S. and Europe, through its controlling interests in Lifeco, IGM and Wealthsimple. It also has significant holdings in global industrial and services companies based in Europe through its investment in Pargesa. At March 20, 2019, Power Corporation held 65.5% of the equity and voting interests in Power Financial.

LIFECO

Great-West Lifeco Inc., TSX: GWO; market capitalization of \$27.9 billion, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco has operations in Canada, the United States and Europe through Great-West Life, London Life, Canada Life, Great-West Financial, Putnam and Irish Life. For reporting purposes, Lifeco has four reportable segments: Canada, the United States, Europe and Corporate, which reflect geographic lines as well as the management and corporate structure of the companies.

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

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

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

At December 31, 2018, Power Financial and IGM held interests of 67.8% and 4.0%, respectively, in Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits voting rights in life insurance companies to 65%.

IGM FINANCIAL

IGM Financial Inc., TSX: IGM; market capitalization of \$7.5 billion, is a leading wealth and asset management company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly, primarily within the advice segment of the financial services market. Its activities are carried out through its subsidiaries IG Wealth Management, Mackenzie Investments and Investment Planning Counsel.

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

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

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

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

At December 31, 2018, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 61.4% and 3.8%, respectively, in IGM's common shares.

PARGESA AND GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. At December 31, 2018, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

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

GBL, EBR: GBLB; market capitalization of €12.3 billion, is one of the largest listed holding companies in Europe. As a holding company focused on long-term value creation, GBL relies on a stable, family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their markets, in which GBL plays its role of professional shareholder.

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

- | | |
|---|---|
| <ul style="list-style-type: none"> ■ 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 | <ul style="list-style-type: none"> ■ Umicore (EBR: UMI) – materials technology and recycling of precious metals ■ Total (EPA: FP) – oil, gas and chemical industries ■ GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors ■ Ontex (EBR: ONTEX) – disposable hygiene products ■ Parques (BME: PQR) – operation of regional leisure parks |
|---|---|

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

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

PORTAG3 AND WEALTHSIMPLE

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

At December 31, 2018, Portag3, Power Financial and IGM held equity interests in Wealthsimple of 21.9%, 16.0% and 43.8%, respectively. Wealthsimple is one of Canada's largest and fastest-growing technology-driven investment

managers. Since its launch in 2014, Wealthsimple has grown to serve over 100,000 clients with over \$3.4 billion in assets under administration at December 31, 2018 (\$1.7 billion at December 31, 2017). Wealthsimple has expanded its distribution reach through both its Wealthsimple for Advisors (W4A) and Wealthsimple for Institutions (W4I) platforms and serves clients across the Canada, United States and United Kingdom markets.

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

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

OTHER SUBSIDIARIES

Other subsidiaries are comprised of Power Energy, SVCG (up to date of disposal) and IntegraMed, a controlled portfolio investment held by Sagard Holdings.

POWER ENERGY

Established in 2012, Power Energy is a wholly owned subsidiary that 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 leading manufacturers of sustainable technologies.

- **Potentia Renewables:** Potentia is a renewable energy generation company, active in North America and the Caribbean, with approximately 150 megawatts (MW) of operating solar assets and over 2 gigawatts (GW) of solar and wind development projects. Total assets of Potentia were \$674 million at December 31, 2018.

In October 2018, Potentia announced that it was selected by SaskPower in its latest wind energy procurement process. Potentia and SaskPower have signed a 25-year power purchase agreement for 200 MW of wind electricity. Commercial operation could commence as early as 2021.

In December 2018, Potentia announced that three of its projects were awarded contracts in the Alberta Electric System Operator's (AESO) Renewable Electricity Program procurements. Potentia and the AESO have signed three 20-year Renewable Electricity Support Agreements totalling 306 MW of wind energy. Potentia is working in collaboration with partners for the development of one project which will supply 113 MW of wind energy. Project construction is expected to begin in 2020 and be fully operational by mid-2021.

- **Lumenpulse:** Power Energy holds a controlling interest of 60.5% in Lumenpulse, a leading manufacturer of high-performance, specification-grade LED lighting solutions. During 2018, Power Energy invested \$41 million in Lumenpulse.
- **Lion Electric:** Power Energy holds a 43.8% interest in Lion Electric, an innovative company manufacturing zero-emission vehicles sold throughout North America.

To date, Power Energy has invested \$608 million in these three companies.

Disposal of Eagle Creek Renewable Energy, LLC

Power Energy indirectly held a 32.9% interest in Eagle Creek. Eagle Creek owns and operates hydroelectric facilities in the United States. In August 2018, Power Energy entered into an agreement to dispose of its interest in Eagle Creek. The transaction closed in November 2018 and Power Energy recognized a gain of US\$43 million (C\$62 million) representing its share of the pre-tax gain on disposal.

SQUARE VICTORIA COMMUNICATIONS GROUP

Power Corporation, through Square Victoria Communications Group, owned La Presse until July 14, 2018, when La Presse transferred its net assets to a new not-for-profit structure. Power Corporation retained responsibility for the funding, on a going-concern basis, of the retirement obligations accrued at the transaction date. The Corporation recognized a loss of \$54 million on the divestiture, including a financial contribution of \$50 million from Power Corporation, which was included in Other items of the corporate operations.

SAGARD INVESTMENT FUNDS

Since the launch of the first Sagard fund in 2002, Power Corporation has continued to develop investment platforms and operate equity investment funds in three principal geographies: Sagard Europe, Sagard Holdings (North America), and Sagard China. The Sagard platforms are managed locally by experienced investment professionals who have an in-depth knowledge of the local public and private markets and benefit from collaboration within the Power group of companies. Power Corporation's investment fund activities: (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. Each of the Sagard funds adheres to Power Corporation's investment philosophy and governance model.

The Sagard investment platforms act as investment managers for 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 evaluation of control is based on a determination of the relevant activities and how investment and other decisions are made by the fund. The investment manager does not control an investee when it is primarily engaged to act on behalf and for the benefit of another party or parties. The following factors are considered in making this assessment:

- Scope of manager's decision-making authority;
- Rights held by other parties including limited partners; and
- Exposure to variability of returns from the interest that it holds in the fund including management fees and performance fees (carried interest).

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

December 31, 2018 [in millions; except as otherwise noted]	Sagard Europe		Sagard Holdings		Sagard China
	Sagard II	Sagard 3	Sagard Capital Partners LP	Sagard Credit Partners LP	A, B, H and ADR equities
	€	€	US\$	US\$	US\$
Fund size	748	808	500	557	200
Total unfunded commitment	35	390	100	462	–
Original commitment					
Corporation	154	302	500	100	200
Third parties and associated companies ^[1]	594	506	–	457	–
Interest [%]					
Corporation	22.0	37.3	100.0	18.0	100.0
Third parties and associated companies	78.0	62.7	–	82.0	–
Nature of the fund	Portfolio investment	Portfolio investment	Controlling interest	Controlling interest	Controlling interest
Accounting method	Available for sale	Available for sale	Consolidation	Consolidation	Consolidation

[1] Includes commitments of Pargesa (€37 million in Sagard II), GBL (€113 million in Sagard II and €218 million in Sagard 3), as well as commitments from management.

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.

December 31, 2018 [in millions; in Canadian dollars except as otherwise noted]	Sagard II	Sagard 3
Fund size	€748	€808
Corporation's commitment ^[1]	€154	€302
Interest [%]	22.0	37.3
Corporation's outstanding commitment at December 31, 2018	€4	€142
Corporation's investment to date	218	383
Corporation's share of distributions to date	215	294
Fair value of the Corporation's investment at December 31, 2018	97	294

[1] Excludes commitments of Pargesa (€37 million in Sagard II), and GBL (€113 million in Sagard II and €218 million in Sagard 3).

The Corporation has invested \$776 million to date in the Sagard Europe funds (including Sagard I) and has received distributions of \$929 million. At December 31, 2018, 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 \$391 million, compared with \$499 million at December 31, 2017. The change in the fair value of the funds is mainly due to distributions received in 2018.

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 invests 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 (included in Other subsidiaries).
 - 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 22.0% 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**

- During 2017, Sagard Holdings launched Sagard Credit Partners LP, a fund which 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 its unfunded commitment is US\$83 million at December 31, 2018. Sagard Holdings, through Sagard Credit Partners GP, has determined that it has control of the fund as it has the power to direct the relevant activities and is exposed to significant variable returns based on the performance of the fund. Sagard Credit Partners LP held investments of \$180 million at December 31, 2018.

- **Royalties**

- In January 2019, Sagard Holdings announced the launch of Sagard Healthcare Royalty Partners, which will invest in the life sciences sector with a focus on investments protected by strong intellectual property. Sagard Healthcare Royalty Partners will invest in various structures including traditional healthcare royalties, royalty securitizations and credit.

- **Venture Capital**

- Since the fourth quarter of 2018, Sagard Holdings operates, through its affiliate Portag3 Ventures, investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. Portag3 has invested in more than 30 fintech companies and investment funds.

At December 31, 2018, the Corporation had invested \$616 million in Sagard Holdings and has received distributions of \$64 million. At December 31, 2018, the fair value of Sagard Holdings' investments, including cash, was \$579 million, compared with \$824 million at December 31, 2017. The decrease in fair value is mainly due to a decrease in the value of IntegraMed at December 31, 2018.

SAGARD CHINA

Power Corporation operates as a Qualified Foreign Institutional Investor (QFII) in the Chinese "A" shares market. In addition, the Corporation invests in Chinese companies listed on the Hong Kong Stock Exchange ("H" shares) and the Shenzhen or Shanghai Stock Exchange ("B" shares). During the second quarter, Sagard China started investing in American Depositary Receipts ("ADRs"). Collectively, the Chinese "A", "B", "H" and "ADR" share investment activities operate as Sagard China.

Since its inception in 2005, the Corporation has invested \$316 million in Sagard China and has received distributions of \$19 million.

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.

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.

December 31	2018	2017
Investments		
Money market funds	167	42
A, B, H, and ADR equities	340	616
Cash	162	126
Total portfolio, at fair value ^[1]	669	784

[1] The decrease in the fair value of the portfolio is due to a significant decline in the Chinese equity markets in 2018.

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 2018 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its subsidiaries. The consolidated financial statements present the financial results of Power 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 and Wealthsimple, 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 (losses), 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
Non-controlled portfolio investments	Available for sale (AFS)	Earnings consist of dividends received and gains or losses on disposals The investments are marked to market through other comprehensive income Earnings are reduced by impairment charges, if any	Impairment testing is done at the individual investment level A significant or prolonged decline in the value of the investment results in an impairment charge A share price decrease subsequent to an impairment charge leads to a further impairment	A subsequent recovery of value does not result in a reversal

At December 31, 2018, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Power Financial	65.5	Controlling interest	Consolidation
Lifeco ^[1]	67.8	Controlling interest	Consolidation
IGM ^[2]	61.4	Controlling interest	Consolidation
Pargesa ^[3]	27.8	Joint control	Equity method
Portag3 ^[4]	63.0	Controlling interest	Consolidation
Wealthsimple ^[5]	16.0	Controlling interest	Consolidation
Power Energy	100.0	Controlling interest	Consolidation
Potentia	100.0	Controlling interest	Consolidation
Lumenpulse	60.5	Controlling interest	Consolidation
Lion	43.8	Significant influence	Equity method
China AMC ^[6]	13.9	Significant influence	Equity method

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

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

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

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

[5] Portag3 and IGM also hold interests of 21.9% and 43.8%, respectively, in Wealthsimple.

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

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

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

At December 31, 2018, the holdings of the Sagard Investment Funds were as follows:

Sagard Investment Funds	% economic interest	Nature of investment	Accounting method
Sagard Europe			
Sagard II	22.0	Portfolio investment	Available for sale
Sagard 3	37.3	Portfolio 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 portfolio investments	Equity method or available for sale
Sagard China	100.0		
Investments	< 5.0	Portfolio investments	Available for sale

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

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

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

This review of financial performance presents and discusses financial measures which are not in accordance with IFRS. Management uses these financial measures in its presentation and analysis of the financial performance of Power 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 and Wealthsimple as well as other subsidiaries 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.

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

RECONCILIATION OF IFRS AND NON-IFRS FINANCIAL MEASURES

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

Twelve months ended December 31	2018	2017
Net earnings – IFRS financial measure ^[1]	1,287	1,286
Share of Other items ^[2] , net of tax		
Lifeco	25	223
IGM	11	51
Pargesa	(12)	-
Other subsidiaries	66	-
Corporate operations	61	-
	151	274
Adjusted net earnings – Non-IFRS financial measure ^[1]	1,438	1,560

[1] Available to participating shareholders of Power Corporation.

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

Twelve months ended December 31	2018	2017
Net earnings per share – IFRS financial measure ^[1]	2.77	2.77
Share of Other items ^[2] , net of tax		
Lifeco	0.06	0.48
IGM	0.02	0.11
Pargesa	(0.03)	-
Other subsidiaries	0.14	-
Corporate operations	0.13	-
	0.32	0.59
Adjusted net earnings per share – Non-IFRS financial measure ^[1]	3.09	3.36

[1] Available to participating shareholders of Power Corporation.

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

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Corporation’s consolidated statements of earnings for the twelve months ended December 31, 2018 are presented below. The Corporation’s operating segments are Lifeco, IGM and Pargesa. This table reflects the contributions from Power Financial and Other subsidiaries to the net earnings attributable to Power Corporation’s participating shareholders.

CONSOLIDATED NET EARNINGS

Twelve months ended December 31	Power Financial					Other ⁽⁴⁾	Power Corporation Consolidated net earnings	
	Lifeco	IGM ⁽¹⁾	Pargesa ⁽²⁾	Corporate ⁽³⁾	Sub-total		2018	2017
REVENUES								
Premium income, net ⁽⁵⁾	35,461	–	–	(21)	35,440	–	35,440	33,880
Net investment income	2,752	183	–	(113)	2,822	247	3,069	8,074
Fee income ⁽⁵⁾	5,819	3,037	–	(93)	8,763	13	8,776	8,510
Other revenues	–	–	–	–	–	813	813	898
Total revenues	44,032	3,220	–	(227)	47,025	1,073	48,098	51,362
EXPENSES								
Total paid or credited to policyholders	32,068	–	–	–	32,068	–	32,068	35,643
Commissions ⁽⁵⁾	2,474	1,099	–	(61)	3,512	–	3,512	3,712
Operating and administrative expenses ⁽⁵⁾	5,807	1,043	–	147	6,997	1,178	8,175	8,132
Financing charges	221	121	–	18	360	102	462	512
Total expenses	40,570	2,263	–	104	42,937	1,280	44,217	47,999
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,462	957	–	(331)	4,088	(207)	3,881	3,363
Share of earnings of investments in jointly controlled corporations and associates	–	29	57	8	94	70	164	214
Earnings before income taxes	3,462	986	57	(323)	4,182	(137)	4,045	3,577
Income taxes	387	210	–	5	602	(24)	578	543
Net earnings	3,075	776	57	(328)	3,580	(113)	3,467	3,034
ATTRIBUTABLE TO								
Non-controlling interests	1,763	481	20	(158)	2,106	22	2,128	1,696
Non-participating shareholders	–	–	–	–	–	52	52	52
Participating shareholders of Power Corporation	1,312	295	37	(170)	1,474	(187)	1,287	1,286
	3,075	776	57	(328)	3,580	(113)	3,467	3,034

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

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

[3] “Corporate” is comprised of the results of Portag3 and Wealthsimple, Power Financial’s investment activities, corporate operations and consolidation entries.

[4] “Other” is comprised of the Corporation’s investment activities and operations and includes results of Other subsidiaries as well as consolidation entries.

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

As a holding company, the Corporation evaluates the performance of each segment based on its contribution to net earnings and adjusted net earnings. A discussion of the results of 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 and other subsidiaries to the net earnings and adjusted net earnings attributable to Power Corporation's participating shareholders are accounted for using the equity method.

Twelve months ended December 31	2018	2017
Adjusted net earnings ^[1]		
Power Financial		
Lifeco ^[2]	1,337	1,174
IGM ^[2]	306	281
Pargesa ^[2]	25	86
Corporate operations of Power Financial	(170)	(141)
	1,498	1,400
Other subsidiaries ^[3]	(47)	(89)
	1,451	1,311
Corporate operations		
Income – Sagard Investment Funds, China AMC and other Investments	164	445
Operating and other expenses	(125)	(144)
Dividends on non-participating shares	(52)	(52)
Adjusted net earnings ^[4]	1,438	1,560
Other items ^[5]		
Power Financial		
Lifeco	(25)	(223)
IGM	(11)	(51)
Pargesa	12	-
	(24)	(274)
Other subsidiaries	(66)	-
Corporate operations	(61)	-
	(151)	(274)
Net earnings ^[4]	1,287	1,286
Earnings per share – basic ^[4]		
Adjusted net earnings	3.09	3.36
Other items	(0.32)	(0.59)
Net earnings	2.77	2.77

[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 and Portag3, based on their respective interest. Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39.

[3] Other subsidiaries include earnings (losses) from IntegraMed, and Vein Clinics (up to the date of disposal in December 2017).

[4] Attributable to participating shareholders.

[5] See "Other items" section below.

2018 vs. 2017

Net earnings	\$1,287 million or \$2.77 per share, comparable to the corresponding period in 2017.
Adjusted net earnings	\$1,438 million or \$3.09 per share, compared with \$1,560 million or \$3.36 per share in the corresponding period in 2017, a decrease of 8.0% on a per share basis.
Contribution to net earnings and adjusted net earnings from Power Financial and other subsidiaries	Contribution to net earnings of \$1,361 million, compared with \$1,037 million in the corresponding period in 2017, an increase of 31.2%. Contribution to adjusted net earnings of \$1,451 million, compared with \$1,311 million in the corresponding period in 2017, an increase of 10.7%.

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

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS**POWER FINANCIAL****Contribution to Power Corporation**

Twelve months ended December 31	2018	2017
Contribution to Power Corporation's ^[1] :		
Adjusted net earnings	1,498	1,400
Other items	(24)	(274)
Net earnings	1,474	1,126

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

Adjusted and net earnings as reported by Power Financial

Twelve months ended December 31	2018	2017
Adjusted net earnings		
Lifeco	2,040	1,791
IGM	462	428
Pargesa	39	131
	2,541	2,350
Corporate operations of Power Financial	(121)	(82)
Dividends on perpetual preferred shares	(138)	(133)
Adjusted net earnings ^[1]	2,282	2,135
Other items		
Lifeco	(39)	(340)
IGM	(16)	(78)
Pargesa	18	-
	(37)	(418)
Net earnings ^[1]	2,245	1,717

[1] Attributable to Power Financial common shareholders.

2018 vs. 2017

Net earnings	\$2,245 million or \$3.15 per share, compared with \$1,717 million or \$2.41 per share in the corresponding period in 2017, an increase of 30.7% on a per share basis.
Adjusted net earnings	\$2,282 million or \$3.20 per share, compared with \$2,135 million or \$2.99 per share in the corresponding period in 2017, an increase of 7.0% on a per share basis.

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

LIFECO**Contribution to Power Corporation**

Twelve months ended December 31	2018	2017
Contribution to Power Corporation's ^[1] :		
Adjusted net earnings		
As reported by Lifeco	1,339	1,175
Consolidation entries	(2)	(1)
	1,337	1,174
Other items	(25)	(223)
Net earnings	1,312	951

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

Adjusted and net earnings by segment as reported by Lifeco

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

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

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

[3] Attributable to Lifeco common shareholders.

2018 vs. 2017

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

CANADA

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

INDIVIDUAL CUSTOMER

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

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

GROUP CUSTOMER

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

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

UNITED STATES

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

FINANCIAL SERVICES

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

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

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

ASSET MANAGEMENT

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

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

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

EUROPE

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

INSURANCE AND ANNUITIES

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

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

REINSURANCE

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

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

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

OTHER ITEMS

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

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

In 2017 Other items of \$498 million consisted of:

- Impact of the U.S. tax reform which resulted in a charge of \$216 million:
 - On December 22, 2017, the *Tax Reconciliation Act* was substantively enacted by the U.S. and was generally effective for tax years beginning on January 1, 2018. The legislation resulted in significant tax reform and revised the *Internal Revenue Code* which included the lowering of the corporate federal income tax rate from 35% to 21% and modified how the U.S. taxes multinational entities. The charge primarily related to the revaluation of certain deferred tax balances and the impact on insurance contract liabilities and expense provisions.
- Restructuring charges of \$160 million related to:
 - Lifeco realigned its Canadian operations into two new business units: one focused on individual customers and the other on group customers. The realignment of Canadian operations resulted in a \$126 million charge.
 - Integration activities at Empower Retirement in the U.S. segment of \$11 million.
 - Integration activities and efforts primarily related to the Irish Life Health business strategy to support growth in the retail division resulted in a charge of \$23 million.
- Net charge on sale of equity investment of \$122 million:
 - Lifeco entered into an agreement to sell an equity investment in Nissay Asset Management Corporation (Nissay). The equity investment in Nissay was reclassified to assets held for sale and the net charge on the sale of \$122 million was recognized, including the write-off of an associated indefinite life intangible asset.

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

IGM FINANCIAL

Contribution to Power Corporation

Twelve months ended December 31	2018	2017
Contribution to Power Corporation's ^[1] :		
Adjusted net earnings		
As reported by IGM	319	293
Consolidation entries ^[2]	(13)	(12)
	306	281
Other items	(11)	(51)
Net earnings	295	230

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

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

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

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

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

[2] Available to IGM common shareholders.

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

2018 vs. 2017

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

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

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

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

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

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

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

IG Wealth Management

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

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

Assets and Investment Fund Assets Under Management

Total assets under management were as follows:

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

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

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

Mackenzie

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

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

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

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

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

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

Other Items

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

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

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

- Total restructuring and other charges of \$144 million which included:
 - Severance and termination costs largely associated with the reduction of IGM's region office footprint which resulted in a charge of \$17 million;
 - The implementation by IGM of a number of initiatives to assist in its operational effectiveness, which resulted in the recognition of restructuring and other charges of \$127 million.
- Change related to pension plan of \$37 million: favourable revaluation of IGM's registered pension plan obligation reflecting a new policy which limits the possibility of certain benefit increases in the future.
- IGM's proportionate share of Lifeco's Other items of \$19 million.

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

PARGESA

Contribution to Power Corporation

Twelve months ended December 31 [In millions of Canadian dollars]	2018	2017
Contribution to Power Corporation's ^[1] :		
Adjusted net earnings		
As reported by Pargesa	76	91
Consolidation entries ^[2]	(51)	(5)
	25	86
Other items	12	-
Net earnings	37	86

[1] Power Financial's average ownership in Pargesa and Power Corporation's average direct ownership in Power Financial were 27.8% and 65.5%, respectively, for the year ended December 31, 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. The adjustment in 2017 relates to the reclassification of Parques from available for sale to an associate in accordance with the Corporation's accounting policy.

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

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

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

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

[3] Attributable to Pargesa shareholders.

2018 vs. 2017

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

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

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

As noted above, Power 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:

					2018
[In millions of dollars]	Q4	Q3	Q2	Q1	Total
Impairment charges on ^[1] :					
GEA	(28)	-	-	-	(28)
Ontex	(1)	(1)	(22)	-	(24)
LafargeHolcim	(15)	-	-	-	(15)
ConvaTec Group plc	(7)	-	-	-	(7)
Disposal of Burberry ^[2]	-	-	12	-	12
Disposal of private equity funds ^[3]	3	-	-	14	17
Unrealized (gains) losses on private equity funds ^[4]	(1)	(2)	(3)	-	(6)
Total	(49)	(3)	(13)	14	(51)

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

- GEA – During the fourth quarter, the share price declined to €22.50 per share from a cost of €35.63 per share, resulting in an impairment charge of SF118 million. Power Corporation's share was \$28 million;
- Ontex – During the second quarter, the share price of Ontex decreased to €18.81 from a cost of €27.62 per share, which resulted in an impairment charge of SF87 million. Power Corporation's share of the impairment in the second quarter was \$22 million.
At the end of the third and fourth quarters, the share price of Ontex decreased to €18.35 and €17.90 per share, respectively; further impairment charges of \$1 million were recognized by Power Corporation in both the third and fourth quarters, relating to its share of the impairment;
- LafargeHolcim – The investment in LafargeHolcim has been previously impaired, resulting in an adjusted cost of €37.10 per share. During the fourth quarter, the share price decreased to €35.83 per share, resulting in an impairment charge of SF59 million including a foreign exchange loss. Power Corporation's share was \$15 million;
- ConvaTec Group plc – During the fourth quarter, the share price decreased to €1.55 per share from a cost of €2.39 per share, resulting in an impairment charge of SF29 million. Power Corporation's share was \$7 million;

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

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

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

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

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

Results

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

- A decrease in the contribution from private equity activities and other investment funds of SF92 million. The decrease is mainly due to the adoption of IFRS 9 by Pargesa, resulting in gains of SF58 million realized on the disposal of investments not reflected in earnings. Excluding the impact of IFRS 9, the contribution from private equity activities and other investment funds would have been SF79 million. In 2017, realized gains of SF124 million were related to the disposal of two private equity investments; and

- An increase in net financing charges of SF6 million from the corresponding period in 2017 to SF26 million, mainly due to a decrease in income from trading and derivative activities of GBL in managing its portfolio, partially offset by the net impact of fair value adjustments to derivative instruments;
- Partially offset by an increase in dividends from its principal holdings of SF18 million to SF209 million, compared with SF191 million in the corresponding period in 2017. The increase in dividends is primarily due to the increase in dividends per share paid by most of the portfolio companies, additional investment made in GEA as well as a higher Euro/SF average exchange rate.

Other Items

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

- Imerys disposed of its roofing division, Imerys Toiture. Pargesa's share of the gain amounted to SF235 million;

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

There were no significant Other items in 2017.

Average Exchange Rates

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

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

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

OTHER SUBSIDIARIES

The contribution from other subsidiaries to the Corporation's net earnings was a loss of \$113 million for the twelve-month period ended December 31, 2018, compared with a loss of \$89 million in the corresponding period in 2017. The contribution to the Corporation's adjusted net earnings in the twelve-month period ended December 31, 2018 was a loss of \$47 million, and excluded Other items of \$66 million.

The increased loss in the twelve-month period ended December 31, 2018 is due primarily to:

- The Corporation's share of a goodwill impairment charge by IntegraMed for an amount of \$66 million (US\$50 million), which has been included in Other items;
- Partially offset by the Corporation's share of the gain recognized on the sale of Eagle Creek of \$62 million.

CORPORATE OPERATIONS

Corporate operations include income from the Sagard Investment Funds, China AMC and Other Investments, operating expenses, financing charges, depreciation and income taxes.

INCOME FROM SAGARD INVESTMENT FUNDS, CHINA AMC AND OTHER INVESTMENTS

Summary of income from Sagard Investment Funds, China AMC and Other Investments:

Twelve months ended December 31	2018	2017
Sagard Investment Funds ^[1]		
Sagard Europe ^[2]	200	5
Sagard Holdings ^{[3][4]}	(63)	92
Sagard China ^[5]	(29)	69
China AMC ^[6]	29	184
Other Investments		
Investment and hedge funds	6	100
Other ^[7]	21	(5)
	164	445

[1] Income from investments for the Sagard Investment Funds is presented net of expenses of their separate dedicated teams.

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

[3] Excludes the Corporation's share of the operating results of IntegraMed and Vein Clinics, presented in the section "Other subsidiaries". Included in 2017 is the gain on disposal of Vein Clinics of \$67 million.

[4] Includes share of earnings (loss) from investments in a jointly controlled corporation and associates. The 2018 results include impairment charges on an equity accounted investment and available-for-sale investments due to the decline in equity values at the end of December 2018.

[5] Sagard China realized losses of \$34 million and \$12 million on the disposal of investments in the third and fourth quarters of 2018, respectively.

[6] The 2017 results include a gain of \$174 million on the fair value remeasurement of the Corporation's previously held interest of 10% in China AMC as a result of attaining significant influence.

[7] Consists mainly of foreign exchange gains or losses and interest on cash and cash equivalents.

Earnings from Sagard Investment Funds, as well as 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 from Sagard Investment Funds and Other Investments were as follows:

Twelve months ended December 31	2018	2017
Sagard Holdings	37	11
Sagard China	43	9
Investment and hedge funds	1	-
	81	20

OPERATING AND OTHER EXPENSES

Twelve months ended December 31	2018	2017
Operating expenses	88	88
Financing charges	43	44
Depreciation	12	11
Income taxes ^[1]	(18)	1
Operating and other expenses	125	144

[1] Includes a gain on the sale of tax losses on December 31, 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	2018	2017
Power Financial		
Lifeco		
Restructuring charges	(25)	(71)
Impact of U.S. tax reform	-	(96)
Net charge on sale of an equity investment	-	(54)
Share of IGM's other items	-	(2)
	(25)	(223)
IGM		
Restructuring and other charges	(7)	(58)
Premium paid on early redemption of debentures	(3)	-
Pension plan	-	15
Share of Lifeco's other items	(1)	(8)
	(11)	(51)
Pargesa		
Imerys - Disposal of roofing activity	56	-
Imerys - Impairments, restructuring charges and other	(44)	-
	12	-
Other subsidiaries		
IntegraMed - Goodwill impairment charge	(66)	-
Corporate operations		
Divestiture of La Presse operations	(54)	-
Premium paid on early redemption of debentures	(7)	-
	(61)	-
	(151)	(274)

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

CORPORATE OTHER ITEMS

In July 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 includes the financial contribution of \$50 million. Refer to the section "Square Victoria Communications Group" for more details.

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, 2018.

							Power Corporation Consolidated balance sheets	
December 31	Power Corporation	Power Financial	Lifeco	IGM	Other subsidiaries	Consolidation adjustments and other ⁽¹⁾	2018	2017
ASSETS								
Cash and cash equivalents	750	1,025	4,168	650	247	(399)	6,441	5,903
Investments	1,428	184	172,959	8,198	180	(293)	182,656	173,951
Investments – Power Financial, Lifeco and IGM	12,295	17,776	346	968	–	(31,385)	–	–
Investments – Other subsidiaries	600	–	–	–	–	(600)	–	–
Investment – Parjointco	–	3,291	–	–	–	–	3,291	3,354
Investments – other jointly controlled corporations and associates	679	–	8	683	104	322	1,796	1,800
Assets held for sale	–	–	897	–	–	–	897	169
Funds held by ceding insurers	–	–	9,251	–	–	–	9,251	9,893
Reinsurance assets	–	–	6,126	–	–	–	6,126	5,045
Other assets	471	115	10,564	1,259	604	(224)	12,789	11,676
Intangible assets	–	–	3,976	1,191	558	62	5,787	6,288
Goodwill	–	–	6,548	2,660	477	738	10,423	10,085
Investments on account of segregated fund policyholders	–	–	209,527	–	–	–	209,527	217,357
Investments on account of segregated fund policyholders held for sale	–	–	3,319	–	–	–	3,319	–
Total assets	16,223	22,391	427,689	15,609	2,170	(31,779)	452,303	445,521
LIABILITIES								
Insurance and investment contract liabilities	–	–	168,431	–	–	–	168,431	161,365
Liabilities held for sale	–	–	897	–	–	–	897	–
Obligations to securitization entities	–	–	–	7,370	–	–	7,370	7,596
Debentures and other debt instruments ⁽²⁾	646	250	6,459	1,850	838	(66)	9,977	9,511
Other liabilities	459	561	11,658	1,787	345	(74)	14,736	12,876
Insurance and investment contracts on account of segregated fund policyholders	–	–	209,527	–	–	–	209,527	217,357
Insurance and investment contracts on account of segregated fund policyholders held for sale	–	–	3,319	–	–	–	3,319	–
Total liabilities	1,105	811	400,291	11,007	1,183	(140)	414,257	408,705
EQUITY								
Non-participating shares	962	2,830	2,714	150	–	(5,694)	962	965
Participating shareholders' equity ⁽³⁾	14,156	18,750	21,809	4,452	739	(45,750)	14,156	13,650
Non-controlling interests ⁽⁴⁾⁽⁵⁾	–	–	2,875	–	248	19,805	22,928	22,201
Total equity	15,118	21,580	27,398	4,602	987	(31,639)	38,046	36,816
Total liabilities and equity	16,223	22,391	427,689	15,609	2,170	(31,779)	452,303	445,521

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

[2] The debentures and other debt instruments of Other subsidiaries are secured by the Other subsidiaries' assets which are non-recourse to the Corporation.

[3] Opening retained earnings were decreased by \$236 million as a result of the adoption of IFRS 15; refer to the "Adoption of IFRS 15" section for more details.

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

[5] Non-controlling interests in consolidation adjustments represents non-controlling interests in the equity of Power Financial and Other subsidiaries.

Total assets of the Corporation increased to \$452.3 billion at December 31, 2018, compared with \$445.5 billion at December 31, 2017, primarily due to the impact of currency movement and new business growth of Lifeco, partially offset by the impact of market movement.

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

Liabilities increased to \$414.3 billion at December 31, 2018, compared with \$408.7 billion at December 31, 2017, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contract liabilities increased by \$7.1 billion, primarily due to the impact of new business, the strengthening of the British pound, euro and U.S. dollar against the Canadian dollar and the acquisition of Retirement Advantage, partially offset by the impact of fair value adjustments.

- Insurance and investment contracts on account of segregated fund policyholders decreased by \$7.8 billion, primarily due to the combined impact of market value losses and investment income of \$8.3 billion, funds transferred to assets held for sale of \$3.3 billion and net withdrawals of \$1.8 billion, partially offset by the impact of currency movement of \$5.5 billion.

- Liabilities held for sale of \$897 million and insurance and investment contracts on account of segregated fund policyholders held for sale of \$3,319 million at December 31, 2018 relate to the pending sale of a heritage block of policies to Scottish Friendly, which is expected to close in the second half of 2019.

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, 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	2018	2017
ASSETS		
Cash and cash equivalents ⁽¹⁾	750	646
Investments		
Power Financial	12,295	11,589
Other subsidiaries	600	512
Sagard Investment Funds ⁽²⁾	1,257	1,554
China AMC	679	642
Other Investments	171	179
Other assets	471	444
Total assets	16,223	15,566
LIABILITIES		
Debentures	646	648
Other liabilities	459	303
Total liabilities	1,105	951
EQUITY		
Non-participating shares	962	965
Participating shareholders' equity	14,156	13,650
Total equity	15,118	14,615
Total liabilities and equity	16,223	15,566

[1] Cash equivalents include \$181 million (\$179 million at December 31, 2017) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified as investments in the Consolidated Financial Statements. Cash and cash equivalents also include cash held within the Sagard Investment Funds (see below).

[2] Excludes investment in IntegraMed, which is included in "Other subsidiaries".

CASH AND CASH EQUIVALENTS

Cash and cash equivalents held by the Corporation amounted to \$750 million at December 31, 2018, compared with \$646 million at the end of December 2017 (see "Non-consolidated Statements of Cash Flows" below for details). Of this amount, \$347 million (\$345 million at December 31, 2017) was held by the Sagard Investment Funds.

INVESTMENTS

Power Financial and Other subsidiaries

The carrying value of Power Corporation's investments in Power Financial and in Other subsidiaries, accounted for using the equity method, increased to \$12,895 million at December 31, 2018, compared with \$12,101 million at December 31, 2017:

	Power Financial	Other subsidiaries	Total
Carrying value, at the beginning of the year	11,589	512	12,101
Change in accounting policy ^[1]	(236)	–	(236)
Restated carrying value, at the beginning of the year	11,353	512	11,865
Investments in subsidiaries	–	90	90
Share of adjusted net earnings (losses)	1,498	(47)	1,451
Share of other items	(24)	(66)	(90)
Share of other comprehensive income	308	37	345
Dividends	(810)	–	(810)
Other ^[2]	(30)	74	44
Carrying value, at December 31, 2018	12,295	600	12,895

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

[2] Mainly comprised of i) the effect of change in ownership in a subsidiary of Lifeco and ii) the transfer of net assets of La Presse which includes the reclassification of pension obligations to the corporate activities; refer to the section "Square Victoria Communications Group" for more details.

Sagard Investment Funds

The investments in the Sagard Investment Funds were \$1,257 million at December 31, 2018, compared with \$1,554 million at December 31, 2017. Sagard Holdings' investments include a jointly controlled corporation and associates. Including cash, the fair value of the investments in the Sagard Investment Funds, and the adjustment for the fair value of investments in a jointly controlled corporation and associates, the total fair value amounted to \$1,639 million at December 31, 2018, compared with \$2,107 million at December 31, 2017.

	2018				2017			
December 31	Sagard Europe	Sagard Holdings	Sagard China	Total ^[2]	Sagard Europe	Sagard Holdings	Sagard China	Total ^[2]
Cost	280	342	515	1,137	250	402	570	1,222
Unrealized gain (loss)	111	14	(5)	120	249	(5)	88	332
Fair value of non-controlled portfolio investments ^[1]	391	356	510	1,257	499	397	658	1,554
Cash	–	185	162	347	–	219	126	345
Fair value of controlled portfolio investment and other ^[3]	–	38	(3)	35	–	208	–	208
Total fair value	391	579	669	1,639	499	824	784	2,107

[1] As reported in the Corporation's non-consolidated balance sheets.

[2] Fair value of non-controlled portfolio investments includes \$551 million of investments at December 31, 2018 (\$693 million at December 31, 2017) valued using quoted prices in active markets.

[3] Includes fair value of IntegraMed.

The total fair value of the Sagard Investment Funds decreased from \$2,107 million to \$1,639 million at December 31, 2018. The decrease of \$468 million is due to:

- A decrease of \$108 million in Sagard Europe's fair value due to distributions by the funds, offset by additional investments;
- A decrease in the Sagard China portfolio's fair value of \$115 million, as market values of investments decreased due to a decline in Chinese equity markets in the third and fourth quarters of 2018.
- A decrease of \$245 million in Sagard Holdings' fair value, mainly due to a decrease in the fair value of its investment in IntegraMed;

China AMC

The carrying value of Power Corporation's investment in China AMC was \$679 million at December 31, 2018, compared with \$642 million at December 31, 2017.

Carrying value, at the beginning of the year	642
Share of net earnings	29
Other comprehensive income	20
Dividends	(12)
Carrying value, at December 31, 2018	679

China AMC's assets under management, excluding subsidiary assets under management, were RMB¥906 billion (C\$180 billion) at June 30, 2018, compared with RMB¥870 billion (C\$168 billion) at December 31, 2017.

Other Investments

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. At December 31, 2018, the fair value of other investments amounted to \$171 million, compared with \$179 million at December 31, 2017.

The fair value of private investment funds was \$122 million at December 31, 2018, compared with \$124 million at December 31, 2017, and the Corporation had outstanding commitments to make future capital contributions to these funds for an aggregate amount of \$57 million. The Corporation expects that future distributions from these funds will be sufficient to meet outstanding commitments.

At December 31, 2018, the fair value of investments in hedge funds and other was \$24 million.

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 \$962 million at December 31, 2018, of which \$950 million are non-cumulative (same as at December 31, 2017). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

PARTICIPATING SHAREHOLDERS' EQUITY

Participating shareholders' equity was \$14,156 million at December 31, 2018, compared with \$13,650 million at December 31, 2017:

Twelve months ended December 31	2018	2017
Participating shareholders' equity, at the beginning of the year	13,650	12,898
Change in accounting policy ^[1]	(236)	-
Restated participating shareholder's equity, at the beginning of the year	13,414	12,898
Changes in retained earnings		
Net earnings before dividends on non-participating shares	1,339	1,338
Dividends declared	(752)	(706)
Effects of changes in capital and ownership of subsidiaries, and other	(52)	(10)
	535	622
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	398	(285)
Investment revaluation and cash flow hedges	(282)	110
Actuarial gains (losses) on defined benefit plans	21	(41)
Share of Pargesa and other jointly controlled corporations and associates	22	313
Share-based compensation	(1)	2
	158	99
Issuance of subordinate voting shares (1,657,567 shares in 2018 and 982,043 shares in 2017) under the Corporation's Executive Stock Option Plan	49	31
Participating shareholders' equity, at December 31	14,156	13,650

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

The book value per participating share of the Corporation was \$30.38 at December 31, 2018, compared with \$29.40 at the end of 2017.

OUTSTANDING NUMBER OF PARTICIPATING SHARES

At the date hereof, there were 48,854,772 Participating Preferred Shares of the Corporation outstanding, the same as at December 31, 2017, and 417,223,754 Subordinate Voting Shares of the Corporation outstanding, compared with 415,443,579 at December 31, 2017. In March 2019, the Corporation launched a substantial issuer bid to repurchase for cancellation up to \$1.35 billion of its subordinate voting shares (refer to the section "Subsequent Events"). At the date hereof, options were outstanding to purchase up to an aggregate of 16,330,733 Subordinate Voting Shares of the Corporation under the Corporation's Executive Stock Option Plan.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (condensed)

The condensed cash flows of Lifeco, IGM and other subsidiaries, 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, 2018.

	Power Financial								Power Corporation Consolidated	
Twelve months ended December 31	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Power Financial Consolidated	Power Corporation	Other subsidiaries	Consolidation adjustments	2018	2017
Cash flows from:										
Operating activities	1,386	6,494	785	(1,536)	7,129	652	54	(719)	7,116	6,892
Financing activities	(1,353)	(1,267)	(1,132)	1,474	(2,278)	(714)	171	667	(2,154)	(596)
Investing activities	(62)	(4,776)	30	94	(4,714)	144	(88)	50	(4,608)	(5,536)
Effect of changes in exchange rates on cash and cash equivalents	-	166	-	-	166	22	(4)	-	184	(39)
Increase (decrease) in cash and cash equivalents	(29)	617	(317)	32	303	104	133	(2)	538	721
Cash and cash equivalents, at the beginning of the year	1,054	3,551	967	(251)	5,321	646	115	(179)	5,903	5,182
Cash and cash equivalents, at December 31	1,025	4,168	650	(219)	5,624	750	248	(181)	6,441	5,903

Consolidated cash and cash equivalents increased by \$538 million in the twelve-month period ended December 31, 2018, compared with an increase of \$721 million in the corresponding period in 2017.

Operating activities produced a net inflow of \$7,116 million in the twelve-month period ended December 31, 2018, compared with a net inflow of \$6,892 million in the corresponding period in 2017.

Cash flows from financing activities, which include 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 \$2,154 million in the twelve-month period ended December 31, 2018, compared with a net outflow of \$596 million in the corresponding period in 2017.

Cash flows from investing activities resulted in a net outflow of \$4,608 million in the twelve-month period ended December 31, 2018, compared with a net outflow of \$5,536 million in the corresponding period in 2017.

The Corporation increased its level of fixed income securities with maturities of more than three months, resulting in a net outflow of \$2 million in the twelve-month period ended December 31, 2018, compared with a net inflow of \$25 million in the corresponding period in 2017.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Corporation is a holding company, corporate cash flows are primarily comprised of dividends received and income from investments, 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	2018	2017
OPERATING ACTIVITIES		
Dividends from Power Financial and other subsidiaries	801	771
Dividends from China AMC	12	11
Corporate operations, net of non-cash items	(161)	(166)
	652	616
FINANCING ACTIVITIES		
Dividends paid on non-participating shares	(52)	(52)
Dividends paid on participating shares	(700)	(654)
Issuance of subordinate voting shares	43	27
Repurchase of non-participating shares for cancellation	(3)	(1)
Issuance of debentures	250	250
Redemption of debentures	(250)	-
Change in other debt instruments	-	(55)
Other	(2)	(2)
	(714)	(487)
INVESTING ACTIVITIES		
Proceeds from disposal of investments	1,127	732
Purchase of investments	(887)	(786)
Investment in other subsidiaries, net of disposal	(90)	(238)
Other (including acquisition of capital assets)	(6)	(9)
	144	(301)
Effect of changes in exchange rates on cash and cash equivalents	22	(9)
Increase (decrease) in cash and cash equivalents	104	(181)
Cash and cash equivalents, at the beginning of the year	646	827
Cash and cash equivalents, at December 31	750	646
CASH AND CASH EQUIVALENTS:		
Corporate	403	301
Sagard Investment Funds	347	345
	750	646

On a non-consolidated basis, cash and cash equivalents increased by \$104 million in the twelve-month period ended December 31, 2018, compared with a decrease of \$181 million in the corresponding period in 2017.

Operating activities resulted in a net inflow of \$652 million in the twelve-month period ended December 31, 2018, compared with a net inflow of \$616 million in the corresponding period in 2017.

- Dividends paid by Power Financial on its common shares during the twelve-month period ended December 31, 2018 were \$1.7115 per share, compared with \$1.63 per share in the corresponding period in 2017. Power Corporation received dividends of \$801 million from Power Financial in the twelve-month period ended December 31, 2018, compared with \$763 million in the corresponding period in 2017. On March 20, 2019, Power Financial announced a 5.2% increase in the quarterly dividend on its common shares, from \$0.4330 to \$0.4555 per share, payable on May 1, 2019.

The Corporation's financing activities during the twelve-month period ended December 31, 2018 were a net outflow of \$714 million, compared with a net outflow of \$487 million in the corresponding period in 2017, and included:

- Dividends paid on non-participating and participating shares by the Corporation of \$752 million, compared with \$706 million in the corresponding period in 2017. In the twelve-month period ended December 31, 2018, dividends paid on the Corporation's participating shares were \$1.5045 per share, compared with \$1.4105 per share in the corresponding period in 2017.
- Issuance of Subordinate Voting Shares of the Corporation for \$43 million pursuant to the Corporation's Executive Stock Option Plan, compared with issuance for an amount of \$27 million in the corresponding period in 2017.
- Issuance of debentures of \$250 million, consistent with the issuance in 2017.
- A redemption of debentures of \$250 million.
- Repurchase of non-participating shares for cancellation of \$3 million, compared with a repurchase of \$1 million in the corresponding period in 2017.

The Corporation's investing activities during the twelve-month period ended December 31, 2018 were a net inflow of \$144 million, compared with a net outflow of \$301 million in the corresponding period in 2017.

Proceeds from disposal of investments and purchase of investments are comprised of investment activities of the Sagard Investment Funds and Other Investments.

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.

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 Other subsidiaries 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, 2018.

December 31	2018	2017
DEBENTURES AND OTHER DEBT INSTRUMENTS		
Power Corporation	646	648
Power Financial	250	250
Lifeco	6,459	5,777
IGM	1,850	2,175
Other subsidiaries ^{[1][2]}	838	735
Consolidation adjustments	(66)	(74)
	9,331	8,863
	9,977	9,511
NON-PARTICIPATING SHARES		
Power Corporation	962	965
Power Financial	2,830	2,830
Lifeco	2,714	2,714
IGM	150	150
	5,694	5,694
	6,656	6,659
EQUITY		
Participating shareholders' equity	14,156	13,650
Non-controlling interests ^[3]	17,234	16,507
	31,390	30,157
	48,023	46,327

[1] Other subsidiaries includes a controlled portfolio investment.

[2] Secured by the Other subsidiaries' assets 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.

On March 8, 2019, the Corporation launched a substantial issuer bid to repurchase for cancellation up to \$1.35 billion of its subordinate voting shares. On the same date, Power Financial and Lifeco also launched substantial issuer bids to repurchase for cancellation up to \$1.65 billion and \$2.0 billion of their respective common shares (refer to the section "Subsequent Events").

POWER 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.
- On July 25, 2018, the Corporation issued \$250 million 30-year 4.455% debentures due on July 27, 2048. On September 6, 2018, the Corporation used the proceeds to redeem all of its \$250 million 7.57% debentures due April 22, 2019. A premium of \$7 million was paid on the early redemption.

LIFECO

- On February 28, 2018, Lifeco issued \$500 million of 10-year 3.337% debentures.
- On March 21, 2018, Lifeco's 6.14% \$200 million debenture notes matured at their principal amount together with accrued interest.
- On May 17, 2018, Great-West Lifeco Finance 2018, LP, a subsidiary of Lifeco, issued \$384 million (US\$300 million) 4.047% senior notes due May 17, 2028 and \$640 million (US\$500 million) 4.581% senior notes due May 17, 2048.
- On June 18, 2018, Great-West Life & Annuity Insurance Capital, LP II, a subsidiary of Lifeco, redeemed all \$399 million (US\$300 million) aggregate principal amount of its 2.538% plus 3-month LIBOR unsecured subordinated debentures due May 16, 2046.
- On June 26, 2018, Great-West Lifeco Finance (Delaware) LP II, a subsidiary of Lifeco, redeemed all \$500 million principal amount of its 7.127% subordinated debentures due June 26, 2048 at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

RATINGS

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

IGM

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

Subsequent event

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

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

The "A" rating assigned to the Corporation's debentures by S&P is the sixth 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 a diversified international management and holding company with interests in the financial services, asset management, sustainable and renewable energy and other business sectors. Its principal holding is a controlling interest in Power Financial which holds substantial interests in the financial services sector through its controlling interest in each of Lifeco and IGM. Power Financial 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 which should generate long-term, sustainable growth in earnings and dividends. The Corporation aims to act like an owner with a long-term perspective and a strategic vision anchored in strong core values.

The Co-Chief Executive Officers are 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 Co-Chief Executive Officers. 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 Sagard Investment Funds and Power Energy 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. See Note 27 to the Corporation's 2018 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2018.

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, and any advances are at the banks' sole discretion. At December 31, 2018, both lines of credit were unutilized.

Power Corporation's management of liquidity risk has not changed materially since December 31, 2017.

CREDIT RISK AND MARKET RISK

In order to maintain an appropriate level of available liquidity, the Corporation maintains a portfolio of financial instruments which can be a combination of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, investment funds and hedge funds) and derivatives. The Corporation also holds through its Sagard Investment Funds, 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 foreign exchange exposures. 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, 2017.

MARKET RISK

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

Foreign Exchange Risk

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

In its ongoing operations, the Corporation may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2018, approximately 75% of the \$750 million of Power Corporation's cash and cash equivalents and fixed income securities were denominated in foreign currencies, consisting of \$338 million in U.S. dollars, \$64 million in euros, \$52 million in Hong Kong dollars and \$107 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 Sagard Investment Funds, investments in foreign companies which are subject to foreign exchange risk. These investment funds are diversified among the U.S. dollar, the euro and the Chinese renminbi which contribute to reducing the concentration of foreign exchange risk. At December 31, 2018, 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 \$70 million.

Interest Rate Risk

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

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 Sagard Investment Funds, shares of private and publicly traded companies which are subject to equity risk. At December 31, 2018, the Sagard Investment Funds had \$551 million in shares of publicly traded companies and \$706 million in shares of private companies. The three Sagard platforms are diversified, investing in three distinct economic regions: North America, Europe and China. This diversification avoids a concentration in any one single economy.

At December 31, 2018, the impact of a 5% decrease in the value of other investments and Sagard Investment Funds would have been a \$55 million unrealized loss recorded in other comprehensive income.

Power Corporation's management of financial instruments risk has not changed materially since December 31, 2017. For a further discussion of Power Corporation's risk management, please refer to Note 22 to the Corporation's 2018 Consolidated Financial Statements.

OPERATIONAL RISK

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

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

CYBERSECURITY RISK

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

REGULATORY COMPLIANCE RISK

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

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

REPUTATION RISK

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

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

EMERGING RISKS

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

Monitoring emerging risks is an important component of risk management. Power 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 environment.
- The Corporation's executive officers act as the Corporation's risk management committee. They meet regularly to identify, analyze and review the Corporation's risks and to implement strategies to mitigate these risks.

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

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

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

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

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

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

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
At December 31				
ASSETS				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	91,815	91,815	89,824	89,824
Available for sale	13,713	13,713	12,807	12,807
Mortgage and other loans				
Fair value through profit or loss	817	817	340	340
Shares				
Fair value through profit or loss	8,794	8,794	8,194	8,194
Available for sale	1,329	1,329	1,617	1,617
Investment properties	5,218	5,218	4,851	4,851
Funds held by ceding insurers	7,155	7,155	7,938	7,938
Derivative instruments	434	434	424	424
Assets held for sale ^[1]	782	782	–	–
Other assets	927	927	892	892
	130,984	130,984	126,887	126,887
Assets disclosed at fair value				
Bonds				
Loans and receivables	19,722	20,619	17,959	19,470
Mortgage and other loans				
Loans and receivables	32,080	32,524	29,748	30,680
Shares				
Available for sale ^[2]	239	239	331	331
Funds held by ceding insurers	91	91	106	106
	52,132	53,473	48,144	50,587
Total	183,116	184,457	175,031	177,474
LIABILITIES				
Liabilities recorded at fair value				
Investment contract liabilities	1,711	1,711	1,841	1,841
Investment contract liabilities held for sale	27	27	–	–
Derivative instruments	1,597	1,597	1,364	1,364
Other liabilities	185	185	97	97
	3,520	3,520	3,302	3,302
Liabilities disclosed at fair value				
Obligations to securitization entities	7,370	7,437	7,596	7,658
Debentures and other debt instruments	9,977	10,823	9,511	10,524
Deposits and certificates	622	622	555	555
	17,969	18,882	17,662	18,737
Total	21,489	22,402	20,964	22,039

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the twelve-month period ended December 31, 2018. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	2018			2017		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
December 31						
Power Corporation	119	–	(4)	7	1	1
Power Financial	20	–	(2)	17	2	2
Lifeco	19,614	417	(1,145)	16,589	384	(952)
IGM	2,883	16	(13)	3,269	36	8
Other subsidiaries	131	1	1	95	1	1
	22,648	434	(1,159)	19,970	423	(941)
	22,767	434	(1,163)	19,977	424	(940)

During the twelve-month period ended December 31, 2018, there was an increase of \$2.8 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 \$434 million at December 31, 2018 from \$424 million at December 31, 2017. See Note 26 to the Corporation's 2018 Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

GUARANTEES

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

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See also Note 32 to the Corporation's 2018 Consolidated Financial Statements.

Contingent Liabilities

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

Commitments and Contractual Obligations

Payments due by period	Less than 1 year	1–5 years	More than 5 years	Undefined	Total
Power Corporation ^[1, 2]	5	1	650	285	941
Power Financial	30	6	251	–	287
Lifeco	1,865	1,812	5,214	–	8,891
IGM	1,835	6,208	1,911	–	9,954
Other subsidiaries and consolidation entries	302	358	464	641	1,765
Total	4,037	8,385	8,490	926	21,838
Debtentures and other debt instruments ^[3]	729	1,514	7,800	–	10,043
Obligations to securitization entities	1,208	6,135	27	–	7,370
Deposits and certificates	615	5	2	–	622
Operating leases ^[4]	176	522	661	–	1,359
Purchase obligations ^[5]	91	148	–	–	239
Pension contributions ^[6]	346	–	–	–	346
Contractual commitments ^[1, 7]	872	61	–	926	1,859
Total	4,037	8,385	8,490	926	21,838

[1] Includes \$285 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 debtentures of the Corporation of \$646 million.

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

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

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

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

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

Income Taxes (non-consolidated basis)

The Corporation had, at December 31, 2018, non-capital losses of \$308 million available to reduce future taxable income (including capital gains). These losses expire during the years 2029 to 2038.

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, Great-West Life and Putnam enter into various transactions with related companies which include providing group insurance benefits and subadvisory services to other companies within the Power 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 2019.

See Note 30 to the Corporation's 2018 Consolidated Financial Statements for additional information.

Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated or accounted for using the equity method, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the notes to the Corporation's 2018 Consolidated Financial Statements.

CONSOLIDATION

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

JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

MEASUREMENT

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

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

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

Additional details regarding these estimates can be found in Note 13 to the Corporation's 2018 Consolidated Financial Statements.

FAIR VALUE MEASUREMENT

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

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance contract liabilities are largely offset by corresponding changes in the fair value of 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 and settlement gains or losses are recognized immediately in net earnings.
- Net interest costs, current service costs, past service costs and curtailment gains or losses are included in operating and administrative expenses.
- Remeasurements represent actuarial gains and losses, and the actual return on plan assets, less interest calculated at the discount rate and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not subsequently reclassified to net earnings.
- The accrued benefit asset (liability) represents the plan surplus (deficit).
- Payments to the defined contribution plans are expensed as incurred.

INCOME TAXES

CURRENT INCOME TAX

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

DEFERRED INCOME TAX

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

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

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

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

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

Changes in Accounting Policies

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

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

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

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

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

The Corporation and its subsidiaries have elected to apply the modified retrospective approach, as permitted by the transition provisions within IFRS 15. As a result of changes to the treatment of contract costs, Lifeco and IGM have recorded an adjustment for the derecognition of certain deferred acquisition costs included in other assets, deferred selling commissions included in intangible assets and related income tax liabilities which resulted in a decrease of \$236 million in the opening retained earnings of the Corporation at January 1, 2018.

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

	December 31, 2017 (as previously reported)	Impact of change in accounting policy	January 1, 2018 (restated)
Assets			
Other assets	8,495	5	8,500
Intangible assets ^[1]	6,288	(767)	5,521
		(762)	
Liabilities and shareholders' equity			
Deferred tax liabilities	1,769	(205)	1,564
Retained earnings	11,427	(236)	11,191
Non-controlling interests	22,201	(321)	21,880
		(762)	

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

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

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

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

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

Future Accounting Changes

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

New standard	Summary of future changes
IFRS 16 – Leases (IFRS 16)	In January 2016, the IASB issued IFRS 16, <i>Leases</i>, which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. The distinction between operating and financing leases no longer applies. A lessee will recognize the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon transition. The Corporation expects to use the modified retrospective method upon transition with no restatement of comparative financial information. Under this approach, the Corporation will recognize the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at January 1, 2019. The Corporation will recognize a lease liability at the present value of the remaining lease payments discounted using the lease's incremental borrowing rate at January 1, 2019. The right-of-use asset will be recognized on a lease by lease basis either at i) its carrying amount as if IFRS 16 had been applied since the commencement date but discounted using the Corporation's incremental borrowing rate at January 1, 2019; or ii) an amount equal to the lease liability adjusted for any prepaid or accrued lease payments. The Corporation and its subsidiaries are finalizing their assessment of the quantitative impact of the adoption of IFRS 16 which will be disclosed in the first quarter of 2019. The preliminary estimate of the impact includes the recognition of approximately \$965 million in right-of-use assets and a lease liability of \$1,015 million. The Corporation and its subsidiaries do not anticipate that there will be a material impact on the statement of earnings. The standard is effective for annual reporting periods beginning on or after January 1, 2019.
IFRS 17 – Insurance Contracts (IFRS 17)	In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i>, which will replace IFRS 4, <i>Insurance Contracts</i> and will be applied retrospectively. If the full retrospective application is impractical, then the modified retrospective or fair value methods may be used. In November 2018, the IASB proposed an amendment to IFRS 17 providing a deferral of one year of the effective date of the standard to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instruments standard, IFRS 9, <i>Financial Instruments</i>, so that both IFRS 9 and IFRS 17 will have the same effective date. The IASB continues to evaluate certain elements of the standard and is expected to issue narrow-scope amendments specific to these items. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has made progress in implementing its project plan. Lifeco has assembled a project team that is working on the implementation of IFRS 17 which involves preparing the financial reporting systems and processes for reporting under IFRS 17, as well as monitoring developments from the IASB, the Transition Resource Group for IFRS 17 and other industry associations. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces new measurement models depending on the nature of the insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfillment cash flows: the current estimates of amounts that Lifeco expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfillment cash flows at each reporting date using current estimates of the amount, timing and uncertainty of cash flows and discount rates. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how it reports financial performance in the statements of earnings. Lifeco continues to assess the impact of IFRS 17, which is expected to be significant on the timing of earnings recognition for its insurance contracts as well as continues to assess the impact on regulatory and tax regimes that are dependent upon IFRS accounting values. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements.

New standard	Summary of future changes
Current implication of IFRS 9 – Financial Instruments (IFRS 9)	In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i>, which replaces IAS 39, <i>Financial Instruments: Recognition and Measurement</i>, the current standard for accounting for financial instruments, with an effective date of January 1, 2018. The standard was completed in three separate phases: ■ Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. ■ Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model. ■ Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities. In September 2016, the IASB issued an amendment to IFRS 4, <i>Insurance Contracts</i> (IFRS 4). The amendment "Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>" 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: ■ <i>Deferral Approach</i>: provides the option to defer implementation of IFRS 9 until the year 2022 or the effective date of the new insurance contract standard, whichever is earlier; or ■ <i>Overlay Approach</i>: provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies and has elected to apply the deferral approach which permits the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation continues to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. Pargesa (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to Pargesa's results.
IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)	In June 2017, the IASB issued IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12, <i>Income Taxes</i>, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries do not anticipate a significant impact from the adoption of this interpretation.
IFRS 3 – Business Combinations (IFRS 3)	In October 2018, the IASB issued amendments to IFRS 3, <i>Business Combinations</i>. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments are effective for periods beginning on or after January 1, 2020. The Corporation and its subsidiaries are evaluating the impact of the adoption of these amendments.
IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)	In October 2018, the IASB issued amendments to IAS 1, <i>Presentation of Financial Statements</i> and IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for periods beginning on or after January 1, 2020. The Corporation and its subsidiaries are evaluating the impact of the adoption of these amendments.

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation's management, under the supervision of the Co-Chief Executive Officers 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 Co-Chief Executive Officers and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2018, based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Co-Chief Executive Officers and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective at December 31, 2018.

There have been no changes in the Corporation's internal control over financial reporting during the year ended December 31, 2018 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Selected Annual Information

For the years ended December 31	2018	2017	2016
Total revenues	48,098	51,362	50,750
Assets under administration [in billions]	1,571	1,527	1,408
Net earnings (attributable to participating shareholders)	1,287	1,286	1,082
per share – basic	2.77	2.77	2.33
per share – diluted	2.76	2.76	2.32
Adjusted net earnings (attributable to participating shareholders) ^[1]	1,438	1,560	1,223
per share – basic	3.09	3.36	2.64
Consolidated assets	452,303	445,521	422,724
Total financial liabilities	26,056	24,946	24,146
Debentures and other debt instruments	9,977	9,511	8,579
Shareholders' equity	15,118	14,615	13,864
Book value per participating share	30.38	29.40	27.84
Number of participating shares outstanding [millions]			
Participating preferred shares	48.9	48.9	48.9
Subordinate voting shares	417.1	415.4	414.5
Dividends per share [declared]			
Participating shares	1.5045	1.4105	1.3163
First preferred shares			
1986 Series ^[2]	1.2390	0.9994	0.9452
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] 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 FINANCIAL STATEMENTS

Consolidated Balance Sheets

December 31 [in millions of Canadian dollars]	2018	2017
ASSETS		
Cash and cash equivalents [Note 5]	6,441	5,903
Investments [Note 6]		
Bonds	125,250	120,590
Mortgage and other loans	32,897	30,088
Shares	10,362	10,142
Investment properties	5,218	4,851
Loans to policyholders	8,929	8,280
	182,656	173,951
Assets held for sale [Note 4]	897	169
Funds held by ceding insurers [Note 7]	9,251	9,893
Reinsurance assets [Note 13]	6,126	5,045
Derivative financial instruments [Note 26]	434	424
Investments in jointly controlled corporations and associates [Note 8]	5,087	5,154
Owner-occupied properties and capital assets [Note 9]	1,867	1,734
Other assets [Note 10]	9,390	8,495
Deferred tax assets [Note 17]	1,098	1,023
Intangible assets [Note 11]	5,787	6,288
Goodwill [Note 11]	10,423	10,085
Investments on account of segregated fund policyholders [Note 12]	209,527	217,357
Investments on account of segregated fund policyholders held for sale [Note 4]	3,319	-
Total assets	452,303	445,521
LIABILITIES		
Insurance contract liabilities [Note 13]	166,720	159,524
Investment contract liabilities [Note 13]	1,711	1,841
Liabilities held for sale [Note 4]	897	-
Obligations to securitization entities [Note 14]	7,370	7,596
Debentures and other debt instruments [Note 15]	9,977	9,511
Derivative financial instruments [Note 26]	1,597	1,364
Other liabilities [Note 16]	11,544	9,743
Deferred tax liabilities [Note 17]	1,595	1,769
Insurance and investment contracts on account of segregated fund policyholders [Note 12]	209,527	217,357
Insurance and investment contracts on account of segregated fund policyholders held for sale [Note 4]	3,319	-
Total liabilities	414,257	408,705
EQUITY		
Stated capital [Note 18]		
Non-participating shares	962	965
Participating shares	766	717
Retained earnings	11,726	11,427
Reserves	1,664	1,506
Total shareholders' equity	15,118	14,615
Non-controlling interests [Note 20]	22,928	22,201
Total equity	38,046	36,816
Total liabilities and equity	452,303	445,521

Approved by the Board of Directors

Signed,

J. David A. Jackson
Director

Signed,

André Desmarais
Director

Consolidated Statements of Earnings

For the years ended December 31 [in millions of Canadian dollars, except per share amounts]	2018	2017 [Note 2]
REVENUES		
Premium income		
Gross premiums written [Note 13]	39,963	38,239
Ceded premiums	(4,523)	(4,359)
Premium income, net	35,440	33,880
Net investment income [Note 6]		
Regular net investment income	6,673	6,636
Change in fair value through profit or loss	(3,604)	1,438
Net investment income	3,069	8,074
Fee income	8,776	8,510
Other revenues	813	898
Total revenues	48,098	51,362
EXPENSES		
Policyholder benefits		
Insurance and investment contracts		
Gross [Note 13]	32,357	30,801
Ceded	(2,445)	(2,214)
Total net policyholder benefits	29,912	28,587
Policyholder dividends and experience refunds	1,654	1,800
Changes in insurance and investment contract liabilities	502	5,256
Total paid or credited to policyholders	32,068	35,643
Commissions	3,512	3,712
Operating and administrative expenses [Note 23]	8,175	8,132
Financing charges [Note 24]	462	512
Total expenses	44,217	47,999
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,881	3,363
Share of earnings of investments in jointly controlled corporations and associates [Note 8]	164	214
Earnings before income taxes	4,045	3,577
Income taxes [Note 17]	578	543
Net earnings	3,467	3,034
ATTRIBUTABLE TO		
Non-controlling interests [Note 20]	2,128	1,696
Non-participating shareholders	52	52
Participating shareholders	1,287	1,286
	3,467	3,034
EARNINGS PER PARTICIPATING SHARE [Note 29]		
Net earnings attributable to participating shareholders		
– Basic	2.77	2.77
– Diluted	2.76	2.76

Consolidated Statements of Comprehensive Income

For the years ended December 31 [in millions of Canadian dollars]	2018	2017
Net earnings	3,467	3,034
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)	(135)	344
Income tax (expense) benefit	29	-
Realized (gains) losses transferred to net earnings	(188)	(416)
Income tax expense (benefit)	(4)	19
	(298)	(53)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	13	18
Income tax (expense) benefit	(2)	(5)
Realized (gains) losses transferred to net earnings	(69)	405
Income tax expense (benefit)	17	(160)
	(41)	258
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation	845	(529)
Realized (gains) losses on translation	(11)	-
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	(50)	(90)
Income tax (expense) benefit	6	12
	790	(607)
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	21	490
Income tax (expense) benefit	(5)	(2)
	16	488
Total - items that may be reclassified	467	86
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS		
Actuarial gains (losses) on defined benefit plans [Note 25]	17	(95)
Income tax (expense) benefit	1	-
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	2	(2)
Total - items that will not be reclassified	20	(97)
Other comprehensive income (loss)	487	(11)
Comprehensive income	3,954	3,023
ATTRIBUTABLE TO		
Non-controlling interests	2,467	1,594
Non-participating shareholders	52	52
Participating shareholders	1,435	1,377
	3,954	3,023

Consolidated Statements of Changes in Equity

For the year ended December 31, 2018 [in millions of Canadian dollars]	Stated capital			Reserves				Non-controlling interests	Total equity
	Non-participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 28]	Total			
Balance, beginning of year									
As previously reported	965	717	11,427	185	1,321	1,506	22,201		36,816
Change in accounting policy [Note 2]	-	-	(236)	-	-	-	(321)		(557)
Restated 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

For the year ended December 31, 2017 [in millions of Canadian dollars]	Stated capital			Reserves				Non-controlling interests	Total equity
	Non-participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 28]	Total			
Balance, beginning of year	966	686	10,805	183	1,224	1,407	21,197		35,061
Net earnings	-	-	1,338	-	-	-	1,696		3,034
Other comprehensive income (loss)	-	-	-	-	91	91	(102)		(11)
Comprehensive income	-	-	1,338	-	91	91	1,594		3,023
Dividends to shareholders									
Non-participating	-	-	(52)	-	-	-	-		(52)
Participating	-	-	(654)	-	-	-	-		(654)
Dividends to non-controlling interests	-	-	-	-	-	-	(1,275)		(1,275)
Share-based compensation [Note 19]	-	-	-	37	-	37	34		71
Stock options exercised	-	31	-	(35)	-	(35)	31		27
Repurchase of shares of the Corporation for cancellation	(1)	-	-	-	-	-	-		(1)
Effects of changes in capital and ownership of subsidiaries, and other	-	-	(10)	-	6	6	620		616
Balance, end of year	965	717	11,427	185	1,321	1,506	22,201		36,816

Consolidated Statements of Cash Flows

For the years ended December 31 [in millions of Canadian dollars]	2018	2017 ^[1]
OPERATING ACTIVITIES		
Earnings before income taxes	4,045	3,577
Income tax paid, net of refunds	(612)	(483)
Adjusting items		
Change in insurance and investment contract liabilities	(379)	4,391
Change in funds held by ceding insurers	663	857
Change in reinsurance assets	51	830
Change in fair value through profit or loss	3,604	(1,438)
Other	(256)	(842)
	7,116	6,892
FINANCING ACTIVITIES		
Dividends paid		
By subsidiaries to non-controlling interests	(1,323)	(1,267)
Non-participating shares	(52)	(52)
Participating shares	(700)	(654)
	(2,075)	(1,973)
Issue of subordinate voting shares by the Corporation [Note 18]	43	27
Repurchase of non-participating shares by the Corporation	(3)	(1)
Issue of common shares by subsidiaries	74	159
Repurchase of common shares by subsidiaries	(74)	(63)
Issue of preferred shares by subsidiaries	-	450
Issue of debentures and senior notes [Note 15]	1,962	2,025
Redemption of debentures [Note 15]	(1,871)	(1,284)
Change in other debt instruments	129	252
Increase in obligations to securitization entities	1,772	2,480
Repayments of obligations to securitization entities and other	(2,111)	(2,668)
	(2,154)	(596)
INVESTMENT ACTIVITIES		
Bond sales and maturities	25,577	27,723
Mortgage and other loan repayments	4,704	5,606
Sale of shares	4,121	4,248
Sale of investment properties	63	72
Change in loans to policyholders	(208)	(165)
Business acquisitions, net of disposal of business (net of related cash and cash equivalents) [Note 3]	(334)	(410)
Cash and cash equivalents classified as held for sale [Note 4]	(112)	-
Investment in bonds	(27,031)	(31,173)
Investment in mortgage and other loans	(6,121)	(6,328)
Investment in shares	(5,080)	(3,878)
Investments in jointly controlled corporations and associates	(76)	(705)
Proceeds from investments in jointly controlled corporations and associates	199	-
Proceeds from assets held for sale [Note 4]	169	-
Investment in investment properties and other	(479)	(526)
	(4,608)	(5,536)
Effect of changes in exchange rates on cash and cash equivalents	184	(39)
Increase in cash and cash equivalents	538	721
Cash and cash equivalents, beginning of year	5,903	5,182
Cash and cash equivalents, end of year	6,441	5,903
NET CASH FROM OPERATING ACTIVITIES INCLUDES		
Interest and dividends received	5,932	5,642
Interest paid	681	624

[1] The Corporation reclassified certain comparative figures (see Note 2).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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) incorporated and domiciled in Canada and located at 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Corporation is a diversified international management and holding company with interests in companies in the financial services, asset management, sustainable and renewable energy and other business sectors.

The Consolidated Financial Statements (financial statements) of Power Corporation as at and for the year ended December 31, 2018 were approved by its Board of Directors on March 20, 2019.

Note 2 Basis of Presentation and Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The financial statements of Power Corporation as at December 31, 2018 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.

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) 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:

Corporations	Primary business operation	% equity interest	
		2018	2017
Power Financial Corporation	Financial services holding company	65.5	65.5
Great-West Lifeco Inc. ^{[3][2]}	Financial services holding company with interests in insurance and wealth management companies	71.8	71.7
IGM Financial Inc. ^{[3][4]}	Wealth and asset management company	65.2	65.3
Portag3 Ventures LP ^[5]	Dedicated to backing innovative financial services companies	100.0	100.0
Wealthsimple Financial Corp. ^[6]	Technology-driven investment manager	81.7	77.3
Power Energy Corporation	Holding company with interests in sustainable and renewable energy	100.0	100.0

[1] Power Financial holds a 67.8% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco (67.7% and 4.0%, respectively, at December 31, 2017).

[2] Lifeco's principal operating subsidiary companies are Great-West Life, Great-West Financial, London Life, Canada Life, Irish Life and Putnam.

[3] Power Financial holds a 61.4% equity interest and Great-West Life holds a 3.8% equity interest in IGM Financial (61.5% and 3.8%, respectively, at December 31, 2017).

[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.

[6] Power Financial, Portag3 and IGM Financial hold an equity interest of 16.0%, 21.9% and 43.8%, respectively, in Wealthsimple (10.8%, 29.4% and 37.1%, respectively, at December 31, 2017).

The financial statements of Power Corporation include the results of Power Financial, Lifeco and IGM Financial, which are public companies, on a consolidated basis; the amounts shown in the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and

consolidated statements of cash flows are 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, 2018. Certain notes to Power Corporation's financial statements are derived from the notes to the financial statements of Power Financial.

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

Corporations	Classification	Primary business operation	% equity interest	
			2018	2017
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% (55.5% at December 31, 2017) equity interest in Pargesa Holding SA.

[3] Power Corporation and IGM each hold an equity interest of 13.9% in China AMC.

COMPARATIVE FIGURES

The Corporation reclassified certain comparative figures in the statement of cash flows for the year ended December 31, 2017 to conform to the presentation in the current year. Previously, mortgage loan originations at IGM that were to be subsequently sold or securitized were presented on a net basis within the investment activities of the statements of cash flows. The Corporation now presents them on a gross basis. The change in presentation resulted in an increase in Mortgage and other loan repayments of \$2.8 billion and an offsetting increase in Investment in mortgage and other loans of \$2.8 billion. This correction in presentation is not material and has no effect on the total investing activities or the total cash flows in the statements of cash flows, nor does it have an effect on net earnings. In addition, the Corporation has presented the cash flows related to securitization activities on a gross basis in the financing activities. These were previously presented on a net basis.

CHANGE IN ACCOUNTING POLICY**IFRS 15—REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)**

Effective January 1, 2018, the Corporation adopted IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. The revenue recognition requirements in IFRS 15 do not apply to the revenue arising from insurance contracts, leases and financial instruments.

The Corporation's fee income is within the scope of IFRS 15 and primarily includes fees earned from management of segregated fund assets, management, administration and distribution of mutual fund assets, record keeping, fees earned on administrative services only for Group health contracts, commissions and fees earned from management services. Under IFRS 15, the Corporation recognizes revenue on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

IFRS 15 outlines the criteria for the eligibility of capitalizing contract costs as well as provides guidance for costs to fulfill a contract. In the asset management business, when the customer is determined to be the investment fund, contract costs related to the distribution of the investment fund must be assessed as a cost of fulfilling a contract.

The Corporation's subsidiaries previously capitalized all commissions related to the distribution of investment funds and amortized them over their estimated useful life, not exceeding a period of seven years.

To determine whether sales commissions associated with the distribution of investment funds should be capitalized, the Corporation and its subsidiaries assess whether the customer is the investment fund or the individual investor. Where it is determined that the investment fund is the customer, contract costs are expensed as incurred. Where it is determined that the individual investor is the customer, contract costs are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years.

The Corporation and its subsidiaries have elected to apply the modified retrospective approach, as permitted by the transition provisions within IFRS 15. As a result of changes to the treatment of contract costs, Lifeco and IGM have recorded an adjustment for the derecognition of certain deferred acquisition costs included in other assets, deferred selling commissions included in intangible assets and related income tax liabilities which resulted in a decrease of \$236 million in the opening retained earnings of the Corporation as at January 1, 2018. The balance of deferred selling commissions has been reclassified to other assets as they are a cost of obtaining a contract.

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

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

	December 31, 2017 [as previously reported]	Impact of change in accounting policy	January 1, 2018 [restated]
Assets			
Other assets	8,495	5	8,500
Intangible assets ^[1]	6,288	(767)	5,521
		(762)	
Liabilities and shareholders' equity			
Deferred tax liabilities	1,769	(205)	1,564
Retained earnings	11,427	(236)	11,191
Non-controlling interests	22,201	(321)	21,880
		(762)	

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

Comparative figures

In addition, Lifeco has reclassified comparative amounts in the consolidated statements of earnings for the change in presentation of certain revenues and expenses on a gross or net basis. These changes mostly related to a change in the principal versus agent relationship as a result of the guidance prescribed under IFRS 15 in assessing whether the entity controls the service

transferred to the customer. Certain balances within gross premiums written, fee income, commissions, and operating and administrative expenses were therefore reclassified. These reclassifications were not significant and did not have an impact on net earnings. The impact by line item on the consolidated statements of earnings is as follows:

For the year ended December 31, 2017	Amount previously reported	Reclassification	Revised amount presented
Gross premiums written	38,284	(45)	38,239
Fee income	8,356	154	8,510
Commissions	3,475	237	3,712
Operating and administrative expenses	8,260	(128)	8,132

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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)
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 generated units (to which goodwill and intangible assets are assigned) relies upon valuation methodologies that require the use of estimates.	3, 11
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

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)
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 risks and benefits, revenues and expenses are recorded on a gross basis.	n/a
Deferred selling commissions	Management of IGM	Determining whether the customer or the fund is the end investor, 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

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 when the 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.

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

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

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

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 normally actively traded on a public market or where fair value can be reliably measured are either designated or classified as fair value through profit or loss or classified as available for sale and are recorded on a trade-date basis. 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 normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. 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.

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

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

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 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.

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 are carried at cost less accumulated depreciation and impairments. Capital assets include equipment, furniture and fixtures. Assets 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).

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

OTHER ASSETS

Other assets include premiums in course of collection, accounts receivable 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.

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).

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

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

IMPAIRMENT TESTING

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

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

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

SEGREGATED FUNDS

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

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

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

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 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 subsidiary companies are responsible for determining the amount of the liabilities in order to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the CALM. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

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

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

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.

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

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.

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

Payments to the defined contribution plans are expensed as incurred.

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

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.

Note 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**CASH FLOW HEDGES**

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

NET INVESTMENT HEDGES

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

LEASES

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

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.

FUTURE ACCOUNTING CHANGES

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

New standard	Summary of future changes
IFRS 16 – Leases (IFRS 16)	In January 2016, the IASB issued IFRS 16, <i>Leases</i>, which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. The distinction between operating and financing leases no longer applies. A lessee will recognize the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon transition. The Corporation expects to use the modified retrospective method upon transition with no restatement of comparative financial information. Under this approach, the Corporation will recognize the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at January 1, 2019. The Corporation will recognize a lease liability at the present value of the remaining lease payments discounted using the lease's incremental borrowing rate at January 1, 2019. The right-of-use asset will be recognized on a lease by lease basis either at i) its carrying amount as if IFRS 16 had been applied since the commencement date but discounted using the Corporation's incremental borrowing rate at January 1, 2019; or ii) an amount equal to the lease liability adjusted for any prepaid or accrued lease payments. The Corporation and its subsidiaries are finalizing their assessment of the quantitative impact of the adoption of IFRS 16 which will be disclosed in the first quarter of 2019. The preliminary estimate of the impact includes the recognition of approximately \$965 million in right-of-use assets and a lease liability of \$1,015 million. The Corporation and its subsidiaries do not anticipate that there will be a material impact on the statement of earnings. The standard is effective for annual reporting periods beginning on or after January 1, 2019.
IFRS 17 – Insurance Contracts (IFRS 17)	In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i>, which will replace IFRS 4, <i>Insurance Contracts</i> and will be applied retrospectively. If the full retrospective application is impractical, then the modified retrospective or fair value methods may be used. In November 2018, the IASB proposed an amendment to IFRS 17 providing a deferral of one year of the effective date of the standard to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instruments standard, IFRS 9, <i>Financial Instruments</i>, so that both IFRS 9 and IFRS 17 will have the same effective date. The IASB continues to evaluate certain elements of the standard and is expected to issue narrow-scope amendments specific to these items. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has made progress in implementing its project plan. Lifeco has assembled a project team that is working on the implementation of IFRS 17 which involves preparing the financial reporting systems and processes for reporting under IFRS 17, as well as monitoring developments from the IASB, the Transition Resource Group for IFRS 17 and other industry associations. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces new measurement models depending on the nature of the insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfillment cash flows: the current estimates of amounts that Lifeco expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfillment cash flows at each reporting date using current estimates of the amount, timing and uncertainty of cash flows and discount rates. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how it reports financial performance in the statements of earnings. Lifeco continues to assess the impact of IFRS 17, which is expected to be significant on the timing of earnings recognition for its insurance contracts as well as continues to assess the impact on regulatory and tax regimes that are dependent upon IFRS accounting values. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements.

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, <i>Financial Instruments</i>, which replaces IAS 39, <i>Financial Instruments: Recognition and Measurement</i>, the current standard for accounting for financial instruments, with an effective date of January 1, 2018. The standard was completed in three separate phases: ■ Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. ■ Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model. ■ Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities. In September 2016, the IASB issued an amendment to IFRS 4, <i>Insurance Contracts</i> (IFRS 4). The amendment "Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>" 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: ■ <i>Deferral Approach</i>: provides the option to defer implementation of IFRS 9 until the year 2022 or the effective date of the new insurance contract standard, whichever is earlier; or ■ <i>Overlay Approach</i>: provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies and has elected to apply the deferral approach which permits the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation continues to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. Pargesa (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to Pargesa's results.
IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23)	In June 2017, the IASB issued IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12, <i>Income Taxes</i>, when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation and its subsidiaries do not anticipate a significant impact from the adoption of this interpretation.
IFRS 3 – Business Combinations (IFRS 3)	In October 2018, the IASB issued amendments to IFRS 3, <i>Business Combinations</i>. The amendments provide additional guidance as to whether a company acquired a business or a group of assets. The amendments are effective for periods beginning on or after January 1, 2020. The Corporation and its subsidiaries are evaluating the impact of the adoption of these amendments.
IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)	In October 2018, the IASB issued amendments to IAS 1, <i>Presentation of Financial Statements</i> and IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for periods beginning on or after January 1, 2020. The Corporation and its subsidiaries are evaluating the impact of the adoption of these amendments.

Note 3 Business Acquisitions and Disposals

LIFECO

RETIREMENT ADVANTAGE

On January 2, 2018, Lifeco, through its indirect wholly owned subsidiary The Canada Life Group (UK) Ltd., completed the acquisition of 100% of the outstanding shares of MGM Advantage Holdings Ltd., which operated as Retirement Advantage. Retirement Advantage is a financial services provider based in the United Kingdom that offers retirement and equity-release services that was rebranded Canada Life on October 1, 2018. The operations of Retirement Advantage are being integrated with Canada Life as part of the United Kingdom Business Transformation (Note 23).

During the third quarter of 2018, Lifeco completed its comprehensive evaluation of the fair value of the net assets acquired from MGM Advantage Holdings Ltd. and the purchase price allocation. As a result, initial goodwill presented in the March 31, 2018, and June 30, 2018 interim unaudited financial statements of \$240 million recognized upon the acquisition of MGM Advantage Holdings Ltd. was adjusted. The provisional amounts reported in the interim unaudited financial statements for the recognition and measurement of intangible assets and certain other items were also adjusted.

The following table summarizes the aggregate amounts assigned to the assets acquired and liabilities assumed:

Assets acquired	
Investments	
Bonds	1,748
Mortgage loans – equity-release mortgages ^[1]	799
Reinsurance assets	931
Cash and cash equivalents and other assets	261
Intangible assets	56
Goodwill	205
Investments on account of segregated fund policyholders	950
	4,950
Less: liabilities assumed	
Insurance contract liabilities	2,572
Other liabilities	1,029
Insurance and investment contracts on account of segregated fund policyholders	950
	4,551
Net assets acquired	399

[1] Equity-release mortgages are loans provided to seniors who want to continue living in their homes while accessing some of the underlying equity value in their homes. Loans are typically repaid when the borrower dies or moves into long-term care.

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

As at December 31, 2018, the comprehensive valuation of the fair value of the net assets acquired, including intangible assets and completion of the purchase price allocation, was finalized.

Revenue and net earnings of Retirement Advantage were not significant to the results of the Corporation.

Note 3 Business Acquisitions and Disposals (continued)**EVERWEST REAL ESTATE PARTNERS**

On February 2, 2018, Lifeco, through its wholly owned subsidiary GWL Realty Advisors U.S. Inc. completed the acquisition of EverWest Real Estate Partners, a United States real estate advisor. The acquisition was not material.

ACQUISITION OF PANAGORA ASSET MANAGEMENT, INC.'S NON-CONTROLLING INTEREST

During the first quarter of 2018, Lifeco, through Putnam, acquired the non-controlling interest in PanAgora Asset Management, Inc. previously held by Nippon Life Insurance Company. This transaction decreased the Corporation's retained earnings and non-controlling interests by \$25 million and \$50 million, respectively, with no impact on net earnings.

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. This transaction increased non-controlling interests by \$20 million with no significant impact on revenue and net earnings. As at December 31, 2018, the purchase price allocation is incomplete, with the initial amount assigned to goodwill of \$80 million on the date of acquisition to be adjusted pending the completion of a comprehensive valuation during the first half of 2019.

SUBSEQUENT EVENT – U.S. INDIVIDUAL LIFE INSURANCE AND ANNUITY BUSINESS REINSURANCE AGREEMENT

On January 24, 2019, Great-West Financial announced that it had entered into an agreement with Protective Life Insurance Company to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business. Lifeco will continue to retain the cash flows arising from the contracts and the obligation to the contract holders and will recognize reinsurance assets from the agreement. In addition to recognition of reinsurance assets, Lifeco expects to recognize a loss in the statements of earnings at the closing of this transaction. The transaction is in its initial stage, and is expected to close in the first half of 2019 subject to regulatory and customary closing conditions.

SQUARE VICTORIA COMMUNICATIONS GROUP

On May 8, 2018, La Presse Itée (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 has been included within operating and administrative expenses in the statements of earnings for the year ended December 31, 2018.

WEALTHSIMPLE

On May 15, 2017, Power Financial satisfied conditions allowing the Corporation to appoint the majority of the board of directors of WealtheSimple, a technology-driven investment manager, thus attaining control of WealtheSimple. This led to a gain which was recognized in share of earnings of investments in jointly controlled corporations and associates in 2017 as a result of the investment in WealtheSimple being measured at fair value on the date control was attained. Previously, WealtheSimple was accounted for using the equity method.

LUMENPULSE

On June 21, 2017, Power Energy Corporation and management of Lumenpulse acquired 100% of the outstanding common shares of Lumenpulse, a leading manufacturer of high-performance, specification-grade LED lighting solutions, for a consideration of \$551 million.

STERNBERG LANTERNS INC.

On October 12, 2018, Lumenpulse acquired a controlling interest in Sternberg Lanterns Inc., a U.S. manufacturer of outdoor LED area lighting solutions. The acquisition was not material to the Corporation's financial statements.

VEIN CLINICS

On December 29, 2017, an investment fund controlled by the Corporation disposed of its 97.3% controlling interest in Vein Clinics, a private healthcare services company, resulting in a gain of \$67 million recorded in net investment income. The results of Vein Clinics had been included in the statements of earnings up to the date of disposal.

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 Assurance Society Limited (Scottish Friendly) of \$4,216 million, composed of unit-linked policies of \$3,319 million and non-unit-linked policies of \$897 million. The transfer of these policies is expected to occur in the second half of 2019, as part of Lifeco's United Kingdom Business Transformation (Note 23).

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

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

The composition of assets and liabilities of the disposal group will be finalized after a comprehensive evaluation of the fair value of the assets and liabilities to be transferred has been completed.

Net earnings from the disposal of these policies are not expected to be material to the financial statements.

DISPOSAL OF ASSETS HELD FOR SALE

During the first quarter of 2018, Lifeco executed the final sale agreement of an equity-accounted investment and disposed of its assets held for sale totalling \$169 million at December 31, 2017. The derecognition of these assets held for sale did not have an impact on net earnings for the year ended December 31, 2018.

Note 5 Cash and Cash Equivalents

December 31	2018	2017
Cash	3,486	2,774
Cash equivalents	2,955	3,129
Cash and cash equivalents	6,441	5,903

At December 31, 2018, cash amounting to \$432 million was restricted for use by subsidiaries (\$314 million at December 31, 2017) primarily in respect of cash held in trust for reinsurance agreements or with regulatory authorities, cash held under certain indemnity arrangements, client monies held by brokers and cash held in escrow.

Note 6 Investments

CARRYING VALUES AND FAIR VALUES

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

December 31	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated as fair value through profit or loss ^[1]	89,929	89,929	87,988	87,988
Classified as fair value through profit or loss ^[1]	1,886	1,886	1,836	1,836
Available for sale	13,713	13,713	12,807	12,807
Loans and receivables	19,722	20,619	17,959	19,470
	125,250	126,147	120,590	122,101
Mortgage and other loans				
Loans and receivables	32,080	32,524	29,748	30,680
Designated as fair value through profit or loss ^{[1][2]}	813	813	-	-
Classified as fair value through profit or loss ^{[1][3]}	4	4	340	340
	32,897	33,341	30,088	31,020
Shares				
Designated as fair value through profit or loss ^[1]	8,658	8,658	8,194	8,194
Classified as fair value through profit or loss ^[1]	136	136	-	-
Available for sale ^[4]	1,568	1,568	1,948	1,948
	10,362	10,362	10,142	10,142
Investment properties	5,218	5,218	4,851	4,851
Loans to policyholders	8,929	8,929	8,280	8,280
	182,656	183,997	173,951	176,394

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

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

[2] Equity-release mortgages acquired with the acquisition of Retirement Advantage (Note 3) are designated as fair value through profit or loss.

[3] Mortgage loans previously classified as fair value through profit or loss and subsequently reclassified to loans and receivables are now initially classified with respect to the intent of the loan on origination.

[4] 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:

December 31, 2018	Carrying value			
	Term to maturity			Total
	1 year or less	1-5 years	Over 5 years	
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.

December 31, 2017	Carrying value			
	Term to maturity			Total
	1 year or less	1-5 years	Over 5 years	
Bonds	10,516	27,057	82,771	120,344
Mortgage and other loans	2,880	13,054	14,117	30,051
	13,396	40,111	96,888	150,395

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	2018	2017
Impaired amounts by classification		
Fair value through profit or loss	178	233
Available for sale	101	17
Loans and receivables	31	44
Total	310	294

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 \$21 million as at December 31, 2018 (\$41 million as at December 31, 2017). 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, 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	8	82	186	-	21	297
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
Year ended December 31, 2017	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	4,306	957	272	318	412	6,265
Net realized gains	40	85	466	-	-	591
Net allowances for credit losses on loans and receivables	2	(9)	-	-	-	(7)
Other income (expenses)	-	(9)	6	(87)	(123)	(213)
	4,348	1,024	744	231	289	6,636
Change in fair value through profit or loss	865	(25)	579	176	(157)	1,438
Net investment income	5,213	999	1,323	407	132	8,074

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.

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 \$84 million as of December 31, 2018 (nil at December 31, 2017). 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, 2018, Lifeco had loaned securities (which are included in investments) with a fair value of \$8,847 million (\$7,427 million at December 31, 2017).

Note 7 Funds Held by Ceding Insurers

At December 31, 2018, Lifeco had amounts on deposit of \$9,251 million (\$9,893 million at December 31, 2017) 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

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
December 31				
Cash and cash equivalents	230	230	132	132
Bonds	6,925	6,925	7,806	7,806
Other assets	91	91	106	106
	7,246	7,246	8,044	8,044
Supporting:				
Reinsurance liabilities	6,992	6,992	7,777	7,777
Surplus	254	254	267	267
	7,246	7,246	8,044	8,044

ASSET QUALITY

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

December 31	2018	2017
AAA	609	714
AA	2,858	3,204
A	2,698	3,240
BBB	667	439
BB and lower	93	209
Total bonds	6,925	7,806

Note 8 Investments in Jointly Controlled Corporations and Associates

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

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

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

	Jointly controlled corporations		Associates		Total
	Parjointco	Other	China AMC	Other	
December 31, 2017					
Carrying value, beginning of year	2,811	334	-	408	3,553
Investments	-	94	1,272	48	1,414
Disposal ^[1]	-	-	-	(208)	(208)
Share of earnings	131	36	18	29	214
Share of other comprehensive income (losses)	491	(16)	21	(8)	488
Dividends and distributions	(78)	(2)	(21)	(6)	(107)
Effects of changes in ownership and other ^[2]	(1)	(134)	-	(65)	(200)
Carrying value, end of year	3,354	312	1,290	198	5,154

[1] In 2017, Lifeco classified an investment in an associate within the disposal group of assets held for sale (Note 4).

[2] As Power Financial attained control of Wealthsimple on May 15, 2017, Wealthsimple is no longer accounted for as a jointly controlled corporation (Note 3).

PARJOINTCO

The Corporation holds a 50% interest in Parjointco, a jointly controlled corporation. Parjointco holds a 55.5% equity interest in Pargesa (same as at December 31, 2017), representing 75.4% of the voting rights.

At December 31, 2018, the net asset value of the Corporation's indirect interest in Pargesa is approximately \$3,450 million. The carrying value of the investment in Pargesa is \$3,291 million. For the year ended December 31, 2018, revenue of Pargesa was SF6,174 million (C\$8,178 million) (SF5,213 million or C\$6,876 million for the year ended December 31, 2017) and net earnings attributable to Pargesa's common shareholders was SF361 million (C\$478 million) (SF382 million or C\$504 million for the year ended December 31, 2017). Results reported by Pargesa reflect their adoption of 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.

CHINA AMC

On August 31, 2017, Power Corporation completed the acquisition of an additional 3.9% interest in China AMC. The total cost for the additional interest amounted to \$178 million. On the same date, IGM completed its acquisition of a 13.9% interest in China AMC for a total cost of \$638 million. The Corporation and IGM account for its interest in China AMC as an associate using the equity method. Power Corporation previously held a 10% interest in China AMC and accounted for its interest as an available-for-sale investment. The reclassification of the investment from available for sale to an associate resulted in a gain of \$174 million recorded in net investment income in 2017.

Summarized financial information for China AMC is as follows:

	2018		2017	
	Canadian dollars	Chinese renminbi	Canadian dollars	Chinese renminbi
[in millions]				
Balance sheet at December 31 ^[1]				
Assets	2,051	10,342	1,827	9,464
Liabilities	445	2,242	405	2,097
Comprehensive income for the years ended December 31 ^[2]				
Revenue	733	3,733	752	3,913
Net earnings attributable to common shareholders	224	1,140	263	1,367
Total comprehensive income	235	1,171	207	1,077

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

[2] In 2017, full-year comprehensive income is presented; however, the Corporation's proportionate share of China AMC's comprehensive income was effective August 31, 2017.

Note 8 Investments in Jointly Controlled Corporations and Associates (continued)**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.

ALLIANZ IRELAND

In 2017, the investment in Allianz Ireland, an investment previously held through Lifeco's indirect wholly owned subsidiary Irish Life with a carrying value of \$192 million, was disposed of by Lifeco resulting in a gain of \$16 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:

	2018			2017		
	Owner-occupied properties	Capital assets	Total	Owner-occupied properties	Capital assets	Total
December 31						
Cost, beginning of year	981	2,140	3,121	904	2,063	2,967
Additions	35	292	327	81	219	300
Business disposals	-	(17)	(17)	-	(48)	(48)
Disposal/retirements	(19)	(122)	(141)	(4)	(77)	(81)
Changes in foreign exchange rates and other	26	12	38	-	(17)	(17)
Cost, end of year	1,023	2,305	3,328	981	2,140	3,121
Accumulated amortization, beginning of year	(163)	(1,224)	(1,387)	(144)	(1,156)	(1,300)
Amortization and impairment	(31)	(164)	(195)	(20)	(140)	(160)
Business disposals	-	16	16	-	25	25
Disposal/retirements	7	79	86	-	38	38
Changes in foreign exchange rates and other	-	19	19	1	9	10
Accumulated amortization, end of year	(187)	(1,274)	(1,461)	(163)	(1,224)	(1,387)
Carrying value, end of year	836	1,031	1,867	818	916	1,734

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

December 31	2018	2017
Canada	1,233	1,210
United States	416	318
Europe	218	206
	1,867	1,734

Note 10 Other Assets

December 31	2018	2017
Premiums in course of collection, accounts receivable and interest receivable	6,235	5,591
Deferred acquisition costs and deferred selling commissions	705	633
Pension benefits [Note 25]	148	193
Income taxes receivable	235	219
Trading account assets	843	723
Finance leases receivable	410	350
Prepaid expenses	225	215
Other	589	571
	9,390	8,495

Total Other assets of \$7,949 million as at December 31, 2018 (\$7,162 million as at December 31, 2017) are to be realized within 12 months.

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	2018	2017
Balance, beginning of year	633	597
Change in accounting policy [Note 2]		
Derecognition	(762)	-
Reclassification from Intangible assets	767	-
Revised balance, beginning of year	638	597
Additions	145	139
Disposals	(35)	(41)
Amortization	(61)	(86)
Changes in foreign exchange rates	18	24
Balance, end of year	705	633

Note 11 Goodwill and Intangible Assets**GOODWILL**

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

December 31	2018			2017		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Balance, beginning of year	11,263	(1,178)	10,085	10,749	(1,250)	9,499
Business acquisitions [Note 3]	345	-	345	645	-	645
Business disposals [Note 3]	(45)	45	-	(55)	-	(55)
Impairment	-	(81)	(81)	-	-	-
Changes in foreign exchange rates and other	167	(93)	74	(76)	72	(4)
Balance, end of year	11,730	(1,307)	10,423	11,263	(1,178)	10,085

In 2018, 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 an impairment charge of \$81 million recorded in operating and administrative expenses.

INTANGIBLE ASSETS

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

INDEFINITE LIFE INTANGIBLE ASSETS

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

December 31, 2017	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	1,264	2,938	741	354	5,297
Additions	39	-	-	-	39
Transfer to assets held for sale	-	(290)	-	-	(290)
Changes in foreign exchange rates	(15)	(153)	-	-	(168)
Cost, end of year	1,288	2,495	741	354	4,878
Accumulated impairment, beginning of year	(157)	(1,084)	-	-	(1,241)
Impairment reversal ^[1]	20	-	-	-	20
Changes in foreign exchange rates	5	65	-	-	70
Accumulated impairment, end of year	(132)	(1,019)	-	-	(1,151)
Carrying value, end of year	1,156	1,476	741	354	3,727

[1] In 2017, Lifeco reversed an impairment charge of \$20 million recorded in 2008 related to certain Putnam brands and trademarks.

Note 11 Goodwill and Intangible Assets (continued)**FINITE LIFE INTANGIBLE ASSETS**

	Technology and software	Customer contract-related	Power purchase agreements	Deferred selling commissions	Other	Total
December 31, 2018						
Cost, beginning of year						
As previously reported	1,668	1,121	193	1,429	477	4,888
Change in accounting policy [Note 2]	-	-	-	(1,429)	-	(1,429)
Restated 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, including write-off of assets fully amortized	(24)	-	(9)	-	21	(12)
Cost, end of year	1,983	1,226	180	-	539	3,928
Accumulated amortization, beginning of year						
As previously reported	(956)	(511)	(25)	(662)	(173)	(2,327)
Change in accounting policy [Note 2]	-	-	-	662	-	662
Restated 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, including write-off of assets fully amortized	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
December 31, 2017						
Cost, beginning of year	1,611	831	181	1,374	352	4,349
Additions	252	300	12	272	136	972
Disposal/redemption	(28)	-	-	(53)	(7)	(88)
Changes in foreign exchange rates	(39)	(10)	-	-	(7)	(56)
Other, including write-off of assets fully amortized	(128)	-	-	(164)	3	(289)
Cost, end of year	1,668	1,121	193	1,429	477	4,888
Accumulated amortization, beginning of year	(867)	(460)	(15)	(648)	(157)	(2,147)
Amortization	(163)	(59)	(10)	(207)	(23)	(462)
Impairment ^[1]	(109)	-	-	-	-	(109)
Disposal/redemption	24	-	-	29	6	59
Changes in foreign exchange rates	29	8	-	-	3	40
Other, including write-off of assets fully amortized	130	-	-	164	(2)	292
Accumulated amortization, end of year	(956)	(511)	(25)	(662)	(173)	(2,327)
Carrying value, end of year	712	610	168	767	304	2,561

[1] In 2017, IGM discontinued development of a new investment fund accounting system. As a result of this, and other associated technology decisions, IGM recorded an impairment charge of \$92 million of capitalized software development costs. In addition, Lifeco recognized an impairment loss of \$16 million on software assets. These charges were included in the restructuring and other expenses in 2017 (Note 23).

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:

December 31	2018			2017		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
LIFECO						
Canada						
Group Customer	1,621	354	1,975	1,594	354	1,948
Individual Customer	2,791	619	3,410	2,772	619	3,391
Europe						
Insurance and Annuities	2,388	233	2,621	2,078	227	2,305
Reinsurance	-	-	-	1	-	1
United States						
Financial Services	208	-	208	194	-	194
Asset Management	-	1,578	1,578	-	1,462	1,462
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	578	39	617	609	39	648
	10,423	3,849	14,272	10,085	3,727	13,812

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 2018, Lifeco conducted its annual impairment testing of goodwill and indefinite life intangible assets based on the September 30, 2018 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 \$864 million at December 31, 2018 (\$1,602 million at December 31, 2017).

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

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

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

December 31	2018	2017
Cash and cash equivalents	13,458	13,300
Bonds	42,142	42,270
Mortgage loans	2,746	2,610
Shares and units in unit trusts	89,853	93,465
Mutual funds	50,956	54,658
Investment properties	12,319	11,520
	211,474	217,823
Accrued income	380	373
Other liabilities	(3,191)	(2,441)
Non-controlling mutual fund interest	864	1,602
	209,527	217,357

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 variable annuities with guaranteed minimum death benefits through Great-West Financial. For the standalone guaranteed minimum death benefits business, most are a return of premium on death with the guarantee expiring at age 70. Great-West Financial in the U.S. also offers a guaranteed minimum withdrawal benefits product with an optional guaranteed minimum death benefit feature that does not expire with age.

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, 2018, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was \$4,169 million (\$4,225 million at December 31, 2017).

Note 12 Segregated Funds and Other Structured Entities (continued)**INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS**

Years ended December 31	2018	2017
Balance, beginning of year	217,357	200,403
Additions (deductions):		
Policyholder deposits	24,475	24,885
Net investment income	3,611	2,704
Net realized capital gains on investments	4,876	5,298
Net unrealized capital gains (losses) on investments	(16,757)	5,361
Unrealized gains due to changes in foreign exchange rates	5,472	2,523
Policyholder withdrawals	(26,271)	(23,834)
Business and other acquisition ^[1]	950	-
Segregated fund investment in General Fund	69	(42)
General Fund investment in segregated fund	(219)	(17)
Net transfer from General Fund	21	21
Non-controlling mutual fund interest	(738)	55
Assets held for sale [Note 4]	(3,319)	-
	(7,830)	16,954
Balance, end of year	209,527	217,357

[1] Insurance and investment contracts on account of segregated fund policyholders acquired through the acquisition of Retirement Advantage (Note 3).

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

Years ended December 31	2018	2017
Net investment income	3,611	2,704
Net realized capital gains on investments	4,876	5,298
Net unrealized capital gains (losses) on investments	(16,757)	5,361
Unrealized gains due to changes in foreign exchange rates	5,472	2,523
Total	(2,798)	15,886
Change in insurance and investment contract liabilities on account of segregated fund policyholders	(2,798)	15,886
Net	-	-

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

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.

December 31, 2017	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ^[1]	136,469	70,034	12,572	219,075

[1] Excludes other liabilities, net of other assets, of \$1,718 million.

In 2018 certain foreign equity holdings valued at \$1,842 million were transferred from Level 2 to Level 1 (\$629 million were transferred from Level 1 to Level 2 at December 31, 2017), primarily based on Lifeco's change in use of inputs in addition to quoted prices in active markets for certain foreign share 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 visibility through the underlying assets.

Note 12 Segregated Funds and Other Structured Entities (continued)

As at December 31, 2018, \$7,770 million (\$8,521 million at December 31, 2017) of the segregated funds were invested in funds managed by IG Wealth Management and Mackenzie Investments, subsidiaries of IGM and related parties.

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

December 31	2018		2017	
	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total	Total
Balance, beginning of year	12,572	–	12,572	12,045
Total gains included in segregated fund investment income	404	–	404	422
Purchases	651	–	651	926
Sales	(425)	–	(425)	(943)
Transfers into Level 3	51	–	51	137
Transfers out of Level 3	(9)	–	(9)	(15)
Transfers to assets held for sale	(9)	9	–	–
Balance, end of year	13,235	9	13,244	12,572

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

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

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

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

Fee and other income earned by Lifeco resulting from Lifeco's interests in these structured entities was \$4,786 million for the year ended December 31, 2018 (\$4,557 million in 2017).

Included within other assets (Note 10) at December 31, 2018 is \$733 million (\$632 million at December 31, 2017) of investments by Lifeco in bonds and shares of Putnam-sponsored funds and \$110 million (\$91 million at December 31, 2017) of investments in shares of sponsored unit trusts in Europe.

Note 13 Insurance and Investment Contract Liabilities**INSURANCE AND INVESTMENT CONTRACT LIABILITIES**

December 31	2018			2017		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	166,720	6,126	160,594	159,524	5,045	154,479
Investment contract liabilities	1,711	–	1,711	1,841	–	1,841
	168,431	6,126	162,305	161,365	5,045	156,320

Note 13 Insurance and Investment Contract Liabilities (continued)**COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS**

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

December 31	2018			2017		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Participating						
Canada	38,078	(351)	38,429	36,430	(356)	36,786
United States	11,871	14	11,857	11,155	15	11,140
Europe	978	-	978	1,286	-	1,286
Non-participating						
Canada	30,174	500	29,674	30,031	475	29,556
United States	31,042	271	30,771	28,814	272	28,542
Europe	56,288	5,692	50,596	53,649	4,639	49,010
	168,431	6,126	162,305	161,365	5,045	156,320

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

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

December 31, 2017	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	17,262	8,485	5,032	1,641	4,010	36,430
United States	5,220	447	-	-	5,488	11,155
Europe	928	27	110	48	173	1,286
Non-participating liabilities						
Canada	19,486	3,777	2,027	134	4,607	30,031
United States	23,400	4,268	-	-	1,146	28,814
Europe	33,037	3,569	262	2,810	13,971	53,649
Other, including segregated funds	15,165	943	881	72	215,876	232,937
Total equity	5,706	669	552	146	18,463	25,536
Total carrying value	120,204	22,185	8,864	4,851	263,734	419,838
Fair value	121,715	23,005	8,906	4,851	263,734	422,211

Note 13 Insurance and Investment Contract Liabilities (continued)

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			Total net
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	
December 31, 2018							
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 [Note 3]	-	-	-	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	945	2	943	3,848	197	3,651	4,594
Balance, end of year	50,928	(337)	51,265	115,792	6,463	109,329	160,594

	Participating			Non-participating			Total net
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	
December 31, 2017							
Balance, beginning of year	47,176	(429)	47,605	108,764	6,056	102,708	150,313
Impact of new business	(15)	-	(15)	6,550	210	6,340	6,325
Normal change in in-force business	2,442	(2)	2,444	(2,737)	(162)	(2,575)	(131)
Management actions and changes in assumptions	61	92	(31)	(1,222)	(971)	(251)	(282)
With Profits Fund conversion	(74)	-	(74)	74	-	74	-
Business movement from/to external parties	-	-	-	(344)	-	(344)	(344)
Impact of foreign exchange rate changes	(734)	(2)	(732)	(417)	253	(670)	(1,402)
Balance, end of year	48,856	(341)	49,197	110,668	5,386	105,282	154,479

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

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 decrease due to normal change in the in-force business of \$4,904 million, the transfer of UK heritage business to Scottish Friendly of \$870 million and management action 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 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)**2017**

In 2017, the major contributor to the increase in net insurance contract liabilities was the impact of new business of \$6,325 million. This was partially offset by decreases due to the impact of foreign exchange rate changes of \$1,402 million, primarily due to the lower U.S. dollar, business movement from/to external parties of \$344 million and management action and changes in assumptions of \$282 million.

Net non-participating insurance contract liabilities decreased by \$251 million in 2017 due to Lifeco's management actions and assumption changes including a \$61 million decrease in Canada, a \$200 million decrease in Europe and a \$10 million increase in the United States.

The decrease in Canada was primarily due to updated life mortality assumptions of \$148 million, updated morbidity assumptions of \$49 million, updated economic assumptions of \$41 million and modelling refinements of \$5 million, partially offset by increases due to updated policyholder behaviour assumptions of \$113 million, updated longevity assumptions of \$59 million, updated provision for experience-rated funds of \$8 million and updated provision for claims of \$6 million.

The decrease in Europe was primarily due to updated longevity assumptions of \$296 million and updated economic assumptions of \$180 million, partially offset by increases due to updated life mortality assumptions of \$128 million, updated expense and tax assumptions of \$41 million, updated policyholder behaviour assumptions of \$61 million, modelling refinements of \$32 million, updated provisions for claims of \$7 million and updated provisions of \$5 million.

The increase in the United States was primarily due to updated expense and tax assumptions of \$62 million, partially offset by updated life mortality assumptions of \$44 million and modelling refinements of \$5 million.

Net participating insurance contract liabilities decreased by \$31 million in 2017 due to Lifeco's management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends of \$4,409 million and updated expense and tax assumptions of \$500 million, partially offset by increases due to lower investment returns of \$4,257 million, updated mortality assumptions of \$289 million, modelling refinements of \$243 million and updated policyholder behaviour assumptions of \$89 million.

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

December 31	2018	2017
Balance, beginning of year	1,841	2,009
Normal change in in-force business	(190)	(171)
Investment experience	(26)	93
Management actions and changes in assumptions	15	(22)
Transfer of liabilities to held for sale [Note 4]	(27)	-
Impact of foreign exchange rate changes	98	(68)
Balance, end of year	1,711	1,841

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

GROSS PREMIUM INCOME

December 31	2018	2017 [Note 2]
Direct premiums	26,062	25,132
Assumed reinsurance premiums	13,901	13,107
Total	39,963	38,239

GROSS POLICYHOLDER BENEFITS

December 31	2018	2017
Direct	17,830	16,947
Assumed reinsurance	14,527	13,854
Total	32,357	30,801

ACTUARIAL ASSUMPTIONS

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation.

These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

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 have been established using cash flow valuation techniques, including discounting. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience 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	
	2018	2017
Mortality - 2% increase	(270)	(296)
Annuitant mortality - 2% decrease	(457)	(446)
Morbidity - 5% adverse change	(271)	(256)
Investment returns		
Parallel shift in yield curve		
1% increase	-	-
1% decrease	-	-
Change in interest rates		
1% increase	115	150
1% decrease	(465)	(523)
Change in equity markets		
10% increase	73	48
10% decrease	(266)	(85)
Change in best estimate return assumptions for equities		
1% increase	476	439
1% decrease	(539)	(470)
Expenses - 5% increase	(128)	(127)
Policy termination and renewal - 10% adverse change	(649)	(672)

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.

	2018			2017		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
December 31						
Canada	68,252	149	68,103	66,461	119	66,342
United States	42,913	285	42,628	39,969	287	39,682
Europe	57,266	5,692	51,574	54,935	4,639	50,296
	168,431	6,126	162,305	161,365	5,045	156,320

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 positive fair value of \$5 million at December 31, 2018 (a positive fair value of \$4 million in 2017).

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.

	2018			2017		
	Securitized mortgages	Obligations to securitization entities	Net	Securitized mortgages	Obligations to securitization entities	Net
December 31						
Carrying value						
NHA MBS and CMB Programs	4,247	4,251	(4)	4,462	4,471	(9)
Bank-sponsored ABCP	3,102	3,119	(17)	3,076	3,125	(49)
Total	7,349	7,370	(21)	7,538	7,596	(58)
Fair value	7,405	7,437	(32)	7,650	7,658	(8)

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

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
December 31				
DEBENTURES				
POWER CORPORATION				
7.57% debentures due April 22, 2019, unsecured (redeemed during 2018)	-	-	250	267
8.57% debentures due April 22, 2039, unsecured	150	231	150	241
4.81% debentures due January 31, 2047, unsecured	248	263	248	278
4.455% debentures due July 27, 2048, unsecured	248	250	-	-
POWER FINANCIAL				
6.90% debentures due March 11, 2033, unsecured	250	327	250	339
LIFECO				
6.14% debentures due March 21, 2018, unsecured (redeemed during 2018)	-	-	200	202
4.65% debentures due August 13, 2020, unsecured	500	516	499	529
2.50% debentures due April 18, 2023 (€500 million), unsecured	778	837	752	830
1.75% debentures due December 7, 2026 (€500 million), unsecured	774	781	749	786
3.337% debentures due February 28, 2028, unsecured	497	502	-	-
6.40% subordinated debentures due December 11, 2028, unsecured	100	126	100	128
6.74% debentures due November 24, 2031, unsecured	194	261	193	270
6.67% debentures due March 21, 2033, unsecured	393	522	393	542
6.625% deferrable debentures due November 15, 2034 (US\$175 million), unsecured	235	266	218	269
5.998% debentures due November 16, 2039, unsecured	342	442	342	460
Subordinated debentures due May 16, 2046, bearing an interest rate of 2.538% plus the 3-month LIBOR rate (US\$300 million), with an interest rate swap to pay fixed interest of 4.68%, unsecured (redeemed during 2018)	-	-	378	376
7.529% capital trust debentures due June 30, 2052 (face value of \$150 million), unsecured	159	209	160	221
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until first call par date of June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured (redeemed during 2018)	-	-	500	510
IGM FINANCIAL				
6.58% debentures 2003 Series, due March 7, 2018, unsecured (redeemed during 2018)	-	-	150	151
7.35% debentures 2009 Series, due April 8, 2019, unsecured (redeemed during 2018)	-	-	375	398
3.44% debentures 2017 Series, due January 26, 2027, unsecured	400	397	400	402
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	153	125	157
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	197	150	205
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	226	175	235
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	195	150	204
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	244	200	255
4.56% debentures 2017 Series, due January 25, 2047, unsecured	200	206	200	214
4.115% debentures 2017 Series, due December 9, 2047, unsecured	250	239	250	249
4.174% debentures 2018 Series, due July 13, 2048, unsecured	200	193	-	-
Debentures of IGM held by Lifeco as investments	(86)	(97)	(74)	(89)
Total debentures	6,632	7,486	7,483	8,629

Note 15 Debentures and Other Debt Instruments (continued)

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
December 31				
OTHER DEBT INSTRUMENTS				
LIFECO				
Commercial paper and other short-term debt instruments with interest rates from 2.511% to 2.693% (1.455% to 1.726% at December 31, 2017), unsecured	135	135	126	126
Revolving credit facility with interest equal to LIBOR rate plus 0.70% (US\$250 million) (US\$240 million at December 31, 2017), unsecured	340	340	302	302
Senior notes due May 17, 2028, bearing an interest rate of 4.047% (US\$300 million), unsecured	405	415	-	-
Senior notes due June 3, 2047, bearing an interest rate of 4.15% (US\$700 million), unsecured	934	888	865	720
Senior notes due May 17, 2048, bearing an interest rate of 4.581% (US\$500 million), unsecured	673	685	-	-
OTHER SUBSIDIARIES				
Loan facilities due from June 28, 2024 to December 15, 2037 bearing interest at various rates from 3.33% to 7.36%, secured ^[1]	499	515	474	486
Term loan facilities due in June and December 2022, bearing interest at various rates from 7.44% to 10.92%, secured ^[1]	137	137	121	121
Revolving credit facilities up to \$281 million, bearing interest at various variable rates, and other debt instruments, secured ^[1]	91	91	12	12
Term loans due January 17, 2020 and revolving facilities, bearing interest at various rates from 5.25% to 12% (US\$96 million)(US\$103 million at December 31, 2017), secured ^[1]	131	131	128	128
Total other debt instruments	3,345	3,337	2,028	1,895
	9,977	10,823	9,511	10,524

[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.

LIFECO

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 March 21, 2018, Lifeco's 6.14% \$200 million debenture notes matured at their principal amount together with accrued interest.

On May 17, 2018, Great-West Lifeco Finance 2018, LP 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.

On June 18, 2018, Great-West Life & Annuity Insurance Capital, LP II redeemed all \$399 million (US\$300 million) 2.538% plus 3-month LIBOR unsecured subordinated debentures due May 16, 2046. The interest payments on this debt were hedged using an interest rate swap designated as a cash flow hedge. The interest rate hedge was terminated prior to the redemption of the underlying debentures. On redemption of the underlying debentures, pre-tax gains of \$65 million on the interest rate hedge were recognized within financing charges and income tax expense of \$14 million in the statements of earnings.

On June 26, 2018, Great-West Lifeco Finance (Delaware) LP II redeemed all \$500 million 7.127% until first par call date of June 26, 2018 and, thereafter, at a rate of equal to the Canadian bankers' acceptance rate plus 3.78%, unsecured subordinated debentures due June 26, 2048. The repayment of the debentures was hedged using a cross-currency swap designated as a cash flow hedge. The redemption of debentures and derecognition of the swap resulted in a pre-tax increase of \$21 million to net investment income and \$8 million to income tax expense in the statements of earnings.

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.

Note 15 Debentures and Other Debt Instruments (continued)**IGM FINANCIAL**

On March 7, 2018, IGM's 6.58% \$150 million debenture notes 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.

SUBSEQUENT EVENT

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

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	2018	2017
Balance, beginning of the year	9,511	8,579
Issue of debentures and senior notes	1,962	2,025
Redemption of debentures	(1,871)	(1,284)
Change in other debt instruments	129	252
Changes in foreign exchange rates and other	246	(61)
Balance, end of year	9,977	9,511

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

2019	729
2020	534
2021	37
2022	137
2023	806
Thereafter	7,800

Note 16 Other Liabilities

December 31	2018	2017
Accounts payable	3,816	3,248
Bank overdraft	457	435
Dividends and interest payable	294	299
Income taxes payable	500	519
Deferred income reserve	441	303
Deposits and certificates	622	555
Funds held under reinsurance contracts	1,367	373
Pension and other post-employment benefits [Note 25]	1,931	2,044
Other	2,116	1,967
	11,544	9,743

Total Other liabilities of \$7,552 million as at December 31, 2018 (\$6,850 million as at December 31, 2017) are expected to be settled within 12 months.

Note 17 Income Taxes**EFFECTIVE INCOME TAX RATE**

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

Years ended December 31 Percentage [%]	2018	2017
Combined statutory Canadian federal and provincial tax rates	26.7	26.8
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(5.9)	(8.2)
Lower effective tax rates on income not subject to tax in Canada ^[1]	(7.7)	(5.8)
Share of (earnings) losses of investments in jointly controlled corporations and associates	(0.6)	(1.1)
U.S. tax reform impact of rate changes on deferred taxes	-	3.7
Other	1.8	(0.2)
Effective income tax rate	14.3	15.2

[1] In 2018, there is a higher percentage of income subject to lower rates in foreign jurisdictions. This adjustment also includes the impact of the lower U.S. corporate federal income tax rate as a result of the 2017 U.S. tax reform.

INCOME TAXES

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

Years ended December 31	2018	2017
Current taxes		
In respect of the current year	561	422
Recognition of previously unrecognized tax losses, tax credits or temporary differences	-	(7)
Adjustments in respect of prior years	(15)	(17)
	546	398
Deferred taxes		
Origination and reversal of temporary differences	31	4
Effect of change in tax rates or imposition of new taxes	(2)	128
Other	3	13
	32	145
	578	543

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

	2018		2017	
December 31	Other comprehensive income	Equity	Other comprehensive income	Equity
Current taxes (recovery)	(2)	-	(13)	-
Deferred taxes (recovery)	(40)	(16)	149	(10)
	(42)	(16)	136	(10)

Note 17 Income Taxes (continued)**DEFERRED TAXES**

Deferred taxes are attributable to the following items:

December 31	2018	2017
Loss carry forwards	1,477	1,189
Investments	(377)	(618)
Insurance and investment contract liabilities	(1,387)	(976)
Intangible assets	(873)	(772)
Tax credits and other	663	431
	(497)	(746)
Presented on the balance sheets as follows:		
Deferred tax assets	1,098	1,023
Deferred tax liabilities	(1,595)	(1,769)
	(497)	(746)

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, 2018 are recoverable.

At December 31, 2018, Lifeco has recognized a deferred tax asset of \$1,357 million (\$1,132 million at December 31, 2017) on tax loss carry forwards totalling \$8,568 million (\$7,670 million in 2017). Of this amount, \$7,527 million expires between 2019 and 2038, while \$1,041 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

One of Lifeco's subsidiaries has had a history of losses. The subsidiary has a net deferred tax asset balance of \$775 million (US\$570 million) as at December 31, 2018 composed principally of net operating losses and future deductions related to goodwill which has been previously impaired for accounting purposes. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income against which the unused United States losses and deductions will be utilized.

As at December 31, 2018, the Corporation and its subsidiaries have non-capital losses of \$999 million (\$756 million in 2017) available to reduce future taxable income for which the benefits have not been recognized. These losses expire from 2019 to 2038. In addition, the Corporation and its subsidiaries have capital loss carry forwards of \$307 million (\$336 million in 2017) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

As at December 31, 2018 and 2017, 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	2018		2017	
	Number of shares	Stated capital	Number of shares	Stated capital
		\$		\$
NON-PARTICIPATING SHARES				
First Preferred Shares				
Cumulative Redeemable				
1986 Series	247,200	12	300,800	15
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
		962		965
PARTICIPATING SHARES				
Participating Preferred Shares	48,854,772	27	48,854,772	27
Subordinate Voting Shares				
Balance, beginning of year	415,443,579	690	414,461,536	659
Issued under Stock Option Plan	1,657,567	49	982,043	31
Balance, end of year	417,101,146	739	415,443,579	690
Total Participating Shares		766		717

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 2018, 53,600 shares (9,800 shares in 2017) 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	25.75

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 2018, 1,657,567 Subordinate Voting Shares (982,043 in 2017) were issued under the Corporation's Executive Stock Option Plan for a consideration of \$43 million (\$27 million in 2017).

Dividends declared on the Corporation's participating shares in 2018 amounted to \$1.5045 per share (\$1.4105 per share in 2017).

SUBSEQUENT EVENT

On March 8, 2019, the Corporation launched a substantial issuer bid to repurchase for cancellation up to \$1.35 billion of its subordinate voting shares (the PCC Offer); the offer will expire on April 13, 2019, unless extended or withdrawn. On the same date, Lifeco and Power Financial, the Corporation's subsidiaries, also launched substantial issuer bids (the Lifeco Offer and the Power Financial Offer, respectively) to purchase up to \$2 billion and \$1.65 billion of their common shares, respectively. Lifeco and Power Financial's offers will expire on April 12 and April 13, 2019, respectively.

Power Financial intends to participate in the Lifeco Offer and expects to use the proceeds from its participation in the Lifeco Offer to fund the Power Financial substantial issuer bid. The Corporation intends to participate in the Power Financial Offer and expects to use the proceeds in its own substantial issuer bid.

The PCC Offer will proceed by way of a modified Dutch auction which will allow shareholders who choose to participate in the PCC Offer to individually select the price, within a price range of not less than \$28.50 per share and not more than \$33.00 per share, at which they are willing to sell their subordinate voting shares.

Upon expiry of the PCC Offer, the Corporation will determine the lowest purchase price (which will not be more than \$33.00 per share and not less than \$28.50 per share) that will allow it to purchase the maximum number of shares properly tendered to the PCC Offer, and not properly withdrawn, having an aggregate purchase price not exceeding \$1.35 billion.

Note 19 Share-Based Compensation**STOCK OPTION PLAN**

Under Power Corporation's Executive Stock Option Plan, 23,330,858 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, 2018 and 2017, and changes during the respective years ended is as follows:

	2018		2017	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		\$		\$
Outstanding, beginning of year	17,630,666	28.38	18,768,640	28.75
Granted	1,350,172	28.51	1,127,871	31.46
Exercised	(1,657,567)	25.74	(982,043)	27.38
Forfeited and expired	(869,930)	32.66	(1,283,802)	37.23
Outstanding, end of year	16,453,341	28.43	17,630,666	28.38
Options exercisable, end of year	11,994,650	27.75	13,215,326	27.43

Note 19 Share-Based Compensation (continued)

The following table summarizes information about stock options outstanding at December 31, 2018:

Range of exercise prices	Options outstanding			Options exercisable	
	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
\$		(yrs)	\$		\$
18.52	1,051,704	0.3	18.52	1,051,704	18.52
23.54 – 27.30	3,056,761	3.3	27.09	3,029,289	27.09
27.60	1,564,741	2.2	27.60	1,564,741	27.60
28.24	2,639,201	4.4	28.24	2,639,201	28.24
28.51	1,350,172	9.2	28.51	–	–
28.81 – 29.73	1,369,922	7.2	29.51	20,202	29.21
29.91	1,376,539	5.4	29.91	1,376,539	29.91
30.07	1,699,448	1.2	30.07	1,699,448	30.07
30.94 – 31.48	1,125,243	8.2	31.46	–	–
33.66 – 33.82	1,219,610	6.2	33.81	613,526	33.81
	16,453,341	4.5	28.43	11,994,650	27.75

COMPENSATION EXPENSE

During the year ended December 31, 2018, Power Corporation granted 1,350,172 options (1,127,871 options in 2017) 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:

	2018	2017
Dividend yield	4.5%	4.1%
Expected volatility	16.5%	19.3%
Risk-free interest rate	2.1%	1.4%
Expected life (years)	8.3	8.3
Fair value per stock option (\$/option)	2.29	3.15
Weighted-average exercise price (\$/option)	28.51	31.46

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 investments at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$50 million in 2018 (\$71 million in 2017) 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 \$6 million (\$5 million in 2017) is recorded within other liabilities.

Note 19 Share-Based Compensation (continued)**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, 2018, the value of the deferred share units outstanding was \$15 million (\$18 million in 2017) 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 on the balance sheets. Total compensation expense related to these subsidiary plans amounted to \$70 million in 2018 (\$76 million in 2017) 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:

	2018			2017		
	Power Financial	Other subsidiaries	Total	Power Financial	Other subsidiaries	Total
December 31						
Non-controlling interests, beginning of year						
As previously reported	21,951	250	22,201	21,130	67	21,197
Change in accounting policy [Note 2]	(321)	-	(321)	-	-	-
Restated non-controlling interests, beginning of year	21,630	250	21,880	21,130	67	21,197
Net earnings (losses) attributable to non-controlling interests	2,110	18	2,128	1,704	(8)	1,696
Other comprehensive income (loss) attributable to non-controlling interests	337	2	339	(99)	(3)	(102)
Dividends	(1,329)	-	(1,329)	(1,275)	-	(1,275)
Change in ownership interest and other ^[1]	(68)	(22)	(90)	491	194	685
Non-controlling interests, end of year	22,680	248	22,928	21,951	250	22,201

[1] Change in ownership interest and other mainly relates to the repurchase and issuance of common and preferred shares by subsidiaries, and new non-controlling interests related to business acquisitions and disposals.

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

December 31	2018	2017
Common shareholders	20,098	19,371
Preferred shareholders	2,830	2,830
	22,928	22,201

Note 20 Non-Controlling Interests (continued)

Financial information of Power Financial as at and for the year ended December 31, 2018 can be obtained from its publicly available financial statements. Summarized financial information for Power Financial is as follows:

	2018	2017
Balance sheet		
Assets	447,055	440,224
Liabilities	412,106	406,700
Equity	34,949	33,524
Comprehensive income		
Net earnings	3,580	2,814
Other comprehensive income	645	43
Cash flows		
Operating activities	7,129	7,255
Financing activities	(2,278)	(1,156)
Investing activities	(4,714)	(5,146)

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.

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.

Note 21 Capital Management (continued)

Lifeco's subsidiaries Great-West Life, Great-West Financial 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. Effective January 1, 2018, OSFI replaced the prior Minimum Continuing Capital and Surplus Requirements (MCCSR) with 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, 2018 was 140%.

- For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2018 and 2017, all Lifeco's European regulated entities met the capital and solvency requirements as prescribed under Solvency II.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2018 and 2017, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

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, long-term investments made by IGM, business expansion and other strategic objectives.

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. At December 31, 2018 and 2017, 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 manager 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, 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, 2018, both lines of credit were unutilized.

Other subsidiaries also have committed lines of credit of \$211 million and uncommitted lines of credit of \$80 million with Canadian banks (\$199 million was undrawn at December 31, 2018).

Principal repayments on debentures and pension funding (other than those of Lifeco and IGM discussed below) represent the only significant contractual liquidity requirements.

	Payments due by period			Total
	Less than 1 year	1-5 years	After 5 years	
December 31, 2018				
Debentures and other debt instruments	254	235	1,286	1,775
Pension contributions	14	-	-	14
	268	235	1,286	1,789

Power Corporation, Power Financial and other subsidiaries' management of liquidity risk has not changed materially since December 31, 2017.

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, 2017.

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, 2018, approximately 69% (67% as at December 31, 2017) of Power Corporation, Power Financial and other subsidiaries' cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

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, 2018, 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 \$76 million (\$83 million as at December 31, 2017). Power Corporation's and Power Financial's debentures are denominated in Canadian dollars. A subsidiary of the Corporation has debt instruments in foreign currencies. Unrealized gains or losses on these debt instruments resulting from foreign exchange variations are recorded in other comprehensive income.

Note 22 Risk Management (continued)

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Pargesa itself is exposed to 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 \$81 million (\$20 million in 2017). As at December 31, 2018, the impact of a 5% decrease in the value of other investments would have resulted in an approximate \$62 million (\$69 million as at December 31, 2017) 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 66% (approximately 67% in 2017) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair value adjustments.

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

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

December 31, 2018	Payments due by period						Total
	1 year	2 years	3 years	4 years	5 years	After 5 years	
Debentures and other debt instruments	475	500	–	–	779	4,600	6,354
Capital trust debentures ^[1]	–	–	–	–	–	150	150
Purchase obligations	90	91	37	17	2	–	237
Pension contributions	295	–	–	–	–	–	295
	860	591	37	17	781	4,750	7,036

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of \$37 million principal amount (\$51 million carrying value).

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.

Note 22 Risk Management (continued)**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	2018	2017
Cash and cash equivalents	4,168	3,551
Bonds		
Fair value through profit or loss	91,901	89,898
Available for sale	13,239	12,347
Loans and receivables	19,722	17,959
Mortgage loans	25,014	22,185
Loans to policyholders	8,929	8,280
Funds held by ceding insurers ^[1]	9,251	9,893
Reinsurance assets	6,126	5,045
Interest due and accrued	1,388	1,334
Accounts receivable	2,502	2,154
Premiums in course of collection	1,312	1,159
Trading account assets	843	723
Finance leases receivable	410	350
Other financial assets ^[2]	672	554
Derivative assets	417	384
Total balance sheet maximum credit exposure	185,894	175,816

[1] Includes \$7,246 million as at December 31, 2018 (\$8,044 million as at December 31, 2017) 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 \$109 million of collateral received from counterparties as at December 31, 2018 (\$77 million as at December 31, 2017) relating to derivative assets.

CONCENTRATION 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.

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

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

Note 22 Risk Management (continued)

December 31, 2017	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Treasuries	899	263	12,452	13,614
Government-related	19,322	3,570	7,557	30,449
Agency securitized	65	1,937	21	2,023
Non-agency securitized	2,073	5,232	1,761	9,066
Financials	3,872	4,070	5,493	13,435
Communications	782	1,304	1,015	3,101
Consumer products	3,159	3,714	3,238	10,111
Energy	1,806	2,041	866	4,713
Industrials	1,544	3,727	1,748	7,019
Technology	591	1,094	485	2,170
Transportation	2,407	828	1,144	4,379
Utilities	7,310	4,332	4,277	15,919
Short-term bonds	2,474	78	1,653	4,205
	46,304	32,190	41,710	120,204

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

December 31, 2018	Equity-release	Single-family residential	Multi-family residential	Commercial	Total
Canada	26	2,104	4,686	7,223	14,039
United States	-	-	2,434	4,006	6,440
Europe	787	-	497	3,251	4,535
	813	2,104	7,617	14,480	25,014

December 31, 2017	Single-family residential	Multi-family residential	Commercial	Total
Canada	2,139	4,163	6,840	13,142
United States	-	2,190	3,257	5,447
Europe	-	413	3,183	3,596
	2,139	6,766	13,280	22,185

ASSET QUALITY

Bond Portfolio Quality December 31	2018	2017
AAA	23,558	24,889
AA	33,793	32,405
A	41,008	40,328
BBB	25,553	21,449
BB and lower	950	1,133
Total bonds	124,862	120,204
Derivative Portfolio Quality December 31	2018	2017
Over-the-counter contracts (counterparty credit ratings):		
AA	252	135
A	110	235
BBB	47	13
Exchange-traded	8	1
Total	417	384

Note 22 Risk Management (continued)**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	2018	2017
Less than 30 days	1	1
30-90 days	2	-
Greater than 90 days	-	1
Total	3	2

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	2018	2017
Participating	885	1,254
Non-participating	1,710	1,637
	2,595	2,891

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.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.
- A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change in net earnings.

INTEREST RATE RISK

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

- Lifeco uses a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.
- The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Note 22 Risk Management (continued)

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

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.10% (0.13% in 2017). 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, 2018 and 2017, 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, 2018 and 2017, 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:

	2018		2017	
	1% increase	1% decrease	1% increase	1% decrease
December 31				
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	(165)	639	(215)	720
Increase (decrease) in net earnings	115	(465)	150	(523)

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 stocks and private equities, for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity 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:

	2018		2017	
	10% increase	10% decrease	10% increase	10% decrease
December 31				
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	(87)	338	(58)	109
Increase (decrease) in net earnings	73	(266)	48	(85)

Note 22 Risk Management (continued)

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

December 31	2018		2017	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	(591)	680	(542)	591
Increase (decrease) in net earnings	476	(539)	439	(470)

IGM FINANCIAL

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

LIQUIDITY RISK

IGM's liquidity management practices include:

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

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

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources 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.

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

December 31, 2018	Payments due by period				
	Demand	Less than 1 year	1-5 years	After 5 years	Total
Derivative financial instruments	–	8	21	–	29
Deposits and certificates	555	7	5	2	569
Obligations to securitization entities	–	1,208	6,135	27	7,370
Debentures	–	–	–	1,850	1,850
Pension contributions	–	26	–	–	26
Total contractual maturities	555	1,249	6,161	1,879	9,844

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, 2018, unchanged from December 31, 2017. The lines of credit as at December 31, 2018 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, 2018 and 2017, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2017.

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, 2018, IGM's cash and cash equivalents of \$650 million (\$967 million in 2017) consisted of cash balances of \$82 million (\$88 million in 2017) on deposit with Canadian chartered banks and cash equivalents of \$568 million (\$879 million in 2017). 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.

Note 22 Risk Management (continued)

As at December 31, 2018, residential mortgages, recorded on IGM's balance sheet, of \$7.7 billion (\$7.8 billion in 2017) consisted of \$7.3 billion sold to securitization programs (\$7.5 billion in 2017), \$364 million held pending sale or securitization (\$287 million in 2017) and \$26 million related to IGM's intermediary operations (\$26 million in 2017).

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 comprehensive financial plan.

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

- Under the NHA MBS program totalling \$4.2 billion (\$4.5 billion in 2017), 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 \$3.1 billion (unchanged from December 31, 2017) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$74 million (\$70 million in 2017) and \$36 million (\$42 million in 2017), respectively, at December 31, 2018. 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 8.3% of mortgages held in ABCP trusts insured at December 31, 2018 (16.4% in 2017).

At December 31, 2018, residential mortgages recorded on the balance sheet were 61.5% insured (65.5% in 2017). At December 31, 2018, impaired mortgages on these portfolios were \$3 million (unchanged from December 31, 2017). Uninsured non-performing mortgages over 90 days on these portfolios were \$2 million at December 31, 2018 (\$1 million in 2017).

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

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

IGM's collective allowance for credit losses was \$1 million at December 31, 2018 (unchanged from December 31, 2017), 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, 2017.

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, 2018. Management of credit risk related to derivatives has not changed materially since December 31, 2017.

MARKET RISK**FOREIGN EXCHANGE RISK**

IGM is exposed to foreign exchange risk on its investments in Personal Capital Corporation and China AMC. 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 \$40 million.

IGM's proportionate share of China AMC's earnings, 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 earnings by approximately \$1 million.

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 positive fair value of \$5 million (\$4 million in 2017) and an outstanding notional value of \$0.9 billion at December 31, 2018 (\$1.2 billion in 2017). 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 \$11 million (\$4 million in 2017), on an outstanding notional amount of \$1.7 billion at December 31, 2018 (\$1.9 billion in 2017). The negative net fair value of these swaps recorded on the balance sheet was \$6 million at December 31, 2018 (nil in 2017) and has an outstanding notional amount of \$2.6 billion at December 31, 2018 (\$3.1 billion in 2017).

Note 22 Risk Management (continued)

- 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 negative \$2 million (positive \$1 million in 2017) on an outstanding notional amount of \$250 million at December 31, 2018 (\$137 million in 2017).

As at December 31, 2018, the impact to net earnings of a 100-basis-point increase in interest rates would have been a decrease of approximately \$1 million (decrease of \$1 million in 2017). IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2017.

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	2018	2017 [Note 2]
Salaries and other employee benefits	4,365	4,038
General and administrative expenses	2,643	2,583
Amortization, depreciation and impairment	564	396
Premium taxes	495	463
Loss on assets held for sale	–	202
Restructuring and other	108	450
	8,175	8,132

RESTRUCTURING AND OTHER**LIFECO**

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.

In 2017, Lifeco recorded a restructuring charge for its Canadian operations transformation plan of \$215 million pre tax. This restructuring was in respect of activities aimed at achieving planned expense reductions and an organizational realignment to respond to changing customer needs and expectations in Canada. The expense reductions addressed costs across Lifeco's Canadian operations and corporate functions, primarily through a reduction in staff, exiting of certain lease agreements and information system impairments. The Canadian business transformation is substantially completed.

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.

In 2017, IGM implemented a number of initiatives to assist in IGM's operational effectiveness resulting in restructuring and other charges of \$191 million.

These restructuring charges are recorded within operating and administrative expenses in the statements of earnings. At December 31, 2018, the balance of restructuring provisions, including those above, of \$139 million is recorded in other liabilities.

Note 24 Financing Charges

Years ended December 31	2018	2017
Interest on debentures and other debt instruments	405	464
Interest on capital trust debentures	11	11
Other	46	37
	462	512

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 trustee pension funds. The obligations for the wholly unfunded plans are supported by assets of the Corporation or its subsidiaries, as applicable.

The significant defined benefit plans of Lifeco's subsidiaries and IGM are closed to new entrants. New hires are only eligible for defined contribution benefits. In 2018, Power Corporation and Power Financial closed their defined benefit plans to new entrants and introduced a defined contribution plan for new employees. 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. 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. 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 trustee arrangement that provides oversight for the benefit plans. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements. Significant changes to benefit plans require approval.

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

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

Note 25 Pension Plans and Other Post-Employment Benefits (continued)**PLAN ASSETS, BENEFIT OBLIGATION AND FUNDED STATUS**

December 31	2018		2017	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets, beginning of year	7,697	-	7,104	-
Interest income	241	-	241	-
Employee contributions	16	-	22	-
Employer contributions ⁽¹⁾	234	22	297	24
Actual return on assets greater than interest income	(401)	-	337	-
Benefits paid	(432)	(22)	(382)	(24)
Settlement	(11)	-	-	-
Administrative expenses	(9)	-	(9)	-
Foreign exchange and other	117	-	87	-
Fair value of plan assets, end of year	7,452	-	7,697	-
CHANGE IN DEFINED BENEFIT OBLIGATION				
Defined benefit obligation, beginning of year	8,945	511	8,424	506
Current service cost	144	6	178	4
Employee contributions	16	-	22	-
Interest cost	281	17	285	19
Actuarial (gains) losses on:				
Financial assumption changes	(339)	(23)	414	18
Demographic assumption changes	(69)	(15)	1	(9)
Arising from member experience	27	(7)	12	(1)
Benefits paid	(432)	(22)	(382)	(24)
Past service cost and plan amendments	8	-	(53)	(1)
Settlement	(12)	-	-	-
Curtailment ⁽²⁾⁽³⁾	(5)	(41)	(34)	1
Foreign exchange and other	140	2	78	(2)
Defined benefit obligation, end of year	8,704	428	8,945	511
FUNDED STATUS				
Fund deficit	(1,252)	(428)	(1,248)	(511)
Unrecognized amount due to asset ceiling (see below)	(103)	-	(92)	-
Accrued benefit liability	(1,355)	(428)	(1,340)	(511)

[1] Includes a one-time contribution by a subsidiary for past services of \$66 million in 2017.

[2] 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 has been recognized as part of the loss on the disposition and is not included in pension and other post-employment benefits expense.

[3] The impact of curtailments and termination benefits resulting from the Canadian restructuring at Lifeco in 2017 were recognized as part of restructuring expenses and are not included in pension and other post-employment benefits expense.

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

December 31	2018	2017
Wholly or partly funded plans	8,045	8,274
Wholly unfunded plans	659	671

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:

	2018			2017		
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]	148	–	148	193	–	193
Pension and other post-employment benefit liabilities [Note 16]	(1,503)	(428)	(1,931)	(1,533)	(511)	(2,044)
Accrued benefit liability	(1,355)	(428)	(1,783)	(1,340)	(511)	(1,851)

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	2018	2017
Asset ceiling, beginning of year	92	91
Interest on beginning-of-period asset ceiling	3	4
Change in asset ceiling	8	(3)
Asset ceiling, end of year	103	92

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

	2018		2017	
December 31	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Defined benefit current service cost	144	6	178	4
Net interest cost	43	17	48	19
Past service cost, plan amendments, curtailments and settlements ^[1]	2	–	(71)	(1)
Administration fees	9	–	9	–
Defined contribution current service cost	111	–	77	–
Expense recognized in net earnings	309	23	241	22
Actuarial (gains) losses recognized	(381)	(45)	427	8
Return on assets (greater) lower than interest income	401	–	(337)	–
Change in asset ceiling	8	–	(3)	–
Expense (income) recognized in other comprehensive income (loss)	28	(45)	87	8
Total expense (income)	337	(22)	328	30

[1] IGM, at its discretion, may from time to time increase certain benefits paid to retired members of the plan. Under its previous policy, IGM had granted benefit increases in most years and its obligation included an estimate for future increases. IGM does not expect to grant benefit increases in the foreseeable future. As a result, IGM revalued its defined benefit obligation in 2017 and recognized a reduction to its obligation of \$50 million as a decrease to pension and other post-employment benefit expense.

In 2018, the Corporation and its subsidiaries incurred \$2 million of actuarial gains (\$2 million of actuarial losses in 2017) 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	
	2018	2017
Equity securities	42	45
Debt securities	48	43
All other assets	10	12
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated and other funds managed by subsidiaries of Lifeco of \$5,501 million at December 31, 2018 (\$5,694 million at December 31, 2017) of which \$5,431 million (\$5,616 million at December 31, 2017) 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**

	2018		2017	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
December 31				
Benefit obligation without future salary increases	7,981	428	8,148	511
Effect of assumed future salary increases	723	-	797	-
Defined benefit obligation	8,704	428	8,945	511

ALLOCATION OF DEFINED BENEFIT OBLIGATION BY MEMBERSHIP

December 31 Percentage [%]	2018		2017	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Actives	38	24	39	27
Deferred vesteds	20	-	23	-
Retirees	42	76	38	73
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	17.3	11.5	18.1	12.8

CASH FLOW INFORMATION

The expected employer contributions for the year 2019 are as follows:

	Pension plans	Other post-employment benefits
Funded (wholly or partly) defined benefit plans	178	-
Unfunded defined benefit plans	26	24
Defined contribution plans	118	-
Total	322	24

Note 25 Pension Plans and Other Post-Employment Benefits (continued)**ACTUARIAL ASSUMPTIONS AND SENSITIVITIES****ACTUARIAL ASSUMPTIONS**

December 31 Percentage [%]	2018		2017	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Range of discount rates				
To determine benefit cost	3.1–3.7	3.5–3.8	3.2–4.1	3.7–4.1
To determine accrued benefit obligation at year-end	3.4–3.9	3.7–4.4	3.1–3.7	3.5–3.8
Weighted average assumptions used to determine benefit cost ^[1]				
Discount rate	3.2	3.6	3.4	3.9
Rate of compensation increase	3.1	–	3.2	–
Weighted average assumptions used to determine accrued benefit obligation at year-end ^[1]				
Discount rate	3.6	3.9	3.2	3.6
Rate of compensation increase	3.1	–	3.1	–
Weighted average healthcare trend rates ^[1]				
Initial healthcare trend rate		4.9		5.2
Ultimate healthcare trend rate		4.1		4.5
Year ultimate trend rate is reached		2040		2029

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

SAMPLE LIFE EXPECTANCIES BASED ON MORTALITY ASSUMPTIONS

December 31	2018		2017	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Weighted average life expectancies based on mortality assumptions ^[1] :				
Male				
Age 65 in fiscal year	22.6	22.3	22.9	22.5
Age 65 for those age 35 in the fiscal year	24.6	24.0	25.0	24.1
Female				
Age 65 in fiscal year	24.8	24.8	24.8	24.9
Age 65 for those age 35 in the fiscal year	26.7	26.3	26.8	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.

Note 25 Pension Plans and Other Post-Employment Benefits (continued)**IMPACT OF CHANGES TO ASSUMPTIONS ON DEFINED BENEFIT OBLIGATION**

December 31, 2018	1% increase	1% decrease
Defined benefit pension plans:		
Impact of a change to the discount rate	(1,309)	1,680
Impact of a change to the rate of compensation increase	311	(286)
Impact of a change to the rate of inflation	604	(554)
Other post-employment benefits:		
Impact of a change to the discount rate	(44)	54
Impact of a change to assumed medical cost trend rates	34	(29)

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, 2018	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						
Forward contracts and total return swaps	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)

Note 26 Derivative Financial Instruments (continued)

December 31, 2017	Notional amount				Maximum credit risk	Total fair value
	1 year or less	1-5 years	Over 5 years	Total		
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Swaps	1,599	2,299	1,848	5,746	145	80
Options purchased	46	202	59	307	50	50
Futures – long	17	8	–	25	–	–
Futures – short	43	9	–	52	–	–
	1,705	2,518	1,907	6,130	195	130
Foreign exchange contracts						
Forward contracts	955	–	–	955	10	7
Cross-currency swaps	338	2,004	8,286	10,628	198	(930)
	1,293	2,004	8,286	11,583	208	(923)
Other derivative contracts						
Equity contracts	95	–	–	95	–	(1)
Futures – long	13	–	–	13	–	–
Futures – short	626	–	–	626	1	(1)
Other forward contracts	93	–	–	93	–	–
	827	–	–	827	1	(2)
	3,825	4,522	10,193	18,540	404	(795)
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	–	407	407	10	10
Foreign exchange contracts						
Cross-currency swaps	500	–	–	500	–	(123)
Other derivative contracts						
Forward contracts and total return swaps	19	36	–	55	10	10
	519	36	407	962	20	(103)
NET INVESTMENT HEDGES						
Foreign exchange contracts						
Forward contracts	–	475	–	475	–	(42)
	4,344	5,033	10,600	19,977	424	(940)

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

result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

As at December 31, 2018, Lifeco received assets of \$113 million (\$77 million in 2017) as collateral for derivative contracts from counterparties.

Note 26 Derivative Financial Instruments (continued)

The Corporation and its subsidiaries use the following derivatives:

Type	Purpose
Interest rate contracts	Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations and intermediary operations. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixed rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.
Foreign exchange contracts	Cross-currency swaps are used in combination with other investments to manage foreign 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. There was no ineffective portion related to cash flow hedges during 2018.
Other derivative contracts	Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets. Forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges. Change in fair value is recorded in operating and administrative expenses in the statements of earnings for those instruments not designated as hedges.

Note 26 Derivative Financial Instruments (continued)**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.

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.

	Gross amount of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet		Net exposure
		Offsetting counterparty position ^[1]	Financial collateral received/pledged ^[2]	
December 31, 2018				
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
December 31, 2017				
Financial instruments (assets)				
Derivative financial instruments	424	(359)	(26)	39
Reverse repurchase agreements ^[3]	29	-	(29)	-
	453	(359)	(55)	39
Financial instruments (liabilities)				
Derivative financial instruments	1,364	(359)	(359)	646
	1,364	(359)	(359)	646

[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 \$113 million (\$77 million at December 31, 2017), received on reverse repurchase agreements was \$15 million (\$29 million at December 31, 2017), and pledged on derivative liabilities was \$691 million (\$437 million at December 31, 2017).

[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 tables distinguish between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed.

The 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, 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.

Note 27 Fair Value Measurement (continued)

December 31, 2017	Carrying value	Level 1	Level 2	Level 3	Total fair value
ASSETS					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	89,824	-	89,759	65	89,824
Available for sale	12,807	-	12,807	-	12,807
Mortgage and other loans					
Fair value through profit or loss	340	-	340	-	340
Shares					
Fair value through profit or loss	8,194	7,949	1	244	8,194
Available for sale	1,617	775	10	832	1,617
Investment properties	4,851	-	-	4,851	4,851
Funds held by ceding insurers	7,938	132	7,806	-	7,938
Derivative instruments	424	1	411	12	424
Other assets	892	503	389	-	892
	126,887	9,360	111,523	6,004	126,887
Assets disclosed at fair value					
Bonds					
Loans and receivables	17,959	-	19,365	105	19,470
Mortgage and other loans					
Loans and receivables	29,748	-	23,031	7,649	30,680
Shares					
Available for sale ⁽¹⁾	331	-	-	331	331
Funds held by ceding insurers	106	-	-	106	106
	48,144	-	42,396	8,191	50,587
Total	175,031	9,360	153,919	14,195	177,474
LIABILITIES					
Liabilities recorded at fair value					
Investment contract liabilities	1,841	-	1,819	22	1,841
Derivative instruments	1,364	2	1,354	8	1,364
Other liabilities	97	9	-	88	97
	3,302	11	3,173	118	3,302
Liabilities disclosed at fair value					
Obligations to securitization entities	7,596	-	-	7,658	7,658
Debentures and other debt instruments	9,511	440	10,084	-	10,524
Deposits and certificates	555	-	555	-	555
	17,662	440	10,639	7,658	18,737
Total	20,964	451	13,812	7,776	22,039

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

There were no significant transfers between Level 1 and Level 2 in 2018 and 2017.

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 stock; - some private bonds and equities; - most investment-grade and high-yield corporate bonds; - most asset-backed securities; - most over-the-counter derivatives; - 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; - some private equities; - some 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, 2018 and 2017.

	Bonds	Mortgages and other loans	Shares				Assets (liabilities) held for sale and other assets (liabilities)	Investment contract liabilities	Total
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			
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 [Note 3]	-	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

	Bonds	Mortgages and other loans	Shares				Assets (liabilities) held for sale and other assets (liabilities)	Investment contract liabilities	Total
December 31, 2017	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			
Balance, beginning of year	1	-	81	1,278	4,340	(23)	1	(20)	5,658
Total gains (losses)									
In net earnings	1	-	10	270	176	13	(1)	-	469
In other comprehensive income ^[1]	4	-	(3)	(61)	68	-	-	-	8
Purchases	-	-	166	116	339	(2)	(67)	-	552
Sales	-	-	(14)	(285)	(72)	-	(1)	-	(372)
Settlements	-	-	-	-	-	16	-	-	16
Other	-	-	-	(463)	-	-	(20)	(2)	(485)
Transfers into Level 3	60	-	4	-	-	-	-	-	64
Transfers out of Level 3	(1)	-	-	(23)	-	-	-	-	(24)
Balance, end of year	65	-	244	832	4,851	4	(88)	(22)	5,886

[1] Amount of other comprehensive income for fair value through profit or loss mortgage and other loans and investment properties represents the unrealized gains 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 Reversionary rate Vacancy rate	Range of 2.4%–10.3% Range of 4.0%–6.8% Weighted average of 2.2%	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. 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. 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	4.5%	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		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Year ended December 31, 2018						
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

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Year ended December 31, 2017						
Balance, beginning of year	373	902	433	(468)	(16)	1,224
Other comprehensive income (loss)	110	(285)	309	(41)	(2)	91
Other	-	-	-	-	6	6
Balance, end of year	483	617	742	(509)	(12)	1,321

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	2018	2017
EARNINGS		
Net earnings attributable to shareholders	1,339	1,338
Dividends on non-participating shares	(52)	(52)
Net earnings attributable to participating shareholders	1,287	1,286
Dilutive effect of subsidiaries' outstanding stock options	(2)	(1)
Net earnings adjusted for dilutive effect	1,285	1,285
NUMBER OF PARTICIPATING SHARES [millions]		
Weighted average number of participating shares outstanding - Basic	465.4	463.8
Potential exercise of outstanding stock options	0.7	1.7
Weighted average number of participating shares outstanding - Diluted	466.1	465.5
NET EARNINGS PER PARTICIPATING SHARE		
Basic	2.77	2.77
Diluted	2.76	2.76

For 2018, 8.1 million stock options (3.6 million in 2017) 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:

Corporations	Incorporated in	Primary business operation	% equity interest	
			2018	2017
Power Financial Corporation	Canada	Financial services holding company	65.5	65.5
Great-West Lifeco Inc. ^[1]	Canada	Financial services holding company	71.8	71.7
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	96.7	95.9
IGM Financial Inc. ^[3]	Canada	Wealth and asset management company	65.2	65.3
Investors Group Inc.	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
Wealthsimple Financial Corp. ^[5]	Canada	Financial services	81.7	77.3
China Asset Management Co., Ltd. ^[6]	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
Lumenpulse Group Inc.	Canada	Sustainable energy	60.5	55.7
Eagle Creek Renewable Energy, LLC ^[7]	United States	Renewable energy	–	32.9
The Lion Electric Co.	Canada	Sustainable energy	43.8	43.8
Square Victoria Communications Group Inc.	Canada	Holding company	100.0	100.0
La Presse, Itée ^[8]	Canada	Communication and media	–	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	–

[1] Power Financial holds a 67.8% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco.

[2] Lifeco holds 100% of the voting shares and 96.7% of the total outstanding shares.

[3] Power Financial holds a 61.4% equity interest and The Great-West Life Assurance Company holds a 3.8% 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, Portag3 and IGM Financial hold an equity interest of 16.0%, 21.9% and 43.8%, respectively, in Wealthsimple.

[6] Power Corporation and Mackenzie Investments each hold an equity interest of 13.9% in China AMC.

[7] Held through Power Energy Eagle Creek LLP (60%) and disposed of in November 2018 (Note 8).

[8] Disposed of in July 2018 (Note 3).

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. 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 2018, IGM sold residential mortgage loans to Great-West Life and London Life for \$61 million (\$137 million in 2017).

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 2019.

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	2018	2017
Compensation and employee benefits	25	26
Post-employment benefits	3	8
Share-based payments	23	21
	51	55

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. On April 28, 2014, the matter was dismissed. On July 2, 2014, the complainant filed an appeal of the dismissal and on April 15, 2015 the United States Court of Appeals for the Second Circuit issued its decision overturning the dismissal of the action and remanding the matter for further proceedings, which are ongoing.

Subsidiaries of Lifeco in the United States are defendants in 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.

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 to predict the outcome of this matter with certainty.

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 actions, 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 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\$2.1 billion, of which US\$1.7 billion were issued as of December 31, 2018.

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

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 fulfillment of certain contract conditions were \$955 million as at December 31, 2018, with \$894 million maturing within one year and \$61 million maturing within two years.

The Corporation and other subsidiaries have outstanding commitments of \$926 million representing future capital contributions to investment funds.

COMMITMENTS

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

	2019	2020	2021	2022	2023	2024 and thereafter	Total
Future lease payments	176	161	138	120	103	661	1,359

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 \$1,464 million (\$1,562 million at December 31, 2017) 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, \$76 million (\$66 million at December 31, 2017) of its assets for the purpose of providing collateral for the counterparty.

ENERGY SALES CONTRACTS

Potentia Renewable Inc. (Potentia), a wholly owned subsidiary of Power Energy has entered into various power purchase agreements (PPA) to sell substantially all electricity produced from the solar 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 and the Corporation have issued certain performance guarantees in relation to these agreements.

Note 33 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; and operation of regional leisure parks.

The column entitled "Corporate" is comprised of corporate activities of Power Financial and the results of Wealthsimple and Portag3. 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, Square Victoria Communications Group (up to July 14, 2018) and Vein Clinics (up to the date of disposal on December 29, 2017). 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

For the year ended December 31, 2018	Power Financial					Other	Total
	Lifeco	IGM ^[1]	Pargesa	Corporate	Sub-total		
REVENUES							
Premium income, net	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 the adoption of 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 33 Segmented Information (continued)**TOTAL ASSETS AND LIABILITIES**

December 31, 2018	Power Financial					Other	Total
	Lifeco	IGM ^[2]	Pargesa	Corporate	Sub-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 the adoption of 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

Note 33 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

	Power Financial						
For the year ended December 31, 2017 [Note 2]	Lifeco	IGM	Pargesa	Corporate	Sub-total	Other	Total
REVENUES							
Premium income, net	33,902	-	-	(22)	33,880	-	33,880
Net investment income	7,582	139	-	(111)	7,610	464	8,074
Fee income	5,608	3,006	-	(117)	8,497	13	8,510
Other revenues	-	-	-	-	-	898	898
Total revenues	47,092	3,145	-	(250)	49,987	1,375	51,362
EXPENSES							
Total paid or credited to policyholders	35,643	-	-	-	35,643	-	35,643
Commissions	2,647	1,142	-	(77)	3,712	-	3,712
Operating and administrative expenses	5,797	1,113	-	92	7,002	1,130	8,132
Financing charges	300	114	-	18	432	80	512
Total expenses	44,387	2,369	-	33	46,789	1,210	47,999
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,705	776	-	(283)	3,198	165	3,363
Share of earnings of investments in jointly controlled corporations and associates	25	9	131	35	200	14	214
Earnings before income taxes	2,730	785	131	(248)	3,398	179	3,577
Income taxes	422	174	-	(12)	584	(41)	543
Net earnings	2,308	611	131	(236)	2,814	220	3,034
ATTRIBUTABLE TO							
Non-controlling interests	1,357	381	45	(95)	1,688	8	1,696
Non-participating shareholders	-	-	-	-	-	52	52
Participating shareholders	951	230	86	(141)	1,126	160	1,286
	2,308	611	131	(236)	2,814	220	3,034

Note 33 Segmented Information (continued)

TOTAL ASSETS AND LIABILITIES

December 31, 2017	Power Financial					Other	Total
	Lifeco	IGM	Pargesa	Corporate	Sub-total		
Investments and cash and cash equivalents	167,480	9,073	-	1,113	177,666	2,188	179,854
Assets held for sale	169	-	-	-	169	-	169
Investments in jointly controlled corporations and associates	2	648	3,354	12	4,016	1,138	5,154
Other assets	24,466	1,139	-	83	25,688	926	26,614
Goodwill and intangible assets	10,371	4,789	-	168	15,328	1,045	16,373
Investments on account of segregated fund policyholders	217,357	-	-	-	217,357	-	217,357
Total assets^[1]	419,845	15,649	3,354	1,376	440,224	5,297	445,521
Total liabilities	394,302	11,674	-	724	406,700	2,005	408,705

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

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2017	Canada	United States	Europe	Total
Investments and cash and cash equivalents	83,734	44,674	51,446	179,854
Assets held for sale	-	169	-	169
Investments in jointly controlled corporations and associates	1,369	429	3,356	5,154
Other assets	4,810	3,749	18,055	26,614
Goodwill and intangible assets	11,521	2,184	2,668	16,373
Investments on account of segregated fund policyholders	80,399	34,038	102,920	217,357
Total assets	181,833	85,243	178,445	445,521
Total revenues	21,608	9,948	19,806	51,362

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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, 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's 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 LLP¹

March 20, 2019
Montréal, Québec

¹ CPA auditor, CA, public accountancy permit No. A110092

POWER CORPORATION OF CANADA

Five-Year Financial Summary

December 31 [in millions of Canadian dollars, except per share amounts] (unaudited)	2018	2017 ^[1]	2016	2015	2014
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	6,441	5,903	5,182	5,085	4,431
Total assets	452,303	445,521	422,724	422,859	377,781
Shareholders' equity	15,118	14,615	13,864	13,978	11,931
CONSOLIDATED STATEMENTS OF EARNINGS					
Revenues					
Premium income, net	35,440	33,880	31,125	24,501	21,222
Net investment income	3,069	8,074	10,335	4,869	13,706
Fee income	8,776	8,510	7,794	7,692	6,990
Other revenues	813	898	1,496	1,203	711
Total revenues	48,098	51,362	50,750	38,265	42,629
EXPENSES					
Total paid or credited to policyholders	32,068	35,643	34,675	22,842	29,160
Commissions	3,512	3,712	3,590	3,133	2,901
Operating and administrative expenses	8,175	8,132	8,023	7,239	6,066
Financing charges	462	512	490	480	457
Total expenses	44,217	47,999	46,778	33,694	38,584
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,881	3,363	3,972	4,571	4,045
Share of earnings (losses) of investments in jointly controlled corporations and associates	164	214	(122)	213	215
Earnings before income taxes	4,045	3,577	3,850	4,784	4,260
Income taxes	578	543	587	685	824
Net earnings	3,467	3,034	3,263	4,099	3,436
ATTRIBUTABLE TO					
Non-controlling interests	2,128	1,696	2,129	2,261	2,109
Non-participating shareholders	52	52	52	52	52
Participating shareholders	1,287	1,286	1,082	1,786	1,275
	3,467	3,034	3,263	4,099	3,436
PER SHARE					
Net earnings attributable to participating shareholders	2.77	2.77	2.33	3.86	2.77
Adjusted net earnings attributable to participating shareholders ^[2]	3.09	3.36	2.64	3.40	2.69
Dividends declared on participating shares	1.50	1.41	1.32	1.22	1.16
Book value per participating share	30.38	29.40	27.84	28.08	23.74
MARKET PRICE (Participating shares)					
High	32.56	33.68	31.03	34.57	32.87
Low	23.57	28.65	26.77	27.15	27.60
Year-end	24.53	32.37	30.05	28.94	31.76

[1] The 2017 figures have been adjusted as a result of IFRS 15, adopted on January 1, 2018 (see Note 2).

[2] Please refer to the review of financial performance 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
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
2017				
Total revenues ^[1]	14,043	11,401	12,109	13,809
Net earnings	508	953	819	754
Net earnings attributable to participating shareholders	208	470	350	258
Earnings per share attributable to participating shareholders				
– Basic	0.44	1.02	0.75	0.56
– Diluted	0.44	1.01	0.75	0.55

[1] Total revenues have been adjusted as a result of IFRS 15, adopted on January 1, 2018 (see Note 2).

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, President and
Co-Chief Executive Officer of the Corporation
and Executive Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C., O.Q.^[4]

Chairman and
Co-Chief Executive Officer of the Corporation
and Executive Co-Chairman,
Power Financial Corporation

Gary A. Doer, O.M.^[2]

Senior Business Advisor,
Dentons Canada LLP

Anthony R. Graham, LL.D.^{[1][3][4]}

Vice-Chairman,
Wittington Investments, Limited

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,
Power Financial 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 COMPENSATION COMMITTEE

[4] MEMBER OF THE GOVERNANCE AND NOMINATING COMMITTEE

[5] MEMBER OF THE RELATED PARTY AND CONDUCT REVIEW COMMITTEE

OFFICERS

Paul Desmarais, Jr., O.C., O.Q.

Chairman and
Co-Chief Executive Officer

André Desmarais, O.C., O.Q.

Deputy Chairman, President and
Co-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 Vial*

Senior Vice-President

Arnaud Bellens

Vice-President

Pierre Larochelle

President and Chief Executive Officer,
Power Energy Corporation

Denis Le Vasseur, CPA, CA

Vice-President and Controller

Stéphane Lemay

Vice-President, General Counsel and Secretary

Yuhong Liu (Henry), CFA

Vice-President

Fabrice Morin

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

* RETIRED JUNE 1, 2018

CORPORATE INFORMATION

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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

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

100 University Avenue, 8th Floor

Toronto, Ontario, Canada M5J 2Y1

Telephone: 1-800-564-6253 (toll-free in Canada and the U.S.)

or 514-982-7555

www.computershare.com



Power Corporation of Canada is
recognized as an Imagine Canada
Caring Company for leadership
and excellence in community
investment.



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COVER

Top left and bottom right: Employees at Power group companies involved in their community.

Middle: The Honourable Paul G. Desmarais, P.C., C.C., O.Q.

Bottom left: Power Corporation employees and shareholders attending the Annual General Meeting.

PAGE VI

Top right: The Board of Directors of Investors Group in April 1981.

Top left: A. Frank Knowles, President of Power Corporation from 1986 to 1991.

Middle: Robert Gratton, President and Chief Executive Officer of Power Financial from 1990 to 2005.

Bottom left: The Honourable Paul G. Desmarais, P.C., C.C., O.Q.

Bottom right: Peter D. Curry (left) and James W. Burns (right). Mr. Curry was President of the Corporation from 1972 to 1978, while Mr. Burns held the same role from 1979 to 1986.

