



## Annual Report 2017

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements. 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”, “intends”, “plans”, “believes”, “estimates” and other similar expressions or negative versions thereof. These statements may include, without limitation, statements about the Company’s operations, business, financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures. Forward-looking statements are based on expectations, forecasts, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and the reader is cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Material factors and assumptions that were applied in formulating the forward-looking information contained herein include the assumption that the business and economic conditions affecting the Company’s operations will continue substantially in their current state, including, without limitation, with respect to customer behaviour, the Company’s reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, reinsurance arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets, business competition and other general economic, political and market factors in North America and internationally. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Other important factors and assumptions that could cause actual results to differ materially from those contained in forward-looking statements include customer responses to new products, impairments of goodwill and other intangible assets, the Company’s ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, the Company’s ability to complete strategic transactions and integrate acquisitions and unplanned material changes to the Company’s facilities, customer and employee relations or credit arrangements. The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors, including factors set out herein under “Financial Instruments Risk Management”. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

## CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

This report contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, “operating earnings”, “adjusted net earnings”, “constant currency basis”, “premiums and deposits”, “sales”, “assets under management”, “assets under administration” and other similar expressions. Non-IFRS financial measures are used to provide management and investors with additional measures of performance to help assess results where no comparable IFRS measure exists. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies. Please refer to the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS.

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## GREAT-WEST LIFE: GUIDING OUR CUSTOMERS IN A CHANGING WORLD

At Great-West Life, we're focused on improving the financial, physical and mental well-being of Canadians.

For more than 125 years, our customers across Canada have trusted us to provide for their financial security needs and to deliver on the promises we have made.

That commitment is built on the dedication, skill and energy of our employees and financial security advisors and their commitment to our customers and to our communities.

Together with subsidiaries London Life and Canada Life, we serve the financial security needs of 13 million people across Canada, and are a leading provider of individual life insurance with nearly three million individual life insurance policies in force. Great-West Life reported a minimum continuing capital and surplus requirements ratio of 241 per cent at Dec. 31, 2017.\*

We are committed to putting the customer first – whether handling policy claims, growing and protecting clients' retirement and investment savings, providing workplace mental health support for employers or helping build strong communities by investing in community projects.

In 2017 in Canada, our companies:

- Helped families cope with loss, paying out more than \$2.4 billion in life insurance benefits.
- Provided income for over 78,000 people who became disabled and could no longer work.
- Made \$858 million of annuity payments, helping Canadians fund their retirement with a secure income stream.
- Helped over 30,000 employers provide benefits plans and 9,000 employers offer retirement savings plans for their employees.

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**\$160.1 million**

Dividends paid out to Great-West Life participating policyholders

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**\$9.4 billion**

Benefits paid to Canadian customers

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**\$109 billion**

Retirement and investment holdings in Canada

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**\$13.5 million**

Contributed to Canadian communities

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### Our organization

Great-West Life, together with London Life and Canada Life, is a leading Canadian insurer, with interests in life insurance and health insurance, investment, retirement savings and reinsurance businesses, primarily in Canada and Europe.

In Europe, Great-West Life has operations in the United Kingdom, Isle of Man and Germany through Canada Life, and in Ireland through Irish Life. We serve our customers in Europe with a broad range of protection and wealth management products as well as asset management services through Canada Life in the U.K., and through Irish Life Investment Managers and Setanta Asset Management in Ireland.

Great-West Life also participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life, longevity, and property and casualty reinsurance in the United States and in international markets.

Great-West Life is a subsidiary of Great-West Lifeco Inc. and, together with London Life and Canada Life, a member of the Power Financial Corporation group of companies.

For more information, including current credit ratings, visit [Greatwestlife.com](http://Greatwestlife.com).

\* In Canada, the Office of the Superintendent of Financial Institutions has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* and their subsidiaries. This measurement is known as the minimum continuing capital and surplus requirements ratio. For Canadian regulatory purposes, capital is defined by the Office of the Superintendent of Financial Institutions in its guideline for minimum continuing capital and surplus requirements. The company's practice is 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.

## DIRECTORS' REPORT

### Focused on customer outcomes in a changing world

**Delivering on our commitments today and for generations to come: Anticipating and meeting our customers' changing needs for guidance, access and transparency**

Our customers' needs and expectations are being reshaped by technology, shifting demographics and the impacts of globalization. At the same time, our operating environment is being challenged by continuing low interest rates, while regulators are becoming more focused on customer outcomes and heightened capital standards.

Within this environment, Great-West Life delivered solid results across all of our businesses in 2017. We sustained our strong and stable capital position and industry-leading credit ratings. We are finding the right balance between delivering solid results today, with investing in a strong foundation to drive sustainable growth in the future. While our approaches vary across our operating regions, they share a common strategy that is focused on customer outcomes in a changing world, and strong risk management to ensure we deliver on our current and future commitments.

## We believe in the value of advice

Households that worked with an advisor grew assets by nearly 4 times compared to non-advised households – 2016 report: The Gamma Factor and the Value of Financial Advice, by the Center for Interuniversity Research and Analysis of Organizations (CIRANO)

### Advancing our understanding of diverse customer needs

Customer needs are diverse and changing, driven by factors such as an aging boomer generation, young millennials becoming first-time customers, and the impact of globalization. We also know that customers expect services and products that are tailored to their unique needs and preferences.

This is why we are developing a deeper understanding of the customer on a segmented basis, learning as we engage with customers across multiple touchpoints over a lifetime. In Canada, for example, we launched a pilot to help millennials save for the future while paying down student debt. Through investments in automation and innovation, we are focused on simplifying products, ensuring customers get good value, and providing service in multiple languages to meet the needs of our multicultural society.

Advice is at the core of what we do, and our advisors are central to our ability to deliver on our customers' needs today and into the future. A study by CIRANO in 2016 shows that households that work with an advisor are significantly better off financially than their peers. We have invested in enabling our advisors. In Canada for example, we created an integrated organization of leading independent advisors whose business owner and entrepreneur clients need specialized service and support.



Jeffrey Orr  
Chair of the Board



Paul Mahon  
President and  
Chief Executive Officer

At the same time, the advisory landscape across the world is being reshaped by changing regulations. As a trusted market leader that brings global perspectives, we are actively engaging with regulators and the industry to help shape regulatory outcomes for the benefit of consumers, while sustaining a strong advice channel.

### Leveraging technology to enhance customer reach, access and transparency

We are leveraging technology such as automation, digital interfaces, artificial intelligence and robotics to enhance customer reach, access and transparency. Our ultimate objective is to deliver a better customer experience at a lower cost.

We have engaged with fintech companies through our investment in Portag3 Ventures. This has allowed us to establish connections with the fintech community, leading to partnerships and outsourcing arrangements that will help deliver innovation and differentiation.

We also extended our customer reach by investing in new channels – for example, with the acquisition of Financial Horizons Group, the leading Canadian organization focused on supporting insurance advisor practices.

In the United Kingdom we extended our reach through acquiring Retirement Advantage, bringing 30,000 new customers and expanding our retirement income offering with new innovative products. In Ireland and Germany we are enabling stronger capabilities to meet broker needs; and in Germany, building out new systems that extend our reach to group pension customers.

In today's online, interconnected world, our brands play an increasingly important role in helping extend our reach. In Canada, we are reviewing our multiple brands to ensure they support a changing, more digitally-connected customer.

### Investing in our people and our communities to build a more sustainable future

Our workforce is shifting from paper and physical process work to technology and knowledge-based jobs. We're investing in training, finding the right talent, and putting in place the building blocks to meet the needs of a diverse and multicultural employee population, reflective of our customers. Our internal leadership forums in 2017 featured sessions for our management teams on diversity and inclusion, unconscious bias training, leader measurement and succession planning. We are developing the next generation of leaders, and leveraging talent across our organization.

Our businesses are transforming to better focus on the customer. Transformation is not easy, and we thank our employees for their commitment and ongoing support.

In our communities, we fostered collaboration with others to build stronger communities and a more sustainable future for generations to come, such as our investment in the creation of a Leadership Institute at the University of Manitoba.

### How we will win in delivering for customers in generations to come

The companies that succeed in winning customers' business and loyalty over the long term will be those that understand and meet their unique needs; conduct business in a manner that is open, transparent and sustainable; and embrace technology to drive productivity, innovation and service.

### Thank you

We thank our customers for the trust you place in us. We also thank our employees and advisors for helping deliver service and guidance to meet our customers' changing needs and deliver on our commitments for today and for generations to come.



Jeffrey Orr  
Chair of the Board



Paul Mahon  
President and  
Chief Executive Officer

### Strong governance underpins positive outcomes for customers

Great-West Life believes good corporate governance is essential to creating positive outcomes for customers.

We thank our Directors for their valuable contribution to the governance and affairs of our companies.

At our 2017 annual meeting we announced the retirement of two Directors from our Board. Dr. Emőke Szathmáry had served as a Director for 11 years and was a member of the Executive and Conduct Review Committee. Raymond Royer had been a Director for nine years, serving as Chair of the Audit Committee since his election to the Board in May 2009.

At the 2017 Annual Meeting, three new Board members were elected: Deborah Barrett, David Fuller and Donald Raymond. Ms. Barrett was most recently Chief Financial Officer at The Woodbridge Company Limited until her retirement in March 2017. Mr. Fuller is Executive Vice-President of TELUS Corporation and is President, TELUS Consumer and Small Business Solutions. Mr. Raymond is Managing Partner and Chief Investment Officer at Alignvest Management Corporation and Alignvest Investment Management Corporation.

**FINANCIAL HIGHLIGHTS** (unaudited)  
(in Canadian \$ millions except per share amounts)

As at and for the years ended December 31	2017	2016	% Change
<b>Premiums and deposits:</b>			
Net premium income (Life insurance, guaranteed annuities and insured health products)	\$ 30,031	\$ 26,257	14 %
Self-funded premium equivalents (Administrative services only contracts) <sup>(1)</sup>	2,827	2,751	3 %
Segregated funds deposits:			
Individual products	16,089	12,776	26 %
Group products	5,659	4,976	14 %
Proprietary mutual funds and institutional deposits <sup>(1)</sup>	11,256	18,767	(40)%
<b>Total premiums and deposits<sup>(1)</sup></b>	<b>65,862</b>	<b>65,527</b>	<b>1 %</b>
Fee and other income	3,002	2,790	8 %
Net policyholder benefits, dividends and experience refunds	26,903	24,174	11 %
<b>Summary of net earnings attributable to:</b>			
Participating account			
Net earnings before policyholder dividend	\$ 1,326	\$ 1,463	(9)%
Policyholder dividends	1,285	1,273	1 %
Net earnings - participating account	41	190	(78)%
Common shareholder	2,474	2,679	(8)%
<b>Net earnings</b>	<b>\$ 2,515</b>	<b>\$ 2,869</b>	<b>(12)%</b>
<b>Adjusted summary of net earnings attributable to:</b>			
Participating account - adjusted <sup>(4)</sup>	\$ 72	\$ 190	(62)%
Common shareholder - adjusted <sup>(4)</sup>	2,623	2,694	(3)%
<b>Net earnings - adjusted excluding restructuring costs</b>	<b>\$ 2,695</b>	<b>\$ 2,884</b>	<b>(7)%</b>
<b>Per common share</b>			
Dividends paid	\$ 692.22	\$ 744.10	(7)%
Book value	8,224	7,766	6 %
<b>Total assets<sup>(5)</sup></b>			
Proprietary mutual funds and institutional net assets <sup>(2)</sup>	54,347	47,394	15 %
<b>Total assets under management<sup>(2)</sup></b>	<b>395,712</b>	<b>365,565</b>	<b>8 %</b>
Other assets under administration <sup>(3)</sup>	53,525	54,863	(2)%
<b>Total assets under administration</b>	<b>\$ 449,237</b>	<b>\$ 420,428</b>	<b>7 %</b>
Participating account surplus	\$ 2,757	\$ 2,765	— %
Shareholders' equity	19,797	18,401	8 %
<b>Total equity</b>	<b>\$ 22,554</b>	<b>\$ 21,166</b>	<b>7 %</b>

<sup>(1)</sup> In addition to premiums and deposits per the financial statements, the Company includes premium equivalents on self-funded group insurance administrative services only (ASO) contracts and deposits on proprietary mutual funds and institutional accounts to calculate total premiums and deposits (a non-IFRS financial measure). This measure provides useful information as it is an indicator of top line growth.

<sup>(2)</sup> Total assets under management (a non-IFRS financial measure) provides an indicator of the size and volume of the overall business of the Company. Services provided in respect of assets under management include the selection of investments, the provision of investment advice and discretionary portfolio management on behalf of clients. This includes internally and externally managed funds where the Company has oversight over the investment policies.

<sup>(3)</sup> Other assets under administration (a non-IFRS financial measure) include assets where the Company only provides administration services for which the Company earns fee and other income. These assets are beneficially owned by clients and the Company does not direct the investing activities. Services provided relating to assets under administration include recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

<sup>(4)</sup> Net earnings attributable to the common shareholder and the participating account include the impact of restructuring costs. The year-ended December 31, 2017 included restructuring expenses of \$149 attributable to the common shareholder and \$31 attributable to the participating account and the year-ended December 31, 2016 included restructuring expenses of \$15 attributable to the common shareholder. Adjusted net earnings is a non-IFRS measure of earnings performance and reflects these adjustments.

<sup>(5)</sup> Comparative figures have been reclassified as described in notes 2 and 32 to the Company's December 31, 2017 consolidated financial statements.

## FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with International Financial Reporting Standards (IFRS), including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with IFRS, including the requirements of the Office of the Superintendent of Financial Institutions Canada.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS, including the requirements of the Office of the Superintendent of Financial Institutions Canada.

The consolidated financial statements were approved by the Board of Directors, which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which comprises non-management directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to external and internal auditors and to the Appointed Actuary.

The Board of Directors of the Company, pursuant to the Insurance Companies Act (Canada), appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.
- Annually analyzes the financial condition of the Company and prepares a report for the Board of Directors. The analysis covers a five year period, and tests the projected capital adequacy of the Company, under adverse economic and business conditions.

Deloitte LLP Chartered Professional Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Independent Auditor's Report to the Policyholders and Shareholder is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with IFRS.



**Paul Mahon**  
President and  
Chief Executive Officer



**Garry MacNicholas**  
Executive Vice-President and  
Chief Financial Officer

February 8, 2018

## CONSOLIDATED STATEMENTS OF EARNINGS

(in Canadian \$ millions)

	For the years ended December 31	
	2017	2016
<b>Income</b>		
Premium income		
Gross premiums written	\$ 34,438	\$ 30,238
Ceded premiums	(4,407)	(3,981)
Total net premiums	<u>30,031</u>	<u>26,257</u>
Net investment income (note 5)		
Regular net investment income	4,469	4,642
Changes in fair value through profit or loss	1,147	3,806
Total net investment income	<u>5,616</u>	<u>8,448</u>
Fee and other income	3,002	2,790
	<u>38,649</u>	<u>37,495</u>
<b>Benefits and expenses</b>		
Policyholder benefits		
Gross	27,810	25,237
Ceded	(2,475)	(2,357)
Total net policyholder benefits	<u>25,335</u>	<u>22,880</u>
Policyholder dividends and experience refunds	1,568	1,294
Changes in insurance and investment contract liabilities	3,591	4,831
Total paid or credited to policyholders	<u>30,494</u>	<u>29,005</u>
Commissions	2,082	2,301
Operating and administrative expenses (note 26)	2,518	2,436
Premium taxes	419	364
Financing charges (note 14)	52	50
Amortization of finite life intangible assets (note 9)	103	96
Restructuring expenses (note 27)	242	17
<b>Earnings before income taxes</b>	<u>2,739</u>	<u>3,226</u>
Income taxes (note 25)	224	357
<b>Net earnings</b>	<u>2,515</u>	<u>2,869</u>
Net earnings - participating account (note 18)	41	190
<b>Net earnings - common shareholder</b>	<u>\$ 2,474</u>	<u>\$ 2,679</u>

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian \$ millions)

	For the years ended December 31	
	2017	2016
<b>Net earnings</b>	\$ 2,515	\$ 2,869
<b>Other comprehensive income (loss)</b>		
<b>Items that may be reclassified subsequently to Consolidated Statements of Earnings</b>		
Unrealized foreign exchange gains (losses) on translation of foreign operations	219	(1,288)
Unrealized gains (losses) on available-for-sale assets	(76)	98
Income tax (expense) benefit	17	(5)
Realized (gains) losses on available-for-sale assets	(10)	(59)
Income tax expense (benefit)	—	5
<b>Total items that may be reclassified</b>	<b>150</b>	<b>(1,249)</b>
<b>Items that will not be reclassified to Consolidated Statements of Earnings</b>		
Re-measurements on defined benefit pension and other post-employment benefit plans (note 22)	(54)	(230)
Income tax (expense) benefit	16	60
<b>Total items that will not be reclassified</b>	<b>(38)</b>	<b>(170)</b>
<b>Total other comprehensive income (loss)</b>	<b>112</b>	<b>(1,419)</b>
<b>Comprehensive income</b>	<b>\$ 2,627</b>	<b>\$ 1,450</b>

# CONSOLIDATED BALANCE SHEETS

(in Canadian \$ millions)

	December 31	
	2017	2016 (note 32)
<b>Assets</b>		
Cash and cash equivalents (note 4)	\$ 2,634	\$ 2,473
Bonds (note 5)	90,210	85,550
Mortgage loans (note 5)	17,143	16,886
Stocks (note 5)	8,733	8,488
Investment properties (note 5)	4,848	4,337
Loans to policyholders	3,108	3,081
	<u>126,676</u>	<u>120,815</u>
Funds held by ceding insurers (note 6)	10,436	11,354
Goodwill (note 9)	5,979	5,766
Intangible assets (note 9)	1,952	1,789
Derivative financial instruments (note 28)	317	328
Owner occupied properties (note 10)	534	470
Fixed assets (note 10)	210	215
Other assets (note 11)	1,369	1,271
Premiums in course of collection, accounts and interest receivable	3,508	3,316
Reinsurance assets (note 12)	6,752	7,527
Current income taxes	67	86
Deferred tax assets (note 25)	246	245
Investments on account of segregated fund policyholders (note 13)	183,319	164,989
<b>Total assets</b>	<u>\$ 341,365</u>	<u>\$ 318,171</u>
<b>Liabilities</b>		
Insurance contract liabilities (note 12)	\$ 124,687	\$ 120,718
Investment contract liabilities (note 12)	1,806	1,967
Debentures and other debt instruments (note 15)	602	869
Capital trust securities (note 16)	160	161
Funds held under reinsurance contracts	1,007	1,005
Derivative financial instruments (note 28)	1,095	1,526
Accounts payable	1,728	1,374
Other liabilities (note 17)	2,975	2,896
Current income taxes	426	489
Deferred tax liabilities (note 25)	1,006	1,011
Investment and insurance contracts on account of segregated fund policyholders (note 13)	183,319	164,989
<b>Total liabilities</b>	<u>318,811</u>	<u>297,005</u>
<b>Equity</b>		
Participating account surplus (note 18)	2,757	2,765
Shareholders' equity		
Share capital (note 19)		
Common shares	8,883	8,488
Accumulated surplus	10,588	9,767
Accumulated other comprehensive income (loss) (note 23)	(78)	(252)
Contributed surplus	404	398
<b>Total equity</b>	<u>22,554</u>	<u>21,166</u>
<b>Total liabilities and equity</b>	<u>\$ 341,365</u>	<u>\$ 318,171</u>

Approved by the Board of Directors:



Jeffrey Orr  
Chair of the Board



Paul Mahon  
President and  
Chief Executive Officer

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in Canadian \$ millions)

December 31, 2017							
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Participating account surplus	Total equity
<b>Balance, beginning of year</b>	\$ 8,488	\$ 398	\$ 9,767	\$ (252)	\$ 18,401	\$ 2,765	\$ 21,166
Net earnings	—	—	2,474	—	2,474	41	2,515
Other comprehensive income (loss)	—	—	—	161	161	(49)	112
	<b>8,488</b>	<b>398</b>	<b>12,241</b>	<b>(91)</b>	<b>21,036</b>	<b>2,757</b>	<b>23,793</b>
Issue shares to parent company (note 19)	395	—	—	—	395	—	395
Dividends to common shareholder	—	—	(1,640)	—	(1,640)	—	(1,640)
Share-based payments (note 21)	—	6	—	—	6	—	6
Disposal of investment in associate (note 5)	—	—	(13)	13	—	—	—
<b>Balance, end of year</b>	<b>\$ 8,883</b>	<b>\$ 404</b>	<b>\$ 10,588</b>	<b>\$ (78)</b>	<b>\$ 19,797</b>	<b>\$ 2,757</b>	<b>\$ 22,554</b>

December 31, 2016							
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Participating account surplus	Total equity
Balance, beginning of year	\$ 8,488	\$ 389	\$ 8,851	\$ 1,133	\$ 18,861	\$ 2,609	\$ 21,470
Net earnings	—	—	2,679	—	2,679	190	2,869
Other comprehensive income (loss)	—	—	—	(1,385)	(1,385)	(34)	(1,419)
	<b>8,488</b>	<b>389</b>	<b>11,530</b>	<b>(252)</b>	<b>20,155</b>	<b>2,765</b>	<b>22,920</b>
Dividends to common shareholder	—	—	(1,763)	—	(1,763)	—	(1,763)
Share-based payments (note 21)	—	9	—	—	9	—	9
<b>Balance, end of year</b>	<b>\$ 8,488</b>	<b>\$ 398</b>	<b>\$ 9,767</b>	<b>\$ (252)</b>	<b>\$ 18,401</b>	<b>\$ 2,765</b>	<b>\$ 21,166</b>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian \$ millions)

	For the years ended December 31	
	2017	2016
<b>Operations</b>		
Earnings before income taxes	\$ 2,739	\$ 3,226
Income taxes paid, net of refunds received	(341)	(238)
Adjustments:		
Change in insurance and investment contract liabilities	2,629	4,859
Change in funds held by ceding insurers	853	501
Change in funds held under reinsurance contracts	38	10
Change in reinsurance assets	912	(401)
Changes in fair value through profit or loss	(1,147)	(3,806)
Other	(45)	(118)
	<u>5,638</u>	<u>4,033</u>
<b>Financing Activities</b>		
Issue of common shares (note 19)	395	—
Decrease in debentures and other debt instruments (note 15)	(284)	—
Promissory note payable to parent (note 24)	—	284
Dividends paid on common shares	(1,640)	(1,763)
	<u>(1,529)</u>	<u>(1,479)</u>
<b>Investment Activities</b>		
Bond sales and maturities	17,902	18,437
Mortgage loan repayments	2,300	2,114
Stock sales	3,400	2,698
Investment property sales	72	427
Change in loans to policyholders	(55)	(50)
Business acquisitions, net of cash and cash equivalents acquired (note 3)	(291)	(33)
Investment in bonds	(21,348)	(20,582)
Investment in mortgage loans	(2,528)	(2,350)
Investment in stocks	(3,097)	(2,715)
Investment in investment properties	(339)	(102)
	<u>(3,984)</u>	<u>(2,156)</u>
Effect of changes in exchange rates on cash and cash equivalents	36	(172)
<b>Increase in cash and cash equivalents</b>	<b>161</b>	<b>226</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,473</b>	<b>2,247</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,634</b>	<b>\$ 2,473</b>
<b>Supplementary cash flow information</b>		
Interest income received	\$ 3,775	\$ 3,999
Interest paid	52	47
Dividend income received	234	248

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian \$ millions except per share amounts)

### 1. Corporate Information

The Great-West Life Assurance Company (Great-West Life or the Company) is incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Great-West Life is wholly-owned by Great-West Lifeco Inc. (Lifeco). Lifeco is a member of the Power Corporation of Canada group of companies and its direct parent is Power Financial Corporation (Power Financial).

Great-West Life is a leading Canadian insurer, with interests in the life and health insurance, investment, savings and retirement income and reinsurance businesses, primarily in Canada and Europe through its subsidiaries including London Insurance Group Inc. (LIG), Canada Life Financial Corporation (CLFC), GLC Asset Management Group Ltd., and GWL Realty Advisors Inc.

The consolidated financial statements (financial statements) of the Company as at and for the year ended December 31, 2017 were approved by the Board of Directors on February 8, 2018.

### 2. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of the Company have been prepared in compliance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Consistent accounting policies were applied in the preparation of the consolidated financial statements of the subsidiaries of the Company.

The Company adopted the narrow scope amendments to IFRS for IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes* and *Annual Improvements 2014 - 2016 Cycle* for the amendment to IFRS 12 *Disclosure of Interest in Other Entities*, effective January 1, 2017. The adoption of these narrow scope amendments did not have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2017, the Company has changed the accounting policy to classify the provision for tax uncertainties as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. Previously, tax uncertainties were booked as current. The accounting policy change presents more reliable and relevant information to financial statement users as it reflects the economic reality of settling the underlying tax issues.

The Company retroactively restated the classification of current taxes to deferred taxes on the Consolidated Balance Sheets. The change in accounting policy resulted in decreases to deferred tax assets of \$4 and current income tax liabilities of \$8 with increases to current income tax assets of \$11 and deferred tax liabilities of \$15 respectively at December 31, 2016. These adjustments and reclassifications had no impact on the total equity or net earnings of the Company (note 32).

#### Basis of Consolidation

The consolidated financial statements of the Company were prepared as at and for the year ended December 31, 2017 with comparative information for December 31, 2016. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The Company has control when it has the power to direct the relevant activities, has significant exposure to variable returns from these activities and has the ability to use its power to affect the variable returns. All intercompany balances, transactions, income and expenses and profits or losses, including dividends resulting from intercompany transactions, are eliminated on consolidation.

#### Use of Significant Judgments, Estimates and Assumptions

In preparation of these consolidated financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related

2. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these consolidated financial statements including:

- Management uses independent qualified appraisal services to determine the fair value of investment properties, which utilize judgments and estimates. These appraisals are adjusted by applying management judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions (note 5).
- In the determination of the fair value of financial instruments, the Company's management exercises judgment in the determination of fair value inputs, particularly those items categorized within level 3 of the fair value hierarchy (note 8).
- Cash generating unit groupings for goodwill and indefinite life intangible assets have been determined by management as the lowest level that the assets are monitored for internal reporting purposes, which requires management judgment in the determination of the lowest level of monitoring (note 9).
- Management evaluates the future benefit for initial recognition and measurement of goodwill and intangible assets as well as testing the recoverable amounts. The determination of the carrying value and recoverable amounts of the cash generating unit groupings for goodwill and intangible assets relies upon the determination of fair value or value-in-use using valuation methodologies (note 9).
- Judgments are used by management in determining whether deferred acquisition costs and deferred income reserves can be recognized on the Consolidated Balance Sheets. Deferred acquisition costs are recognized if management determines the costs meet the definition of an asset and are incremental and related to the issuance of the investment contract. Deferred income reserves are amortized on a straight-line basis over the term of the policy (notes 11 and 17).
- Management uses judgment to evaluate the classification of insurance and reinsurance contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.
- The actuarial assumptions, such as interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders, used in the valuation of insurance and certain investment contract liabilities under the Canadian Asset Liability Method require significant judgment and estimation (note 12).
- The actuarial assumptions used in determining the expense and benefit obligations for the Company's defined benefit pension plans and other post-employment benefits requires significant judgment and estimation. Management reviews previous experience of its plan members and market conditions including interest rates and inflation rates in evaluating the assumptions used in determining the expense for the current year (note 22).
- The Company operates within various tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Company's tax provisions and the carrying amounts of its tax assets and liabilities (note 25).
- Management applies judgment in assessing the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections (note 25).
- Legal and other provisions are recognized resulting from a past event which, in the judgment of management, has resulted in a probable outflow of economic resources which would be passed to a third-party to settle the obligation. Management uses judgment to evaluate the possible outcomes and risks in determining the best estimate of the provision at the balance sheet date (note 29).
- The operating segments of the Company, which are the segments reviewed by the Company's Chief Executive Officer to assess performance and allocate resources within the Company. Management applies judgment in the aggregation of the business units into the Company's operating segments (note 31).
- The Company consolidates all subsidiaries and entities which management determines that the Company controls. Control is evaluated on the ability of the Company to direct the activities of the subsidiary or entity to derive variable returns and management uses judgment in determining whether control exists. Judgment

*2. Basis of Presentation and Summary of Accounting Policies (cont'd)*

is exercised in the evaluation of the variable returns and in determining the extent to which the Company has the ability to exercise its power to generate variable returns.

- Management uses judgments, such as the determination of the risks and benefits associated with the transaction that are used in determining whether the Company retains the primary obligation with a client in sub-advisor arrangements. Where the Company retains the risks and benefits, revenue and expenses are recorded on a gross basis.
- Within the Consolidated Statements of Cash Flows, purchases and sales of portfolio investments are recorded within investment activities due to management's judgment that these investing activities are long-term in nature.
- The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third-party independent credit ratings where available. Management judgment is required when setting credit ratings for instruments that do not have a third-party rating.

The significant accounting policies are as follows:

**(a) Portfolio Investments**

Portfolio investments include bonds, mortgage loans, stocks and investment properties. Portfolio investments are classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, equity-method investments or as non-financial instruments based on management's intention relating to the purpose and nature of the instrument or characteristics of the investment. The Company has not classified any investments as held-to-maturity.

Investments in bonds and stocks 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 on a trade date basis. A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. 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. Fair value through profit or loss investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings. Available-for-sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in other comprehensive income. Realized gains and losses on available-for-sale investments are reclassified from other comprehensive income and recorded in the Consolidated Statements of Earnings when the investment is sold. Interest income earned on both fair value through profit or loss and available-for-sale bonds is recorded as net investment income in the Consolidated Statements of Earnings.

Investments in stocks where a fair value cannot be measured reliably are classified as available-for-sale and carried at cost. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting. Investments in stocks over which the Company exerts significant influence but does not control include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial group of companies.

Investments in mortgages 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 and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Consolidated Statements of Earnings and included in net investment income.

## 2. Basis of Presentation and Summary of Accounting Policies (cont'd)

Investment properties are real estate held to earn rental income or for capital appreciation. Investment properties are initially measured at cost and subsequently carried at fair value on the Consolidated Balance Sheets. All changes in fair value are recorded as net investment income in the Consolidated Statements of Earnings. Properties held to earn rental income or for capital appreciation that have an insignificant portion that is owner occupied or where there is no intent to occupy on a long-term basis are classified as investment properties. Properties that do not meet these criteria are classified as owner occupied properties. Property that is leased that would otherwise be classified as investment property if owned by the Company is also included within investment properties.

### Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded within the market pricing methods that the Company relies 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 and investment contract liabilities are largely offset by corresponding changes in the fair value of liabilities except when the bond has been deemed impaired.

The following is a description of the methodologies used to value instruments carried at fair value:

#### *Bonds - Fair Value Through Profit or Loss and Available-for-Sale*

Fair values for bonds classified and designated as 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. Where prices are not quoted in a normally active market, fair values are determined by valuation models. The Company maximizes the use of observable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios.

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

#### *Bonds and Mortgages - Loans and Receivables*

For disclosure purposes only, fair values for bonds and mortgages 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.

#### *Stocks - Fair Value Through Profit or Loss and Available-for-Sale*

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

2. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

*Investment Properties*

Fair values for investment properties are determined using independent qualified appraisal services and include management adjustments 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 property 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 property under construction is valued at fair value if such values can be reliably determined; otherwise they are recorded at cost.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers 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 objective evidence that timely collection of future cash flows can no longer be reliably estimated. 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 mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale bonds recorded at fair value, the accumulated loss recorded in accumulated 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. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in net investment income; therefore a reduction due to impairment of these assets will be recorded in net investment income.

Securities Lending

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

**(b) Transaction Costs**

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

**(c) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash, current operating accounts, overnight bank and term deposits with maturities of three months or less held for the purpose of meeting short-term cash requirements. Net payments in transit and overdraft bank balances are included in other liabilities.

**(d) Trading Account Assets**

Trading account assets consist of investments in open ended investment companies sponsored unit-trusts, which are carried at fair value based on the net asset value of these funds. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings.

2. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

**(e) Debentures and Other Debt Instruments and Capital Trust Securities**

Debentures and other debt instruments and capital trust securities are initially recorded on the Consolidated 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 Consolidated Statements of Earnings. These liabilities are derecognized when the obligation is cancelled or redeemed.

**(f) Other Assets and Other Liabilities**

Other assets, which include prepaid expenses, deferred acquisition costs, finance leases receivable and miscellaneous other assets, are measured at cost or amortized cost. Other liabilities, which include deferred income reserves, bank overdraft and other miscellaneous liabilities are measured at cost or amortized cost.

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

Pension and other post-employment benefits also included within other assets and other liabilities are measured in accordance with note 2(w).

**(g) Derivative Financial Instruments**

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including fee and investment income. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

The Company includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent in note 28 as prescribed by the Office of the Superintendent of Financial Institutions (OSFI) in Canada.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated 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 Consolidated 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 Company generally uses 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, 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.

## 2. Basis of Presentation and Summary of Accounting Policies (cont'd)

Where a hedging relationship exists, the Company documents 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 Consolidated Balance Sheets or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

### Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

### Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged risk are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

The Company currently has no instruments designated as fair value hedges.

### Cash flow hedges

For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is recorded in the same manner as the hedged item while the ineffective portion is recognized immediately in net investment income. Gains and losses 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.

The Company currently has no derivatives designated as cash flow hedges.

### Net investment hedges

For net investment hedges, the effective portion of changes in the fair value of the hedging instrument are 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 accumulated other comprehensive income and will be reclassified into net earnings when the Company disposes of the foreign operation.

The Company currently has instruments designated as net investment hedges.

## **(h) 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 Consolidated Statements of Earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

## **(i) Foreign Currency Translation**

The Company operates with multiple functional currencies. The Company's consolidated financial statements are presented in Canadian dollars as this presentation is most meaningful to financial statement users. For those subsidiaries with different functional currencies, exchange rate differences arising from the translation of monetary items that form part of the net investment in the foreign operation are recorded in unrealized foreign exchange gains (losses) on translation of foreign operations in other comprehensive income.

2. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

For the purpose of presenting consolidated financial statements, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on translation of the Company's net investment in its foreign operations are presented separately as a component of other comprehensive income. Unrealized gains and losses will be recognized proportionately in net investment income in the Consolidated Statements of Earnings when there has been a disposal of the investment in the foreign operations.

Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income.

**(j) Loans to Policyholders**

Loans to policyholders 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. Carrying value of loans to policyholders approximates their fair value.

**(k) Reinsurance Contracts**

The Company, 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 the Company 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, the Company 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. The Company 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 Consolidated Statements of Earnings.

Any gains or losses on buying reinsurance are recognized in the Consolidated Statements of Earnings immediately at the date of purchase in accordance with the Canadian Asset Liability Method.

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

**(l) 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 the Company but are withheld 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 the Company, the credit risk is retained by the Company. The funds withheld balance where the Company assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See note 6 for funds held by ceding insurers that are managed by the Company. 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.

*2. Basis of Presentation and Summary of Accounting Policies (cont'd)*

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

**(m) Business Combinations, Goodwill and Intangible Assets**

Business combinations are accounted for using the acquisition method. The Company identifies and classifies, in accordance with the Company's accounting policies, all assets acquired and liabilities assumed as at the acquisition date. Goodwill represents the excess of purchase consideration over the fair value of net assets of the acquired subsidiaries of the Company. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of technology/software, certain customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, typically ranging between 3 and 30 years.

Indefinite life intangible assets include brands and trademarks, certain customer contracts and the shareholders' portion of acquired future participating account profits. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company. 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. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Company would be required to reverse the impairment loss or a portion thereof.

Goodwill and indefinite life intangible assets have been allocated to cash generating unit groupings, 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 each cash generating unit grouping containing the assets to its recoverable amount. 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 costs of disposal and value-in-use.

Finite life intangible assets are reviewed annually to determine if there are indicators of impairment and assess whether the amortization periods and methods are appropriate. If indicators of impairment have been identified, a test for impairment is performed and then the amortization of these assets is adjusted or impairment is recognized as necessary.

**(n) Revenue Recognition**

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.

Interest income on bonds and mortgages is recognized and accrued using the effective yield method.

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed stocks, and usually the notification date or date when the shareholders have approved the dividend for private equity instruments.

2. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

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

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

The Company has sub-advisor arrangements where the Company 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.

**(o) Owner Occupied Properties and Fixed Assets**

Property held for own use and fixed assets are carried at cost less accumulated depreciation and impairments. Depreciation is expensed to write-off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Owner occupied properties	15 - 20 years
Furniture and fixtures	5 - 10 years
Other fixed assets	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary.

**(p) Deferred Acquisition Costs**

Included in other assets are deferred acquisition costs. These are recognized as assets if the costs are incremental and incurred due to the contract being issued and are primarily amortized on a straight-line basis over the policy term, not to exceed 20 years.

**(q) Segregated Funds**

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

**(r) Insurance and Investment Contract Liabilities**

Contract Classification

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

In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition & Measurement*. The Company 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.

## 2. Basis of Presentation and Summary of Accounting Policies (cont'd)

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 7 for a discussion of Financial Instruments 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 the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance 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. 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/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 mis-estimation 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.

### **(s) Deferred Income Reserves**

Included in other liabilities are deferred income reserves relating to investment contracts. These are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years.

### **(t) Participating Account**

The shareholder portion of participating earnings represents, as restricted by law, a portion of net earnings before policyholder dividends of the participating account. The actual payment of the shareholder portion of participating earnings is legally determined as a percentage of policyholder dividends paid. The Company held a 100% controlling equity interest in London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life) at December 31, 2017 and 2016. The participating operations and the participating balance sheets are presented as combined or consolidated in the operations in the Company's financial statements.

The Canada Life participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by Canada Life prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency is expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as an expense to shareholder net earnings.

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, \$50 of seed capital was transferred from shareholder surplus to the participating account. The seed capital amount, together with a reasonable rate of return, may be transferred to the shareholder account if the seed capital is no longer required to support

2. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

the new participating policies. Transfers of seed capital to the shareholder account would be returns of capital and would be recorded as adjustments to shareholder surplus. A reasonable rate of return on seed capital will be recognized as income in the shareholder account and as an expense in the participating account when paid. \$19 (US \$15) of seed capital remains to be repaid.

**(u) 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 income in profit or loss except to the extent that it relates to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized outside profit or loss.

Current Income Tax

Current income tax is based on taxable income for the year. Current income 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 tax rates that have been enacted or substantively enacted at the balance sheet date in each respective jurisdiction. Current income tax assets and current income tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

A provision for tax uncertainties which meet the probable threshold for recognition is measured based on the probability weighted average approach. The provision for tax uncertainties will be classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date.

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 consolidated financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and carryforwards can be utilized.

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

Deferred income 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 income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to net current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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

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

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

**(v) 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.

**(w) Pension Plans and Other Post-Employment Benefits**

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents.

The present value of the defined benefit obligations and the related current service cost is determined using the projected unit credit method (note 22). Pension plan assets are recorded at fair value.

For the Company and its subsidiaries' defined benefit plans, service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. To determine the net interest costs (income) recognized in the Consolidated Statements of Earnings, the Company applies a discount rate to the net benefit liability (asset), where the discount rate is determined by reference to market yields at the beginning of the year on high quality corporate bonds.

For the Company and its subsidiaries defined benefit plans, re-measurements of the net defined benefit liability (asset) due to asset returns less (greater) than interest income, actuarial losses (gains) and changes in the asset ceiling are recognized in the Consolidated Statements of Comprehensive Income.

The Company and its subsidiaries also maintain defined contribution pension plans for certain employees and advisors. For the Company and its subsidiaries defined contribution plans, the current service costs are recognized in the Consolidated Statements of Earnings.

**(x) Equity**

Financial instruments issued by the Company are classified as share capital if they represent a residual interest in the assets of the Company. Preferred share capital is classified as equity if it is non-redeemable, or retractable only at the Company's option and any dividends are discretionary. Incremental costs that are directly attributable to the issue of share capital are recognized as a deduction from equity, net of income tax.

Contributed surplus represents the vesting expense on unexercised equity instruments under share-based payment plans.

Accumulated other comprehensive income (loss) represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the unrealized gains (losses) on available-for-sale assets, the unrealized gains (losses) on cash flow hedges, and the re-measurements on defined benefit pension and other post-employment benefit plans.

Participating account surplus in subsidiaries represents the proportion of equity attributable to the participating account of the Company's subsidiaries.

**(y) Share-Based Payments**

Lifeco has a stock option plan that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates. The Company follows the fair value based method of accounting for the valuation of compensation expense for shares and share options granted to employees under its stock option plans (note 21). This share-based payments expense is recognized in operating and administrative expenses in the Consolidated Statements of Earnings and as an increase to contributed surplus over the vesting period of the granted options.

*2. Basis of Presentation and Summary of Accounting Policies (cont'd)*

The Company has Deferred Share Unit Plans (DSU Plans) in which Directors of the Company participate. Units issued under the DSU Plans vest when granted. The Company recognizes an increase in operating and administrative expenses for the units granted under the DSU Plans. The Company recognizes a liability for units granted under the DSU Plans which is re-measured at each reporting period based on the market value of Lifeco's common shares.

Certain employees of the Company are entitled to participate in the Performance Share Unit Plan (PSU Plan). Units issued under the Performance Share Unit Plan vest over a three year period. The Company uses the fair value method to recognize compensation expense for the units granted under the plan over the vesting period with a corresponding increase in the liability based on the market value of Lifeco's common shares.

The Company has an Employee Share Ownership Program (ESOP) where, subject to certain conditions being met, the Company will match contributions up to a maximum amount to purchase Lifeco common shares. The Company's contributions are expensed within operating and administrative expenses as incurred.

**(z) 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 Company is the lessee, are charged to net earnings over the period of use.

Where the Company is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the Consolidated Balance Sheets. Income from these leases is recognized in the Consolidated Statements of Earnings on a straight-line basis over the lease term.

Investments in a lease that transfers substantially all the risks and rewards of ownership to the lessee are classified as a finance lease. The Company is the lessor under a finance lease and the investment is recognized as a receivable at an amount equal to the net investment in the lease, which is represented as the present value of the minimum lease payments due from the lessee and is presented within the Consolidated 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 Consolidated Statements of Earnings at a constant periodic rate of return on the Company's net investment in the finance lease.

**(aa) Operating Segments**

Operating segments have been identified based on internal reports that are regularly reviewed by the Company's Chief Executive Officer to allocate resources and assess performance of segments. The Company's reportable operating segments are the participating and shareholder operations of the Company. Within these segments the major business units are Individual Customer, Group Customer, Europe, and Corporate. Reinsurance operations and operations in all countries other than Canada and the United States are reported within the Europe business unit. Business activities and transactions that are not associated with the specific business units are attributed to Corporate.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

(ab) Future Accounting Policies

New Standard	Summary of Future Changes
<p>IFRS 15 - <i>Revenue from Contracts with Customers</i></p>	<p>In May 2014, the IASB issued IFRS 15, <i>Revenue from Contracts with Customers</i>, which replaces IAS 11, <i>Construction Contracts</i> and IAS 18, <i>Revenue</i>. The standard provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. The Company will recognize revenue when it transfers goods or services to a customer in the amount of consideration the Company expects to receive from the customer. Revenue arising from insurance contracts, leases, and financial instruments are out of scope of the new standard.</p> <p>The Company will be adopting the standard on its effective date of January 1, 2018 and adoption of this standard will not have a material impact on the Company's consolidated financial statements.</p>
<p>IFRS 16 - <i>Leases</i></p>	<p>In January 2016, the IASB issued IFRS 16, <i>Leases</i>, which introduces new guidance for identifying leases as well as a new right-of-use accounting model for lessees, replacing the operating and finance lease accounting models that currently exist. The new accounting model will generally require all lessees to recognize lease assets and liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments for all leases with a maximum possible term of more than 12 months.</p> <p>In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model.</p> <p>The standard is effective January 1, 2019. The Company is evaluating the impact of the adoption of this standard, however it is not yet possible to provide a reliable estimate of the impact on the Company's consolidated financial statements.</p>

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

New Standard	Summary of Future Changes
IFRS 17 - <i>Insurance Contracts</i>	<p>In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i>, which will replace IFRS 4, <i>Insurance Contracts</i>. 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:</p> <p>(a) the fulfilment cash flows - the current estimates of amounts that the company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and</p> <p>(b) the contractual service margin - the future profit for providing insurance coverage.</p> <p>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 the Company to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. The Company is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates.</p> <p>The Company is currently in the planning phase of its project which includes assessing the financial statement impact of adopting IFRS 17, identifying potential business impacts, developing a detailed project plan, assessing resource requirements, and providing training to staff. The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework, for which substantial resources are being dedicated to ensure proper implementation.</p> <p>The new standard is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the Consolidated Statements of Earnings. The Company is currently assessing the impact that IFRS 17 will have on its consolidated financial statements. The Company expects this standard to have a significant impact on the timing of earnings recognition for its insurance contracts and a significant impact on how insurance contract results are presented and disclosed in the consolidated financial statements.</p>

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

New Standard	Summary of Future Changes
IFRS 9 - <i>Financial Instruments</i>	<p>In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i> (IFRS 9) to replace IAS 39, <i>Financial Instruments: Recognition and Measurement</i>. The standard provides changes to financial instruments accounting for the following:</p> <ul style="list-style-type: none"> <li>• classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset;</li> <li>• impairment based on an expected loss model; and</li> <li>• hedge accounting that incorporates the risk management practices of an entity.</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>• <i>Deferral Approach</i> - provides the option to defer implementation of IFRS 9 until the year 2021 or the effective date of the new insurance contract standard, whichever is earlier; or</li> <li>• <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.</li> </ul> <p>The Company qualifies for the amendment and will be applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17, <i>Insurance Contracts</i> simultaneously on January 1, 2021.</p> <p>In October 2017, the IASB issued an amendment to IFRS 9 that certain prepayable financial assets with negative compensation can be measured at amortized cost or fair value through other comprehensive income instead of fair value through profit or loss under a certain condition.</p> <p>The Company continues to evaluate the impact for the adoption of this standard with the adoption of IFRS 17, <i>Insurance Contracts</i>.</p>
Annual Improvements 2014 - 2016 Cycle	<p>In December 2016, the IASB issued <i>Annual Improvements 2014 - 2016 Cycle</i> as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Three amendments were included in this issue relating to IFRS 12, <i>Disclosure of Interests in Other Entities</i>, IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>.</p> <p>The amendments to IFRS 12 were effective January 1, 2017 and did not have a significant impact on the Company's consolidated financial statements. The amendments to IFRS 1 and IAS 28 are effective January 1, 2018. Adoption of these amendments will not have an impact on the Company's consolidated financial statements.</p>

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

New Standard	Summary of Future Changes
IAS 40 - <i>Investment Property</i>	<p>In December 2016, the IASB issued an amendment to IAS 40, <i>Investment Property</i> to clarify the requirements on transfers to, or from, investment property.</p> <p>The amendment is effective January 1, 2018. The Company does not anticipate a significant impact from the adoption of this standard.</p>
IFRS 2 - <i>Share-based Payment</i>	<p>In June 2016, the IASB issued narrow scope amendments to IFRS 2, <i>Share-based Payment</i> clarifying how to account for certain types of share-based payment transactions.</p> <p>The amendment is effective January 1, 2018. The Company does not anticipate a significant impact from the adoption of this standard.</p>
IFRIC 22 - <i>Foreign Currency Transactions and Advance Consideration</i>	<p>In December 2016, the IASB issued IFRIC Interpretation 22, <i>Foreign Currency Transactions and Advance Consideration</i> that provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance.</p> <p>The interpretation is effective January 1, 2018. The Company does not anticipate a significant impact from the adoption of this standard.</p>
Annual Improvements 2015 - 2017 Cycle	<p>In December 2017, the IASB issued <i>Annual Improvements 2015 - 2017 Cycle</i> as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Four amendments were included in this issue relating to IFRS 3, <i>Business Combinations</i>, IFRS 11, <i>Joint Arrangements</i>, IAS 12, <i>Income Taxes</i> and IAS 23 <i>Borrowing Costs</i>.</p> <p>The amendments are effective January 1, 2019. The Company is evaluating the impact of the adoption of these amendments.</p>
IAS 28 - <i>Investments in Associates and Joint Ventures</i>	<p>In October 2017, the IASB issued amendments to IAS 28, <i>Investments in Associates and Joint Ventures</i>. The amendments clarify that a company is to account for long-term interests in an associate or joint venture using IFRS 9, <i>Financial Instruments</i> when the equity method is not applied.</p> <p>The amendments are effective January 1, 2019. The Company is evaluating the impact of the adoption of these amendments.</p>
IFRIC 23 - <i>Uncertainty over Income Tax Treatments</i>	<p>In June 2017, the IASB issued IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 <i>Income Taxes</i>, when there is uncertainty over income tax treatments.</p> <p>The interpretation is effective for periods beginning on or after January 1, 2019. The Company does not anticipate a significant impact from the adoption of this standard.</p>

**3. Business Acquisitions**

**(a) Financial Horizons Group**

On July 31, 2017, the Company completed the acquisition of all the common shares of Financial Horizons Group Inc. (FHG), a Canadian Managing General Agency that offers access to life and health insurance, employee benefits, pensions, investments, structured settlements and risk management products and services to advisors across Canada.

As at December 31, 2017, the comprehensive valuation of the fair value of the net assets acquired, including intangible assets and completion of the purchase price allocation, was finalized. The revenue and net earnings of FHG were not significant to the results of the Company.

**(b) Retirement Advantage**

On January 2, 2018, the Company, through its indirect wholly-owned subsidiary The Canada Life Group (UK) Ltd., acquired Retirement Advantage, a financial services provider based in the United Kingdom that offers retirement and equity release services.

Due to the recent closing of the acquisition of Retirement Advantage, the valuation and initial purchase price accounting for the business combination are not complete as at the date of release of these annual consolidated financial statements. As a result, the Company has not provided amounts recognized as at the acquisition date for major classes of assets acquired and liabilities assumed, including goodwill.

The allocation of the purchase price will be finalized after a comprehensive evaluation of the fair value of net assets acquired has been completed.

Net earnings from Retirement Advantage will not be material to the consolidated financial statements.

**4. Cash and Cash Equivalents**

	<u>2017</u>	<u>2016</u>
Cash	\$ 1,855	\$ 1,496
Short-term deposits	779	977
<b>Total</b>	<u>\$ 2,634</u>	<u>\$ 2,473</u>

At December 31, 2017 cash of \$241 was restricted for use by the Company (\$181 at December 31, 2016) 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.

## 5. Portfolio Investments

### (a) Carrying values and estimated fair values of portfolio investments are as follows:

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>Bonds</b>				
Designated fair value through profit or loss <sup>(1)</sup>	\$ 66,026	\$ 66,026	\$ 63,504	\$ 63,504
Classified fair value through profit or loss <sup>(1)</sup>	1,821	1,821	1,911	1,911
Available-for-sale	10,602	10,602	9,283	9,283
Loans and receivables	11,761	12,957	10,852	12,039
	<u>90,210</u>	<u>91,406</u>	<u>85,550</u>	<u>86,737</u>
<b>Mortgage loans</b>				
Residential	6,969	7,124	6,377	6,571
Commercial	10,174	10,757	10,509	11,190
	<u>17,143</u>	<u>17,881</u>	<u>16,886</u>	<u>17,761</u>
<b>Stocks</b>				
Designated fair value through profit or loss <sup>(1)</sup>	8,097	8,097	7,606	7,606
Available-for-sale	1	1	1	1
Available-for-sale, at cost <sup>(2)</sup>	271	271	327	327
Equity method <sup>(3)</sup>	364	406	554	544
	<u>8,733</u>	<u>8,775</u>	<u>8,488</u>	<u>8,478</u>
<b>Investment properties</b>	<u>4,848</u>	<u>4,848</u>	<u>4,337</u>	<u>4,337</u>
<b>Total</b>	<u>\$ 120,934</u>	<u>\$ 122,910</u>	<u>\$ 115,261</u>	<u>\$ 117,313</u>

<sup>(1)</sup> A financial asset is designated as fair value through profit or loss on initial recognition if it eliminates or significantly reduces an accounting mismatch. 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.

<sup>(2)</sup> Fair value cannot be reliably measured, therefore the investments are held at cost.

<sup>(3)</sup> During 2017, the investment in Allianz Ireland, an investment previously held through the Company's indirect wholly owned subsidiary Irish Life Group Limited with a carrying value of \$192, was disposed of by the Company resulting in a gain of \$16 recorded in net investment income. The carrying value of the investment reflected \$13 of actuarial losses from the associate's pension plan (note 22). These actuarial losses were transferred within equity from accumulated other comprehensive income to accumulated surplus.

### (b) Carrying value of bonds and mortgages by term to maturity are as follows:

	2017			
	Term to maturity			
	1 year or less	1 - 5 years	Over 5 years	Total
Bonds	\$ 8,232	\$ 19,779	\$ 62,170	\$ 90,181
Mortgage loans	1,350	5,655	10,104	17,109
<b>Total</b>	<u>\$ 9,582</u>	<u>\$ 25,434</u>	<u>\$ 72,274</u>	<u>\$ 107,290</u>

## 5. Portfolio Investments (cont'd)

	2016			
	Term to maturity			Total
	1 year or less	1 - 5 years	Over 5 years	
Bonds	\$ 9,105	\$ 18,376	\$ 58,027	\$ 85,508
Mortgage loans	1,201	5,634	9,995	16,830
Total	<u>\$ 10,306</u>	<u>\$ 24,010</u>	<u>\$ 68,022</u>	<u>\$ 102,338</u>

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

**(c) Certain stocks where equity method earnings are computed are discussed below:**

Substantially all of the Company's equity method investments relate to the Company's investment in an affiliated company, IGM, a member of the Power Financial group of companies, over which it exerts significant influence but does not control. The Company's proportionate share of IGM's earnings is recorded in net investment income in the Consolidated Statements of Earnings. The Company owns 9,202,049 shares of IGM at December 31, 2017 (9,202,706 at December 31, 2016) representing a 3.82% ownership interest (3.83% at December 31, 2016). The Company uses the equity method to account for its investment in IGM as it exercises significant influence. Significant influence arises from several factors, including, but not limited to the following: common control of the Company and IGM by Power Financial, shared representation on the Boards of Directors of the Company and IGM, interchange of managerial personnel, and certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies.

	2017	2016
<b>Carrying value, beginning of year</b>	\$ 361	\$ 358
Equity method share of IGM net earnings	22	23
Dividends received	(21)	(20)
<b>Carrying value, end of year</b>	<u>\$ 362</u>	<u>\$ 361</u>
<b>Share of equity, end of year</b>	<u>\$ 186</u>	<u>\$ 181</u>
<b>Fair value, end of year</b>	<u>\$ 404</u>	<u>\$ 351</u>

The Company and IGM both have a year-end date of December 31. The Company's year-end results are approved and reported before IGM publicly reports its financial result; therefore, the Company reports IGM's financial information by estimating the amount of earnings attributable to the Company, based on prior quarter information as well as consensus expectations, to complete equity method accounting. The difference between actual and estimated results is reflected in the subsequent quarter and is not material to the Company's consolidated financial statements.

IGM's financial information as at December 31, 2017 can be obtained in its publicly available information.

5. Portfolio Investments (cont'd)

(d) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

	<u>2017</u>	<u>2016</u>
Impaired amounts by classification		
Fair value through profit or loss	\$ 21	\$ 37
Available-for-sale	6	5
Loans and receivables	39	56
<b>Total</b>	<b>\$ 66</b>	<b>\$ 98</b>

The carrying amount of impaired investments includes \$29 bonds, \$34 mortgage loans and \$3 stocks as at December 31, 2017 (\$42 bonds and \$56 mortgage loans at December 31, 2016). The above carrying values for loans and receivables are net of allowances of \$40 at December 31, 2017 and \$36 at December 31, 2016.

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	<u>2017</u>			<u>2016</u>		
	Bonds	Mortgage loans	Total	Bonds	Mortgage loans	Total
<b>Balance, beginning of year</b>	\$ 1	\$ 35	\$ 36	\$ —	\$ 16	\$ 16
Net provision for credit losses - in year	—	9	9	1	31	32
Write-offs, net of recoveries	(1)	(4)	(5)	—	(6)	(6)
Other (including foreign exchange rate changes)	—	—	—	—	(6)	(6)
<b>Balance, end of year</b>	<b>\$ —</b>	<b>\$ 40</b>	<b>\$ 40</b>	<b>\$ 1</b>	<b>\$ 35</b>	<b>\$ 36</b>

The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

5. Portfolio Investments (cont'd)

(e) Net investment income comprises the following:

	2017					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 3,132	\$ 686	\$ 250	\$ 318	\$ 196	\$ 4,582
Net realized gains						
Available-for-sale	10	—	—	—	—	10
Other classifications	14	57	—	—	—	71
Net allowances for credit losses on loans and receivables	7	(9)	—	—	—	(2)
Other income (expenses)	—	—	—	(87)	(105)	(192)
	<u>3,163</u>	<u>734</u>	<u>250</u>	<u>231</u>	<u>91</u>	<u>4,469</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(15)	—	—	—	—	(15)
Designated fair value through profit or loss	593	—	542	—	(149)	986
Recorded at fair value through profit or loss	—	—	—	176	—	176
	<u>578</u>	<u>—</u>	<u>542</u>	<u>176</u>	<u>(149)</u>	<u>1,147</u>
<b>Total</b>	<b>\$ 3,741</b>	<b>\$ 734</b>	<b>\$ 792</b>	<b>\$ 407</b>	<b>\$ (58)</b>	<b>\$ 5,616</b>
	2016					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 3,138	\$ 728	\$ 252	\$ 325	\$ 286	\$ 4,729
Net realized gains						
Available-for-sale	59	—	4	—	—	63
Other classifications	20	36	—	—	—	56
Net allowances for credit losses on loans and receivables	(1)	(31)	—	—	—	(32)
Other income (expenses)	—	—	—	(84)	(90)	(174)
	<u>3,216</u>	<u>733</u>	<u>256</u>	<u>241</u>	<u>196</u>	<u>4,642</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(6)	—	—	—	—	(6)
Designated fair value through profit or loss	2,999	—	951	—	(199)	3,751
Recorded at fair value through profit or loss	—	—	—	61	—	61
	<u>2,993</u>	<u>—</u>	<u>951</u>	<u>61</u>	<u>(199)</u>	<u>3,806</u>
<b>Total</b>	<b>\$ 6,209</b>	<b>\$ 733</b>	<b>\$ 1,207</b>	<b>\$ 302</b>	<b>\$ (3)</b>	<b>\$ 8,448</b>

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. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income

## 5. Portfolio Investments (cont'd)

from stocks includes dividends, distributions from private equity and equity income from the investment in IGM and Allianz Ireland, which was disposed of during 2017. 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.

**(f) The carrying value of investment properties and changes in the carrying value of investment properties are as follows:**

	2017	2016
<b>Balance, beginning of year</b>	<b>\$ 4,337</b>	<b>\$ 5,234</b>
Additions	339	102
Change in fair value through profit or loss	176	61
Disposal	(72)	(427)
Foreign exchange rate changes	68	(633)
<b>Balance, end of year</b>	<b>\$ 4,848</b>	<b>\$ 4,337</b>

**(g) Transferred Financial Assets**

The Company engages in securities lending to generate additional income. The Company's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with the Company'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. In addition, the securities lending agent indemnifies the Company against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2017, the Company had loaned securities (which are included in invested assets) with a fair value of \$7,427 (\$7,520 at December 31, 2016).

**6. Funds Held by Ceding Insurers**

At December 31, 2017, the Company had amounts on deposit of \$10,436 (\$11,354 at December 31, 2016) for funds held by ceding insurers on the Consolidated Balance Sheets. Income and expenses arising from the agreements are included in net investment income in the Consolidated Statements of Earnings.

During 2016, the Company completed the transfer of approximately \$1,600 of annuity business from The Equitable Life Assurance Company (Equitable Life) acquired during 2015.

During 2016, a subsidiary of the Company completed a portfolio transfer of approximately \$1,300 whereby investment contract liabilities and supporting bonds and cash were acquired. The portfolio of investment contract liabilities had been previously reinsured by the Company on a funds withheld basis.

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

**(a) Carrying values and estimated fair values:**

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 132	\$ 132	\$ 214	\$ 214
Bonds	7,806	7,806	8,391	8,391
Other assets	106	106	118	118
<b>Total</b>	<b>\$ 8,044</b>	<b>\$ 8,044</b>	<b>\$ 8,723</b>	<b>\$ 8,723</b>
Supporting:				
Reinsurance liabilities	\$ 7,777	\$ 7,777	\$ 8,218	\$ 8,218
Surplus	267	267	505	505
<b>Total</b>	<b>\$ 8,044</b>	<b>\$ 8,044</b>	<b>\$ 8,723</b>	<b>\$ 8,723</b>

**(b) The following provides details of the carrying value of bonds included in the funds on deposit by issuer and industry sector:**

	2017	2016
Bonds issued or guaranteed by:		
Treasuries	\$ 918	\$ 1,143
Government related	1,424	1,506
Agency securitized	—	3
Non-agency securitized	891	1,126
Financials	1,834	1,764
Communications	159	132
Consumer products	606	692
Energy	244	276
Industrials	256	252
Technology	74	72
Transportation	196	164
Utilities	1,204	1,228
Total long-term bonds	7,806	8,358
Short-term bonds	—	33
<b>Total</b>	<b>\$ 7,806</b>	<b>\$ 8,391</b>

## 6. Funds Held by Ceding Insurers (cont'd)

**(c) Asset quality**

## Bond Portfolio By Credit Rating

	<u>2017</u>	<u>2016</u>
AAA	\$ 714	\$ 618
AA	3,204	3,792
A	3,240	3,300
BBB	439	476
BB and lower	209	205
<b>Total</b>	<b>\$ 7,806</b>	<b>\$ 8,391</b>

## 7. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks.

The following sections describe how the Company manages each of these risks.

**(a) Credit Risk**

Credit risk is the risk of loss resulting from an obligor's potential inability or unwillingness to fully meet its contractual obligations to the Company.

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

- Investment policies are in place that 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.
- 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. The Company seeks to mitigate derivative credit risk by setting rating based counterparty limits in investment policies and through collateral arrangements where possible.
- Counterparties providing reinsurance to the Company are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in the Reinsurance Risk Management Policy. The Company seeks to minimize reinsurance credit risk by setting rating based limits on net ceded exposure by counterparty as well as seeking protection in the form of collateral or funds withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

## 7. Financial Instruments Risk Management (cont'd)

## (i) Maximum Exposure to Credit Risk

The following summarizes the Company'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.

	<u>2017</u>	<u>2016</u>
		(note 32)
Cash and cash equivalents	\$ 2,634	\$ 2,473
Bonds		
Fair value through profit or loss	67,847	65,415
Available-for-sale	10,602	9,283
Loans and receivables	11,761	10,852
Mortgage loans	17,143	16,886
Loans to policyholders	3,108	3,081
Funds held by ceding insurers <sup>(1)</sup>	10,436	11,354
Reinsurance assets	6,752	7,527
Interest due and accrued	958	924
Accounts receivable	1,397	1,243
Premium in course of collection	1,153	1,149
Trading account assets	91	81
Finance leases receivable	350	273
Other assets <sup>(2)</sup>	118	152
Derivative assets	317	328
	<u>\$ 134,667</u>	<u>\$ 131,021</u>

<sup>(1)</sup> Includes \$8,044 (\$8,723 at December 31, 2016) of funds held by ceding insurers where the Company retains the credit risk of the assets supporting the liabilities ceded (note 6).

<sup>(2)</sup> Includes items such as current income taxes receivable and miscellaneous other assets of the Company (note 11).

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 are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The Company has \$70 of collateral received from counterparties as at December 31, 2017 (\$20 at December 31, 2016) relating to derivative assets.

## (ii) Concentration of Credit Risk

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

## 7. Financial Instruments Risk Management (cont'd)

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

	2017			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by:				
Treasuries	\$ 899	\$ 12,452	\$ 238	\$ 13,589
Government related	19,322	7,557	388	27,267
Agency securitized	65	21	40	126
Non-agency securitized	2,073	1,748	330	4,151
Financials	3,872	5,490	182	9,544
Communications	782	1,013	62	1,857
Consumer products	3,159	3,228	299	6,686
Energy	1,806	864	144	2,814
Industrials	1,544	1,739	370	3,653
Technology	591	479	41	1,111
Transportation	2,407	1,141	37	3,585
Utilities	7,310	4,270	597	12,177
Total long-term bonds	43,830	40,002	2,728	86,560
Short-term bonds	1,997	1,653	—	3,650
<b>Total</b>	<b>\$ 45,827</b>	<b>\$ 41,655</b>	<b>\$ 2,728</b>	<b>\$ 90,210</b>
	2016			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by:				
Treasuries	\$ 1,422	\$ 10,870	\$ 304	\$ 12,596
Government related	18,379	6,765	414	25,558
Agency securitized	100	158	58	316
Non-agency securitized	2,392	1,860	326	4,578
Financials	3,167	5,236	175	8,578
Communications	634	968	77	1,679
Consumer products	2,798	3,206	309	6,313
Energy	1,618	983	177	2,778
Industrials	1,358	1,627	398	3,383
Technology	506	464	40	1,010
Transportation	2,246	1,091	40	3,377
Utilities	6,226	4,251	637	11,114
Total long-term bonds	40,846	37,479	2,955	81,280
Short-term bonds	2,750	1,520	—	4,270
<b>Total</b>	<b>\$ 43,596</b>	<b>\$ 38,999</b>	<b>\$ 2,955</b>	<b>\$ 85,550</b>

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

7. Financial Instruments Risk Management (cont'd)

	2017			
	Single family residential	Multi-family residential	Commercial	Total
Canada	\$ 2,139	\$ 4,163	\$ 6,840	\$ 13,142
United States	—	254	151	405
Europe	—	413	3,183	3,596
<b>Total</b>	<b>\$ 2,139</b>	<b>\$ 4,830</b>	<b>\$ 10,174</b>	<b>\$ 17,143</b>

  

	2016			
	Single family residential	Multi-family residential	Commercial	Total
Canada	\$ 2,075	\$ 3,709	\$ 7,108	\$ 12,892
United States	—	210	194	404
Europe	—	383	3,207	3,590
<b>Total</b>	<b>\$ 2,075</b>	<b>\$ 4,302</b>	<b>\$ 10,509</b>	<b>\$ 16,886</b>

(iii) Asset Quality

Bond Portfolio by Credit Rating

	2017	2016
AAA	\$ 17,691	\$ 18,465
AA	28,025	25,604
A	30,612	28,843
BBB	13,269	12,015
BB and lower	613	623
<b>Total</b>	<b>\$ 90,210</b>	<b>\$ 85,550</b>

Derivative Portfolio by Credit Rating

	2017	2016
Over-the-counter contracts (counterparty ratings):		
AA	\$ 101	\$ 116
A	202	193
BBB	13	16
Exchange-traded	1	3
<b>Total</b>	<b>\$ 317</b>	<b>\$ 328</b>

7. Financial Instruments Risk Management (cont'd)

(iv) 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 has reasonable assurance of collection of the full amount of principal and interest due. The following provides carrying values of the loans past due, but not impaired:

	2017	2016
Less than 30 days	\$ 1	\$ 54
30 - 90 days	—	—
Greater than 90 days	1	2
<b>Total</b>	<b>\$ 2</b>	<b>\$ 56</b>

(v) 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:

	2017	2016
Participating	\$ 1,236	\$ 1,133
Non-participating	1,320	1,444
<b>Total</b>	<b>\$ 2,556</b>	<b>\$ 2,577</b>

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company 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 69% (approximately 69% in 2016) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair value adjustments.
- Management closely monitors the solvency and capital positions of the Company and its principal subsidiaries opposite liquidity requirements. Additional liquidity is available through established lines of credit or the capital markets. The Company maintains a \$150 committed line of credit with a Canadian bank.

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

	Payments due by period						Over 5 years
	Total	1 year	2 years	3 years	4 years	5 years	
Debentures and other debt instruments	\$ 602	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 602
Capital trust securities <sup>(1)</sup>	150	—	—	—	—	—	150
Purchase obligations	125	72	38	13	2	—	—
Pension contributions	249	249	—	—	—	—	—
<b>Total</b>	<b>\$ 1,126</b>	<b>\$ 321</b>	<b>\$ 38</b>	<b>\$ 13</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 752</b>

<sup>(1)</sup> Payments due have not been reduced to reflect that the Company held capital trust securities of \$37 principal amount (\$52 carrying value).

## 7. Financial Instruments Risk Management (cont'd)

**(c) Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

Caution Related to Risk Sensitivities

These consolidated financial statements include 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 income tax rates and other market factors,
- Interactions among these factors and assumptions when more than one changes, and
- The general limitations of the Company's 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 Company cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

**(i) Currency Risk**

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company has net investments in foreign operations. The Company's debt obligations are denominated in Canadian dollars and euros. 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 accumulated 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 the Company's total equity. Correspondingly, the Company'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 the Company's exposure to currency risk:

- The Company 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, the Company would normally convert 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.

## 7. Financial Instruments Risk Management (cont'd)

### (ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk:

- The Company utilizes 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) the Company 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 risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method 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 0.13% (0.13% in 2016). 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 the Company's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact the Company's range of scenarios covered.

7. Financial Instruments Risk Management (cont'd)

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

- At December 31, 2017 and December 31, 2016 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, 2017 and December 31, 2016 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 shareholders net earnings of the Company of a 1% change in the Company'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:

	2017		2016	
	1% increase	1% decrease	1% increase	1% decrease
<b>Change in interest rates</b>				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (215)	\$ 658	\$ (202)	\$ 562
Increase (decrease) in net earnings	\$ 150	\$ (474)	\$ 149	\$ (416)

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets and liabilities arising from changes in equity markets and other pricing risk. To mitigate pricing risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. 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, the Company generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

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. There will be additional impacts on these liabilities as equity values fluctuate. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
<b>Change in equity values</b>				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (58)	\$ 104	\$ (51)	\$ 59
Increase (decrease) in net earnings	\$ 48	\$ (82)	\$ 42	\$ (48)

## 7. Financial Instruments Risk Management (cont'd)

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:

	2017		2016	
	1% increase	1% decrease	1% increase	1% decrease
<b>Change in best estimate return assumptions for equities</b>				
Increase (decrease) in non-participating insurance contract liabilities	\$ (542)	\$ 590	\$ (504)	\$ 552
Increase (decrease) in net earnings	\$ 439	\$ (469)	\$ 407	\$ (438)

**(d) Enforceable Master Netting Arrangements or Similar Agreements**

The Company enters into International Swaps and Derivative Association's (ISDA's) master agreements for transacting over-the-counter derivatives. The Company receives and pledges collateral according to the related ISDA's Credit Support Annexes. The ISDA's master agreements do not meet the criteria for offsetting on the Consolidated 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 the exchanges and clearinghouses, there is no provision for set-off at default. Initial margin is excluded from the table within this disclosure as it would become part of a pooled settlement process.

The Company'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 the Company and its counterparties in the event of default.

The table sets out the potential effect on the Company's Consolidated Balance Sheets on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the Consolidated Balance Sheets.

	2017			
	Gross amount of financial instruments presented in the Balance Sheet	Related amounts not set-off in the Balance Sheet		Net exposure
Offsetting counterparty position <sup>(1)</sup>		Financial collateral received/pledged <sup>(2)</sup>		
<b>Financial instruments - assets</b>				
Derivative financial instruments	\$ 317	\$ (271)	\$ (20)	\$ 26
<b>Total financial instruments - assets</b>	<b>\$ 317</b>	<b>\$ (271)</b>	<b>\$ (20)</b>	<b>\$ 26</b>
<b>Financial instruments - liabilities</b>				
Derivative financial instruments	\$ 1,095	\$ (271)	\$ (305)	\$ 519
<b>Total financial instruments - liabilities</b>	<b>\$ 1,095</b>	<b>\$ (271)</b>	<b>\$ (305)</b>	<b>\$ 519</b>

## 7. Financial Instruments Risk Management (cont'd)

	2016			
	Gross amount of financial instruments presented in the Balance Sheet	Related amounts not set-off in the Balance Sheet		Net exposure
Offsetting counterparty position <sup>(1)</sup>		Financial collateral received/pledged <sup>(2)</sup>		
Financial instruments - assets				
Derivative financial instruments	\$ 328	\$ (290)	\$ (9)	\$ 29
Total financial instruments - assets	\$ 328	\$ (290)	\$ (9)	\$ 29
Financial instruments - liabilities				
Derivative financial instruments	\$ 1,526	\$ (290)	\$ (403)	\$ 833
Total financial instruments - liabilities	\$ 1,526	\$ (290)	\$ (403)	\$ 833

(1) Includes counterparty amounts recognized on the Consolidated Balance Sheets where the Company has a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheet, 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 \$70 (\$20 at December 31, 2016), and pledged on derivative liabilities was \$367 (\$471 at December 31, 2016).

## 8. Fair Value Measurement

The Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, and mortgage loans. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.

## 8. Fair Value Measurement (cont'd)

Level 3: Fair value measurements 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, or external appraisers. Assets and liabilities utilizing Level 3 inputs generally include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, and investment properties.

The following presents the Company's assets and liabilities measured at fair value on a recurring basis by hierarchy level:

Assets measured at fair value	2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,634	\$ —	\$ —	\$ 2,634
Financial assets at fair value through profit or loss				
Bonds	—	67,782	65	67,847
Stocks	7,854	—	243	8,097
Total financial assets at fair value through profit or loss	7,854	67,782	308	75,944
Available-for-sale financial assets				
Bonds	—	10,602	—	10,602
Stocks	—	—	1	1
Total available-for-sale financial assets	—	10,602	1	10,603
Investment properties	—	—	4,848	4,848
Funds held by ceding insurers	132	7,806	—	7,938
Derivatives <sup>(1)</sup>	1	316	—	317
Reinsurance assets	—	131	—	131
Other assets - trading assets	91	—	—	91
<b>Total assets measured at fair value</b>	<b>\$ 10,712</b>	<b>\$ 86,637</b>	<b>\$ 5,157</b>	<b>\$ 102,506</b>
<b>Liabilities measured at fair value</b>				
Derivatives <sup>(2)</sup>	\$ 2	\$ 1,093	\$ —	\$ 1,095
Investment contract liabilities	—	1,784	22	1,806
<b>Total liabilities measured at fair value</b>	<b>\$ 2</b>	<b>\$ 2,877</b>	<b>\$ 22</b>	<b>\$ 2,901</b>

<sup>(1)</sup> Excludes collateral received from counterparties of \$70.

<sup>(2)</sup> Excludes collateral pledged to counterparties of \$320.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the year.

8. Fair Value Measurement (cont'd)

Assets measured at fair value	2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,473	\$ —	\$ —	\$ 2,473
Financial assets at fair value through profit or loss				
Bonds	—	65,414	1	65,415
Stocks	7,520	6	80	7,606
Total financial assets at fair value through profit or loss	7,520	65,420	81	73,021
Available-for-sale financial assets				
Bonds	—	9,283	—	9,283
Stocks	—	—	1	1
Total available-for-sale financial assets	—	9,283	1	9,284
Investment properties	—	—	4,337	4,337
Funds held by ceding insurers	214	8,391	—	8,605
Derivatives <sup>(1)</sup>	3	325	—	328
Reinsurance assets	—	162	—	162
Other assets - trading assets	81	—	—	81
Total assets measured at fair value	\$ 10,291	\$ 83,581	\$ 4,419	\$ 98,291
Liabilities measured at fair value				
Derivatives <sup>(2)</sup>	\$ 1	\$ 1,525	\$ —	\$ 1,526
Investment contract liabilities	—	1,947	20	1,967
Total liabilities measured at fair value	\$ 1	\$ 3,472	\$ 20	\$ 3,493

<sup>(1)</sup> Excludes collateral received from counterparties of \$20.

<sup>(2)</sup> Excludes collateral pledged to counterparties of \$425.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the year.

## 8. Fair Value Measurement (cont'd)

The following presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	2017						
	Fair value through profit or loss bonds	Available-for-sale bonds	Fair value through profit or loss stocks <sup>(3)</sup>	Available-for-sale stocks	Investment properties	Total Level 3 assets	Investment contract liabilities
<b>Balance, beginning of year</b>	\$ 1	\$ —	\$ 80	\$ 1	\$ 4,337	\$ 4,419	\$ 20
Total gains (losses)							
Included in net earnings	1	—	10	—	176	187	—
Included in other comprehensive income (loss) <sup>(1)</sup>	4	—	(3)	—	68	69	—
Purchases	—	—	166	—	339	505	—
Sales	—	—	(14)	—	(72)	(86)	—
Other	—	—	—	—	—	—	2
Transfers into Level 3 <sup>(2)</sup>	60	—	4	—	—	64	—
Transfers out of Level 3 <sup>(2)</sup>	(1)	—	—	—	—	(1)	—
<b>Balance, end of year</b>	<b>\$ 65</b>	<b>\$ —</b>	<b>\$ 243</b>	<b>\$ 1</b>	<b>\$ 4,848</b>	<b>\$ 5,157</b>	<b>\$ 22</b>
<b>Total gains for the year included in net investment income</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ 10</b>	<b>\$ —</b>	<b>\$ 176</b>	<b>\$ 187</b>	<b>\$ —</b>
<b>Change in unrealized gains for the year included in earnings for assets held at December 31, 2017</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ 10</b>	<b>\$ —</b>	<b>\$ 151</b>	<b>\$ 162</b>	<b>\$ —</b>

(1) Amount of other comprehensive income for investment properties represents the unrealized gains (losses) on foreign exchange.

(2) 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 and segregated funds.

(3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

## 8. Fair Value Measurement (cont'd)

	2016						
	Fair value through profit or loss bonds	Available-for-sale bonds	Fair value through profit or loss stocks <sup>(3)</sup>	Available-for-sale stocks	Investment properties	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	\$ 10	\$ 1	\$ 66	\$ 1	\$ 5,234	\$ 5,312	\$ 27
Total gains (losses)							
Included in net earnings	—	—	2	—	61	63	—
Included in other comprehensive income (loss) <sup>(1)</sup>	—	—	—	—	(633)	(633)	—
Purchases	—	—	50	—	102	152	—
Sales	—	—	(38)	—	(427)	(465)	—
Repayments	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	(7)
Transfers into Level 3 <sup>(2)</sup>	—	—	—	—	—	—	—
Transfers out of Level 3 <sup>(2)</sup>	(9)	(1)	—	—	—	(10)	—
Balance, end of year	\$ 1	\$ —	\$ 80	\$ 1	\$ 4,337	\$ 4,419	\$ 20
Total gains for the year included in net investment income	\$ —	\$ —	\$ 2	\$ —	\$ 61	\$ 63	\$ —
Change in unrealized gains for the year included in earnings for assets held at December 31, 2016	\$ —	\$ —	\$ 3	\$ —	\$ 1	\$ 4	\$ —

- (1) Amount of other comprehensive income for investment properties represents the unrealized gains (losses) on foreign exchange.
- (2) 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 and segregated funds.
- (3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

8. Fair Value Measurement (cont'd)

The following sets out information about significant unobservable inputs used at year-end in measuring assets 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 2.6% - 10.3%  Range of 4.3% - 7.5%  Weighted average of 2.7%	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.

8. Fair Value Measurement (cont'd)

The following presents the Company's assets and liabilities disclosed at fair value on a recurring basis by hierarchy level:

Assets disclosed at fair value	2017				Total
	Level 1	Level 2	Level 3	Other assets/ liabilities not held at fair value	
Loans and receivables financial assets					
Bonds	\$ —	\$ 12,865	\$ 92	\$ —	\$ 12,957
Mortgage loans	—	17,881	—	—	17,881
Loans to policyholder	—	3,108	—	—	3,108
Total loans and receivables financial assets	—	33,854	92	—	33,946
Available-for-sale financial assets					
Stocks <sup>(1)</sup>	—	—	—	271	271
Other stocks <sup>(2)</sup>	404	—	—	2	406
Funds held by ceding insurers	—	—	—	106	106
<b>Total assets disclosed at fair value</b>	<b>\$ 404</b>	<b>\$ 33,854</b>	<b>\$ 92</b>	<b>\$ 379</b>	<b>\$ 34,729</b>
<b>Liabilities disclosed at fair value</b>					
Debentures and other debt instruments	\$ —	\$ 128	\$ —	\$ 502	\$ 630
Capital trust securities	—	221	—	—	221
<b>Total liabilities disclosed at fair value</b>	<b>\$ —</b>	<b>\$ 349</b>	<b>\$ —</b>	<b>\$ 502</b>	<b>\$ 851</b>

(1) Fair value of certain stocks available for sale cannot be reliably measured, therefore, these investments are recorded at cost.

(2) Other stocks include the Company's investments in an affiliated company, IGM, a member of the Power Financial group of companies.

## 8. Fair Value Measurement (cont'd)

Assets disclosed at fair value	2016				
	Level 1	Level 2	Level 3	Other assets/ liabilities not held at fair value	Total
Loans and receivables financial assets					
Bonds	\$ —	\$ 11,925	\$ 114	\$ —	\$ 12,039
Mortgage loans	—	17,761	—	—	17,761
Loans to policyholder	—	3,081	—	—	3,081
Total loans and receivables financial assets	—	32,767	114	—	32,881
Available-for-sale financial assets					
Stocks <sup>(1)</sup>	—	—	—	327	327
Other stocks <sup>(2)</sup>	351	—	—	193	544
Funds held by ceding insurers	—	—	—	118	118
Total assets disclosed at fair value	\$ 351	\$ 32,767	\$ 114	\$ 638	\$ 33,870
Liabilities disclosed at fair value					
Debentures and other debt instruments	\$ —	\$ 405	\$ —	\$ 484	\$ 889
Capital trust securities	—	212	—	—	212
Total liabilities disclosed at fair value	\$ —	\$ 617	\$ —	\$ 484	\$ 1,101

(1) Fair value of certain stocks available for sale cannot be reliably measured, therefore, these investments are recorded at cost.

(2) Other stocks include the Company's investments in an affiliated company, IGM, a member of the Power Financial group of companies and Allianz Ireland, an unlisted general insurance company operating in Ireland which was disposed of during 2017.

**9. Goodwill and Intangible Assets**

**(a) Goodwill**

- (i) The carrying value of goodwill, all in the shareholder account segment, and changes in the carrying value of goodwill are as follows:

	<u>2017</u>	<u>2016</u>
<b>Balance, beginning of year</b>	<b>\$ 5,766</b>	<b>\$ 5,697</b>
Business acquisitions (note 3)	<b>182</b>	95
Changes in foreign exchange rates	<b>31</b>	(26)
<b>Balance, end of year</b>	<b><u>\$ 5,979</u></b>	<b><u>\$ 5,766</u></b>

The Company has no accumulated impairment losses on goodwill at December 31, 2017 and 2016.

- (ii) Within the major geographies of the Company, goodwill has been assigned to cash generating unit groupings, representing the lowest level in which goodwill is monitored for internal reporting purposes. The Company does not allocate insignificant amounts of goodwill and indefinite life intangible assets across multiple cash generating unit groupings. Goodwill is tested for impairment by comparing the carrying value of each cash generating unit grouping to which goodwill has been assigned to its recoverable amount as follows:

	<u>2017</u>	<u>2016<sup>(1)</sup></u>
Canada		
Group Customer	<b>\$ 1,432</b>	\$ 1,432
Individual Customer	<b>2,512</b>	2,330
Europe		
Insurance and Annuities	<b>2,015</b>	1,984
Reinsurance	<b>1</b>	1
United States		
Corporate	<b>19</b>	19
<b>Total</b>	<b><u>\$ 5,979</u></b>	<b><u>\$ 5,766</u></b>

- <sup>(1)</sup> Effective January 1, 2017, the Company realigned its Individual Insurance, Wealth Management and Group Insurance business units in the Canada segment into two business units: Individual Customer and Group Customer. The realignment resulted in a change to comparative figures within these cash generating unit groupings.

## 9. Goodwill and Intangible Assets (cont'd)

**(b) Intangible Assets**

Intangible assets of \$1,952 (\$1,789 in 2016) includes indefinite life and finite life intangible assets. The carrying value and changes in the carrying value of these intangible assets are as follows:

(i) Indefinite life intangible assets:

	2017			
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
<b>Balance, beginning of year</b>	\$ 515	\$ 354	\$ 354	\$ 1,223
Changes in foreign exchange rates	13	—	—	13
<b>Balance, end of year</b>	<u>\$ 528</u>	<u>\$ 354</u>	<u>\$ 354</u>	<u>\$ 1,236</u>
Accumulated impairment				
<b>Balance, beginning of year</b>	\$ (34)	\$ —	\$ —	\$ (34)
Changes in foreign exchange rates	(2)	—	—	(2)
<b>Balance, end of year</b>	<u>\$ (36)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (36)</u>
<b>Net carrying amount</b>	<u>\$ 492</u>	<u>\$ 354</u>	<u>\$ 354</u>	<u>\$ 1,200</u>
	2016			
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	\$ 543	\$ 357	\$ 354	\$ 1,254
Transfer to finite life	—	(3)	—	(3)
Changes in foreign exchange rates	(28)	—	—	(28)
Balance, end of year	<u>\$ 515</u>	<u>\$ 354</u>	<u>\$ 354</u>	<u>\$ 1,223</u>
Accumulated impairment				
Balance, beginning of year	\$ (35)	\$ —	\$ —	\$ (35)
Changes in foreign exchange rates	1	—	—	1
Balance, end of year	<u>\$ (34)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (34)</u>
<b>Net carrying amount</b>	<u>\$ 481</u>	<u>\$ 354</u>	<u>\$ 354</u>	<u>\$ 1,189</u>

9. Goodwill and Intangible Assets (cont'd)

(ii) Indefinite life intangible assets have been assigned to the cash generating units grouping as follows:

	2017	2016 <sup>(1)</sup>
Canada		
Group Customer	\$ 354	\$ 354
Individual Customer	619	619
Europe		
Insurance and Annuities	227	216
<b>Total</b>	<b>\$ 1,200</b>	<b>\$ 1,189</b>

<sup>(1)</sup> Effective January 1, 2017, the Company realigned its Individual Insurance, Wealth Management and Group Insurance business units in the Canada segment into two business units: Individual Customer and Group Customer. The realignment resulted in a change to comparative figures within these cash generating unit groupings.

(iii) Finite life intangible assets:

	2017			
	Customer contract related	Distribution channels	Software	Total
Amortization period range	9 - 30 years	30 years	3 - 10 years	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
<b>Balance, beginning of year</b>	\$ 492	\$ 106	\$ 660	\$ 1,258
Additions	154	—	103	257
Changes in foreign exchange rates	10	2	11	23
Disposals	—	—	(24)	(24)
<b>Balance, end of year</b>	<b>\$ 656</b>	<b>\$ 108</b>	<b>\$ 750</b>	<b>\$ 1,514</b>
Accumulated amortization and impairment				
<b>Balance, beginning of year</b>	\$ (266)	\$ (48)	\$ (344)	\$ (658)
Changes in foreign exchange rates	(4)	—	(5)	(9)
Disposals	—	—	8	8
Amortization	(35)	(4)	(64)	(103)
<b>Balance, end of year</b>	<b>\$ (305)</b>	<b>\$ (52)</b>	<b>\$ (405)</b>	<b>\$ (762)</b>
<b>Net carrying amount</b>	<b>\$ 351</b>	<b>\$ 56</b>	<b>\$ 345</b>	<b>\$ 752</b>

During 2017, the Company recognized an impairment loss of \$16 on software assets included in the provision for the Canadian Business Transformation (note 27).

## 9. Goodwill and Intangible Assets (cont'd)

	2016			
	Customer contract related	Distribution channels	Software	Total
Amortization period range	9 - 30 years	30 years	3 - 10 years	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	\$ 460	\$ 118	\$ 558	\$ 1,136
Additions	39	—	107	146
Transfer from indefinite life	3	—	—	3
Changes in foreign exchange rates	(10)	(12)	(5)	(27)
Balance, end of year	\$ 492	\$ 106	\$ 660	\$ 1,258
Accumulated amortization and impairment				
Balance, beginning of year	\$ (237)	\$ (49)	\$ (287)	\$ (573)
Changes in foreign exchange rates	3	5	3	11
Amortization	(32)	(4)	(60)	(96)
Balance, end of year	\$ (266)	\$ (48)	\$ (344)	\$ (658)
Net carrying amount	\$ 226	\$ 58	\$ 316	\$ 600

The weighted average remaining amortization period of the customer contract related and distribution channels are 16 and 16 years respectively (9 and 17 years respectively at December 31, 2016).

**(c) Recoverable Amount**

For the purposes of annual impairment testing, the Company allocates goodwill and indefinite life intangible assets to cash generating unit groupings. Any potential impairment of goodwill or indefinite life intangible assets is identified by comparing the recoverable amount of a cash generating unit grouping 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 precedent business acquisitions 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 2017, the Company conducted its annual impairment testing of goodwill and indefinite life intangible assets based on September 30, 2017 asset balances. It was determined that the recoverable amounts of cash generating unit groupings were in excess of their carrying values and there was no evidence of impairment.

Any reasonable changes in assumptions and estimates used in determining recoverable amounts of cash generating unit groupings is unlikely to cause carrying values to exceed recoverable amounts.

**10. Owner Occupied Properties and Fixed Assets**

The carrying value of owner occupied properties and the changes in the carrying value of owner occupied properties is as follows:

	<u>2017</u>	<u>2016</u>
<b>Carrying value, beginning of year</b>	<b>\$ 522</b>	<b>\$ 510</b>
Less: accumulated depreciation/impairments	<b>(52)</b>	<b>(43)</b>
<b>Net carrying value, beginning of year</b>	<b>470</b>	<b>467</b>
Additions	<b>69</b>	<b>18</b>
Depreciation	<b>(10)</b>	<b>(9)</b>
Foreign exchange	<b>5</b>	<b>(6)</b>
<b>Net carrying value, end of year</b>	<b>\$ 534</b>	<b>\$ 470</b>

The net carrying value of fixed assets is \$210 at December 31, 2017 (\$215 at December 31, 2016).

There are no restrictions on the title of the owner occupied properties and fixed assets nor are they pledged as security for debt.

**11. Other Assets**

	<u>2017</u>	<u>2016</u>
Deferred acquisition costs	<b>\$ 607</b>	<b>\$ 559</b>
Finance leases receivable	<b>350</b>	<b>273</b>
Defined benefit pension plan asset (note 22)	<b>193</b>	<b>214</b>
Trading account assets	<b>91</b>	<b>81</b>
Prepaid expenses	<b>77</b>	<b>78</b>
Miscellaneous other assets	<b>51</b>	<b>66</b>
<b>Total</b>	<b>\$ 1,369</b>	<b>\$ 1,271</b>

Total other assets of \$246 (\$249 at December 31, 2016) are expected to be realized within 12 months from the reporting date. This amount excludes deferred acquisition costs, the changes in which are noted below.

**Deferred acquisition costs**

	<u>2017</u>	<u>2016</u>
<b>Balance, beginning of year</b>	<b>\$ 559</b>	<b>\$ 672</b>
Additions	<b>122</b>	<b>70</b>
Amortization	<b>(59)</b>	<b>(57)</b>
Changes in foreign exchange	<b>26</b>	<b>(73)</b>
Disposals	<b>(41)</b>	<b>(53)</b>
<b>Balance, end of year</b>	<b>\$ 607</b>	<b>\$ 559</b>

11. Other Assets (cont'd)

**Finance leases receivable**

The Company has a finance lease on one property in Canada which has been leased for a 25-year term. The Company has four finance leases on properties in Europe. These properties have been leased for terms ranging between 27 and 40 years.

The finance lease receivable for the five properties, in aggregate, is as follows:

	<b>2017</b>	
	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>
One year	\$ 27	\$ 26
Over one to five years	107	85
Over five years	656	239
	790	350
Less: unearned finance lease income	440	—
<b>Total finance leases receivable</b>	<b>\$ 350</b>	<b>\$ 350</b>

The internal rate of return for the leases ranges between 3.7% and 7.5%.

**12. Insurance and Investment Contract Liabilities**

**(a) Insurance and investment contract liabilities**

	<b>2017</b>		
	<b>Gross liability</b>	<b>Reinsurance assets</b>	<b>Net</b>
Insurance contract liabilities	\$ 124,687	\$ 6,621	\$ 118,066
Investment contract liabilities	1,806	131	1,675
<b>Total</b>	<b>\$ 126,493</b>	<b>\$ 6,752</b>	<b>\$ 119,741</b>

  

	<b>2016</b>		
	<b>Gross liability</b>	<b>Reinsurance assets</b>	<b>Net</b>
Insurance contract liabilities	\$ 120,718	\$ 7,365	\$ 113,353
Investment contract liabilities	1,967	162	1,805
<b>Total</b>	<b>\$ 122,685</b>	<b>\$ 7,527</b>	<b>\$ 115,158</b>

12. Insurance and Investment Contract Liabilities (cont'd)

**(b) Composition of insurance and investment contract liabilities and related supporting assets**

(i) The composition of insurance and investment contract liabilities is as follows:

	2017		
	Gross liability	Reinsurance assets	Net
Participating			
Individual Customer	\$ 36,430	\$ (356)	\$ 36,786
Europe/reinsurance	1,286	—	1,286
Corporate	2,401	(1)	2,402
Non-Participating			
Individual Customer	13,993	316	13,677
Group Customer	16,038	159	15,879
Europe/reinsurance	53,677	5,210	48,467
Corporate	2,668	1,424	1,244
<b>Total</b>	<b>\$ 126,493</b>	<b>\$ 6,752</b>	<b>\$ 119,741</b>
	2016		
	Gross liability	Reinsurance assets	Net
Participating			
Individual Customer	\$ 34,019	\$ (443)	\$ 34,462
Europe/reinsurance	1,385	—	1,385
Corporate	2,605	(4)	2,609
Non-Participating			
Individual Customer	13,686	758	12,928
Group Customer	15,439	164	15,275
Europe/reinsurance	52,609	5,433	47,176
Corporate	2,942	1,619	1,323
<b>Total</b>	<b>\$ 122,685</b>	<b>\$ 7,527</b>	<b>\$ 115,158</b>

## 12. Insurance and Investment Contract Liabilities (cont'd)

(ii) The composition of the assets supporting liabilities and equity is as follows:

	2017					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
<b>Carrying value</b>						
Participating liabilities						
Canada	\$ 17,262	\$ 8,485	\$ 5,032	\$ 1,641	\$ 4,010	\$ 36,430
Europe	928	27	110	48	173	1,286
Corporate	1,768	320	—	—	313	2,401
Non-participating liabilities						
Individual Customer	11,059	829	1,971	134	—	13,993
Group Customer	8,427	2,948	56	—	4,607	16,038
Europe/Reinsurance	32,982	3,569	262	2,810	14,054	53,677
Corporate	604	77	—	—	1,987	2,668
Other	14,238	568	881	72	176,559	192,318
Total equity	2,942	320	421	143	18,728	22,554
<b>Total carrying value</b>	<b>\$ 90,210</b>	<b>\$ 17,143</b>	<b>\$ 8,733</b>	<b>\$ 4,848</b>	<b>\$ 220,431</b>	<b>\$ 341,365</b>
<b>Fair value</b>	<b>\$ 91,406</b>	<b>\$ 17,881</b>	<b>\$ 8,775</b>	<b>\$ 4,848</b>	<b>\$ 220,431</b>	<b>\$ 343,341</b>
	2016 (note 32)					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
<b>Carrying value</b>						
Participating liabilities						
Canada	\$ 16,311	\$ 8,327	\$ 4,828	\$ 1,354	\$ 3,199	\$ 34,019
Europe	988	32	123	56	186	1,385
Corporate	1,948	307	—	—	350	2,605
Non-participating liabilities <sup>(1)</sup>						
Individual Customer	10,894	871	1,908	13	—	13,686
Group Customer	7,539	2,828	71	—	5,001	15,439
Europe/Reinsurance	31,466	3,557	236	2,678	14,672	52,609
Corporate	620	87	—	—	2,235	2,942
Other	12,936	581	844	59	159,900	174,320
Total equity	2,848	296	478	177	17,367	21,166
<b>Total carrying value</b>	<b>\$ 85,550</b>	<b>\$ 16,886</b>	<b>\$ 8,488</b>	<b>\$ 4,337</b>	<b>\$ 202,910</b>	<b>\$ 318,171</b>
<b>Fair value</b>	<b>\$ 86,737</b>	<b>\$ 17,761</b>	<b>\$ 8,478</b>	<b>\$ 4,337</b>	<b>\$ 202,910</b>	<b>\$ 320,223</b>

<sup>(1)</sup> Effective January 1, 2017, the Company realigned its Individual Insurance, Wealth Management and Group Insurance business units in the Canada segment into two business units: Individual Customer and Group Customer. The realignment resulted in a change to comparative figures.

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.

12. Insurance and Investment Contract Liabilities (cont'd)

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.

**(c) 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:

	2017			Total Net
	Participating			
	Gross liability	Reinsurance assets	Net	
<b>Balance, beginning of year</b>	\$ 37,991	\$ (447)	\$ 38,438	
Impact of new business	(15)	—	(15)	
Normal change in force	2,328	(2)	2,330	
Management action and changes in assumptions	53	92	(39)	
With Profits Fund conversion	(74)	—	(74)	
Impact of foreign exchange rate changes	(181)	—	(181)	
<b>Balance, end of year</b>	<b>\$ 40,102</b>	<b>\$ (357)</b>	<b>\$ 40,459</b>	
	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
<b>Balance, beginning of year</b>	\$ 82,727	\$ 7,812	\$ 74,915	\$ 113,353
Impact of new business	3,759	210	3,549	3,534
Normal change in force	(1,571)	(262)	(1,309)	1,021
Management action and changes in assumptions	(1,245)	(932)	(313)	(352)
With Profits Fund conversion	74	—	74	—
Business movement from/to affiliates	4	—	4	4
Business movement from/to external parties	(344)	—	(344)	(344)
Impact of foreign exchange rate changes	1,181	150	1,031	850
<b>Balance, end of year</b>	<b>\$ 84,585</b>	<b>\$ 6,978</b>	<b>\$ 77,607</b>	<b>\$ 118,066</b>

## 12. Insurance and Investment Contract Liabilities (cont'd)

	2016			Total Net
	Participating			
	Gross liability	Reinsurance assets	Net	
Balance, beginning of year	\$ 36,267	\$ (423)	\$ 36,690	
Impact of new business	35	—	35	
Normal change in force	2,122	(25)	2,147	
Management action and changes in assumptions	(229)	2	(231)	
Impact of foreign exchange rate changes	(204)	(1)	(203)	
Balance, end of year	\$ 37,991	\$ (447)	\$ 38,438	
	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	\$ 87,731	\$ 7,496	\$ 80,235	\$ 116,925
Impact of new business	3,327	397	2,930	2,965
Normal change in force	597	—	597	2,744
Management action and changes in assumptions	(78)	289	(367)	(598)
Business movement from/to external parties	(113)	—	(113)	(113)
Business movement from/to affiliates	574	—	574	574
Impact of foreign exchange rate changes	(9,311)	(370)	(8,941)	(9,144)
Balance, end of year	\$ 82,727	\$ 7,812	\$ 74,915	\$ 113,353

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 force above.

In 2017, the major contributors to the increase in net insurance contract liabilities were the impact of new business of \$3,534, normal change in force of \$1,021 and foreign exchange rate changes of \$850. This was partially offset by decreases due to management actions and changes in assumptions of \$352 and business movement from/to external parties of \$344.

Net non-participating insurance contract liabilities decreased by \$313 in 2017 due to management actions and changes in assumptions. The decrease was primarily due to updated longevity assumptions of \$237, updated economic assumptions of \$205, updated morbidity assumptions of \$46 and updated life mortality assumptions of \$20, partially offset by increases due to updated policyholder behaviour assumptions of \$134, modeling refinements of \$26, updated provision for claims of \$14, updated expense and tax assumptions of \$8, updated provision for experience rating funds of \$8 and updated provisions of \$5.

Net participating insurance contract liabilities decreased by \$39 in 2017 due to management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends of \$4,417 and updated expense and tax assumptions of \$500, partially offset by lower investment returns of \$4,257, updated life mortality assumptions of \$289, modeling refinements of \$243 and updated policyholder behaviour assumptions of \$89.

In 2016, the major contributors to the decrease in net insurance contract liabilities were the impact of foreign exchange rate changes of \$9,144 and management actions and assumption changes of \$598, partially offset by increases due to the normal changes in the in force business of \$2,744, which was primarily due to the change in fair value, the impact of new business of \$2,965 and business movement from/to affiliates of \$574.

Net non-participating insurance contract liabilities decreased by \$367 in 2016 due to management actions and changes in assumptions. The decrease was primarily due to updated longevity assumptions of \$227, updated economic assumptions of \$145, updated morbidity assumptions of \$103, updated provision for claims of \$63 largely as a result of a decreased lag in reporting of Group health claims, modeling refinements of \$33 and

12. Insurance and Investment Contract Liabilities (cont'd)

updated policyholder behaviour assumptions of \$4, partially offset by increases due to updated expense and tax assumptions of \$132 and updated life mortality assumptions of \$76.

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

Net participating insurance contract liabilities decreased by \$231 in 2016 due to management actions and assumption changes. The decrease was primarily due to updated expense and tax assumptions of \$153, higher investment returns of \$102, provisions for future policyholder dividends of \$19, updated mortality assumptions of \$13 and updated morbidity assumptions of \$2, partially offset by increases due updated policyholder behaviour assumptions of \$30, and modeling refinements of \$29.

**(d) Change in investment contract liabilities measured at fair value**

	2017			2016		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
<b>Balance, beginning of year</b>	\$ 1,967	\$ 162	\$ 1,805	\$ 2,215	\$ 188	\$ 2,027
Normal change in force business	(171)	(33)	(138)	(217)	(26)	(191)
Investment experience	97	11	86	85	6	79
Management action and changes in assumptions	(22)	—	(22)	(46)	—	(46)
Business movements from/to external parties	—	—	—	—	—	—
Impact of foreign exchange rate changes	(65)	(9)	(56)	(70)	(6)	(64)
<b>Balance, end of year</b>	<b>\$ 1,806</b>	<b>\$ 131</b>	<b>\$ 1,675</b>	<b>\$ 1,967</b>	<b>\$ 162</b>	<b>\$ 1,805</b>

The carrying value of investment contract liabilities approximates their fair value.

**(e) Gross premiums written and gross policyholder benefits**

(i) Premium Income

	2017	2016
Direct premiums	\$ 20,834	\$ 18,579
Assumed reinsurance premiums	13,604	11,659
<b>Total</b>	<b>\$ 34,438</b>	<b>\$ 30,238</b>

(ii) Policyholder Benefits

	2017	2016
Direct	\$ 13,454	\$ 13,283
Assumed reinsurance	14,356	11,954
<b>Total</b>	<b>\$ 27,810</b>	<b>\$ 25,237</b>

## 12. Insurance and Investment Contract Liabilities (cont'd)

**(f) Actuarial Assumptions**

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

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

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company'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 used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity

The Company uses industry developed experience tables modified to reflect emerging Company 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 (LRG), a subsidiary of the London Life Insurance Company (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 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 Canadian Asset Liability Method 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 (note 7(c)).

12. Insurance and Investment Contract Liabilities (cont'd)

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 Canadian Asset Liability Method 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 the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures 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 the Company's assumptions for these products as the Company'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 the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on Company 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 the Company'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.

12. Insurance and Investment Contract Liabilities (cont'd)

**(g) Risk Management**

(i) 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.

As an insurance company, Great-West Life is in the business of accepting risk associated with insurance contract liabilities. The objective of the Company is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of the Company's underwriting strategy guidelines, and through the use of reinsurance arrangements.

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

	<b>Increase (decrease) in net earnings</b>	
	<b>2017</b>	<b>2016</b>
Mortality - 2% increase	\$ (250)	\$ (236)
Annuitant mortality - 2% decrease	\$ (440)	\$ (379)
Morbidity - 5% adverse change	\$ (256)	\$ (242)
Investment returns		
Parallel shift in yield curve		
1% increase	\$ —	\$ —
1% decrease	\$ —	\$ —
Change in interest rates		
1% increase	\$ 150	\$ 149
1% decrease	\$ (474)	\$ (416)
Change in equity values		
10% increase	\$ 48	\$ 42
10% decrease	\$ (82)	\$ (48)
Change in best estimate return assumptions for equities		
1% increase	\$ 439	\$ 407
1% decrease	\$ (469)	\$ (438)
Expenses - 5% increase	\$ (102)	\$ (98)
Policy termination and renewal - 10% adverse change	\$ (597)	\$ (546)

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.

	<b>2017</b>			<b>2016</b>		
	<b>Gross liability</b>	<b>Reinsurance assets</b>	<b>Net</b>	<b>Gross liability</b>	<b>Reinsurance assets</b>	<b>Net</b>
Canada	\$ 66,461	\$ 119	\$ 66,342	\$ 63,144	\$ 479	\$ 62,665
Europe	54,963	5,210	49,753	53,994	5,433	48,561
United States	5,069	1,423	3,646	5,547	1,615	3,932
<b>Total</b>	<b>\$ 126,493</b>	<b>\$ 6,752</b>	<b>\$ 119,741</b>	<b>\$ 122,685</b>	<b>\$ 7,527</b>	<b>\$ 115,158</b>

12. *Insurance and Investment Contract Liabilities (cont'd)*

(ii) 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 the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company 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 the Company retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

**13. Segregated Funds and Other Structured Entities**

The Company offers segregated fund products in Canada and Europe that are referred to as segregated funds and unit-linked funds in the respective region. 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 the Company has legal title to the investments, there is a contractual obligation to pass along the investment results to the segregated fund policyholder and the Company segregates these investments from those of the Company.

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

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, the Company has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are \$1,602 at December 31, 2017 (\$1,547 at December 31, 2016).

Within the Consolidated 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 Consolidated Balance Sheets. As these amounts do not directly impact the revenues and expenses of the Company, these amounts are not included separately in the Consolidated Statements of Earnings.

13. Segregated Funds and Other Structured Entities (cont'd)

Segregated Funds Guarantee Exposure

The Company offers retail segregated fund products and unitized with profits (UWP) products that provide for certain guarantees that are tied to the market 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 the Company's primary exposure on these funds. The Company accounts for these guarantees within insurance and investment contract liabilities within the consolidated financial statements. In addition to the Company's exposure on the guarantees, the fees earned by the Company on these products are impacted by the market value of these funds.

In Canada, the Company 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 Europe, the Company offers UWP 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.

The Company also offers a guaranteed minimum withdrawal benefits (GMWB) product in Canada and Germany, and previously offered GMWB product in Ireland. Certain GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2017, the amount of GMWB product in-force in Canada, Ireland and Germany was \$2,739 (\$2,720 at December 31, 2016).

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

**(a) Investments on account of segregated fund policyholders**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 13,272	\$ 12,440
Bonds	28,806	26,846
Mortgage loans	2,610	2,622
Stocks and units in unit trusts	93,465	81,033
Mutual funds	33,411	30,594
Investment properties	<u>11,520</u>	<u>11,019</u>
	183,084	164,554
Accrued income	327	305
Other liabilities	(1,694)	(1,417)
Non-controlling mutual fund interest	<u>1,602</u>	<u>1,547</u>
<b>Total</b>	<u>\$ 183,319</u>	<u>\$ 164,989</u>

13. Segregated Funds and Other Structured Entities (cont'd)

**(b) Investment and insurance contracts on account of segregated fund policyholders**

	2017	2016
<b>Balance, beginning of year</b>	\$ 164,989	\$ 162,228
Additions (deductions):		
Policyholder deposits	21,748	17,752
Net investment income	1,480	1,277
Net realized capital gains on investments	4,696	4,069
Net unrealized capital gains on investments	3,705	5,894
Unrealized gains (losses) due to changes in foreign exchange rates	4,685	(9,544)
Policyholder withdrawals	(18,043)	(17,044)
Business and other acquisitions	—	193
Change in General Fund investment in Segregated Fund	(17)	(13)
Net transfer from General Fund	21	20
Non-controlling mutual funds interest	55	157
<b>Total</b>	<b>18,330</b>	<b>2,761</b>
<b>Balance, end of year</b>	<b>\$ 183,319</b>	<b>\$ 164,989</b>

**(c) Investment income on account of segregated fund policyholders**

	2017	2016
Net investment income	\$ 1,480	\$ 1,277
Net realized capital gains on investments	4,696	4,069
Net unrealized capital gains on investments	3,705	5,894
Unrealized gains (losses) due to changes in foreign exchange rates	4,685	(9,544)
<b>Total</b>	<b>14,566</b>	<b>1,696</b>
Change in investment and insurance contracts liability on account of segregated fund policyholders	14,566	1,696
<b>Net</b>	<b>\$ —</b>	<b>\$ —</b>

**(d) Investments on account of segregated fund policyholders by fair value hierarchy level (note 8)**

	2017			
	Level 1	Level 2	Level 3	Total
<b>Investments on account of segregated fund policyholders<sup>(1)</sup></b>	<b>\$ 115,699</b>	<b>\$ 56,581</b>	<b>\$ 12,572</b>	<b>\$ 184,852</b>

<sup>(1)</sup> Excludes other liabilities, net of other assets, of \$1,533.

	2016			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders <sup>(1)</sup>	\$ 105,226	\$ 48,906	\$ 12,045	\$ 166,177

<sup>(1)</sup> Excludes other liabilities, net of other assets, of \$1,188.

During 2017, certain foreign stock holdings valued at \$629 have been transferred from Level 1 to Level 2 (\$18 were transferred from Level 2 to Level 1 at December 31, 2016) primarily based on the Company utilizing inputs in addition to quoted prices in active markets for certain foreign stock 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 the Company does not have visibility through to the underlying assets.

## 13. Segregated Funds and Other Structured Entities (cont'd)

As at December 31, 2017, \$8,527 (\$6,729 at December 31, 2016) of the segregated funds were invested in funds managed by related parties Investors Group and Mackenzie Investments, members of the Power Financial group of companies (note 24).

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

	2017	2016
<b>Balance, beginning of year</b>	<b>\$ 12,045</b>	<b>\$ 11,765</b>
Total gains (losses) included in segregated fund investment income	<b>422</b>	<b>(109)</b>
Purchases	<b>926</b>	<b>584</b>
Sales	<b>(943)</b>	<b>(370)</b>
Transfers into Level 3	<b>137</b>	<b>175</b>
Transfers out of Level 3	<b>(15)</b>	<b>—</b>
<b>Balance, end of year</b>	<b>\$ 12,572</b>	<b>\$ 12,045</b>

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, the Company has interests in 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 the Company and the Company receives management fees related to these services. Management fees can be variable due to 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.

During 2017, fee and other income earned by the Company resulting from the Company's interests in these structured entities was \$2,614 (\$2,533 in 2016).

Included within other assets (note 11) is \$91 (\$81 at December 31, 2016) of investments in stocks of sponsored unit trusts in Europe.

#### 14. Financing Charges

Financing charges consist of the following:

	2017		2016
Interest on long-term debentures and other debt instruments	\$ 28	\$	26
Interest on capital trust securities (note 16)	11		11
Other	13		13
<b>Total</b>	<b>\$ 52</b>	<b>\$</b>	<b>50</b>

#### 15. Debentures and Other Debt Instruments

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
6.74% debentures due November 24, 2036, unsecured (note 24)	\$ 200	\$ 200	\$ 200	\$ 200
6.40% subordinated debentures due December 11, 2028, unsecured	100	128	100	128
200 euro subordinated loan, matures December 7, 2031, bearing an interest rate of 2.53% until first par call date of December 7, 2026, and, thereafter, at a rate equal to the five-year euro semi-annual mid-swap rate plus 1.85%, unsecured (note 24) <sup>(1)</sup>	302	302	284	284
5.25% 200 euro subordinated debentures callable on February 8, 2017, includes associated fixed to floating swap, unsecured, were redeemed during the year <sup>(2)</sup>	—	—	285	277
<b>Total debentures and other debt instruments</b>	<b>\$ 602</b>	<b>\$ 630</b>	<b>\$ 869</b>	<b>\$ 889</b>

<sup>(1)</sup> On December 7, 2016 the Company issued a 200 euro, 15 year loan with an annual interest rate of 2.53% until first par call date of December 7, 2026, and, thereafter at a rate equal to the five-year euro semi-annual mid-swap rate plus 1.85% (note 24).

<sup>(2)</sup> On February 8, 2017 Irish Life Assurance, an indirect wholly owned subsidiary of the Company, redeemed its 5.25% \$284 (200 euro) subordinated debenture notes at their principal amount together with accrued interest.

**16. Capital Trust Securities**

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>Canada Life Capital Trust (CLCT)</b>				
7.529% due June 30, 2052, unsecured	\$ 150	\$ 221	\$ 150	\$ 212
Acquisition related fair value adjustment	10	—	11	—
<b>Total</b>	<b>\$ 160</b>	<b>\$ 221</b>	<b>\$ 161</b>	<b>\$ 212</b>

CLCT had issued \$150 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.

Distributions and interest on the capital trust securities are classified as financing charges in the Consolidated Statements of Earnings (note 14). The fair value for capital trust securities is determined by the bid-ask price. Refer to note 7 for Financial Instrument Risk Management disclosures.

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

**17. Other Liabilities**

	2017	2016
Pension and other post-employment benefits (note 22)	\$ 1,158	\$ 1,160
Deferred income reserves	303	309
Bank overdraft	431	425
Other	1,083	1,002
<b>Total</b>	<b>\$ 2,975</b>	<b>\$ 2,896</b>

Total other liabilities of \$1,514 (\$1,427 at December 31, 2016) are expected to be realized within 12 months from the reporting date. This amount excludes deferred income reserves, the changes in which are noted below.

**Deferred income reserves**

	2017	2016
<b>Balance, beginning of year</b>	<b>\$ 309</b>	<b>\$ 437</b>
Additions	45	29
Amortization	(35)	(39)
Changes in foreign exchange	8	(76)
Disposals	(24)	(42)
<b>Balance, end of year</b>	<b>\$ 303</b>	<b>\$ 309</b>

**18. Participating Account**

The Company held a 100% controlling equity interest in London Life and Canada Life at December 31, 2017 and 2016. The participating operations and the participating balance sheets are presented as combined or consolidated in the operations in the Company's financial statements.

The shareholder portion of participating earnings represents, as restricted by law, a portion of net earnings before policyholder dividends of the participating account, \$63 in 2017 (\$66 in 2016). The actual payment of the shareholder portion of participating net earnings is legally determined as a percentage of policyholder dividends paid. \$72 of shareholder surplus (\$71 in 2016) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders. The following provides additional information related to the operations and financial position of each entity.

**(a) Net earnings, participating account:**

	<u>2017</u>	<u>2016</u>
Net earnings attributable to participating account before policyholder dividends		
Great-West Life	\$ 180	\$ 167
London Life	847	843
Canada Life	299	453
	<u>1,326</u>	<u>1,463</u>
Policyholder dividends		
Great-West Life	(159)	(156)
London Life	(814)	(803)
Canada Life	(312)	(314)
	<u>(1,285)</u>	<u>(1,273)</u>
<b>Net earnings - participating account</b>	<u>\$ 41</u>	<u>\$ 190</u>

**(b) Participating account surplus in subsidiaries:**

	<u>2017</u>	<u>2016</u>
Participating account accumulated surplus:		
Great-West Life	\$ 624	\$ 603
London Life	1,818	1,785
Canada Life	337	350
<b>Total</b>	<u>2,779</u>	<u>2,738</u>
Participating account accumulated other comprehensive income (loss):		
Great-West Life	(2)	7
London Life	(22)	13
Canada Life	2	7
Accumulated other comprehensive income (loss) - participating account	<u>(22)</u>	<u>27</u>
<b>Total</b>	<u>\$ 2,757</u>	<u>\$ 2,765</u>

## 18. Participating Account (cont'd)

**(c) Participating account - other comprehensive income (loss):**

	<u>2017</u>	<u>2016</u>
Other comprehensive income (loss) attributable to participating account		
Great-West Life	\$ (9)	\$ (8)
London Life	(35)	(22)
Canada Life	(5)	(4)
<b>Total</b>	<b>\$ (49)</b>	<b>\$ (34)</b>

## 19. Share Capital

## Authorized

Unlimited Common Shares

Unlimited Preferred Shares

## Issued and outstanding

	<u>2017</u>		<u>2016</u>	
	Number	Carrying value	Number	Carrying value
<b>Common shares:</b>				
<b>Balance, beginning of year</b>	2,369,469	\$ 8,488	2,369,469	\$ 8,488
Issued to parent company	37,771	395	—	—
<b>Balance, beginning and end of year</b>	<b>2,407,240</b>	<b>\$ 8,883</b>	2,369,469	\$ 8,488

On December 19, 2017 the Company issued 37,771 common shares to Lifeco for total consideration of \$395 (\$10,457 per share).

## 20. Capital Management

**(a) Policies and Objectives**

Managing capital is the continual process of establishing and maintaining the quantity and quality of capital appropriate for the Company and ensuring capital is deployed in a manner consistent with the expectations of the Company's stakeholders. For these purposes, the Board considers the key stakeholders to be the Company's shareholders, policyholders and holders of subordinated liabilities in addition to the relevant regulators in the various jurisdictions where the Company and its subsidiaries operate.

The Company manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of the Company'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 the Company ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholder value in the context of the Company's operational risks and strategic plans.

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

20. Capital Management (cont'd)

The capital planning process is the responsibility of the Company's Chief Financial Officer. The capital plan is reviewed by the Executive Committee of the Board of Directors and approved by the Company's Board of Directors on an annual basis. The Board of Directors reviews and approves all capital transactions undertaken by management.

The target level of capitalization for the Company 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 the Company, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of the Company with a high degree of confidence.

**(b) Regulatory Capital**

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). For this purpose, various additions or deductions from capital are mandated by the guidelines issued by the OSFI. The following provides a summary of the MCCSR information and ratios for Great-West Life:

	<b>2017</b>	<b>2016</b>
<b>Adjusted Net Tier 1 Capital</b>	<b>\$ 14,115</b>	<b>\$ 13,071</b>
<b>Net Tier 2 Capital</b>	<b>2,858</b>	<b>2,798</b>
<b>Total Capital Available</b>	<b>\$ 16,973</b>	<b>\$ 15,869</b>
<b>Total Capital Required</b>	<b>\$ 7,042</b>	<b>\$ 6,618</b>
<b>Tier 1 Ratio</b>	<b>200%</b>	<b>198%</b>
<b>Total Ratio</b>	<b>241%</b>	<b>240%</b>

The MCCSR ratio of 241% for Great-West Life includes 6 points for the impact of capital activity in advance of closing for the Retirement Advantage business acquisition.

The Company has been preparing for the implementation of the new regulatory capital framework for the Canadian insurance industry. OSFI will replace the current MCCSR guideline with the Life Insurance Capital Adequacy Test (LICAT) guideline, effective January 1, 2018. The first reporting period will be the first quarter of 2018.

For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2017 and December 31, 2016, all European regulated entities met the capital and solvency requirements as prescribed under Solvency II.

Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2017 and 2016, the Company maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

## 21. Share-Based Payments

- (a) Lifeco has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Great-West Life and its affiliates. Lifeco's Human Resources Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Options generally vest over a period of five years, and have a maximum exercise period of ten years. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee. The maximum number of Lifeco common shares that may be issued under the Plan is currently 65,000,000.

During 2017, 1,383,600 options were granted (2,173,700 during 2016). The weighted average fair value of options granted during 2017 was \$2.83 per option (\$3.96 in 2016). The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2017: dividend yield 3.98% (3.99% in 2016), expected volatility 14.08% (19.44% in 2016), risk-free interest rate 1.46% (1.01% in 2016), and expected life of eight years (eight in 2016).

The following summarizes the changes in options outstanding and the weighted average exercise price:

	2017		2016	
	Options	Weighted average exercise price	Options	Weighted average exercise price
<b>Outstanding, beginning of year</b>	11,532,479	\$ 31.69	10,057,219	\$ 30.79
Granted	1,383,600	36.87	2,173,700	34.68
Exercised	(2,535,670)	30.99	(656,540)	27.72
Forfeited/expired	(427,320)	36.86	(41,900)	33.96
<b>Outstanding, end of year</b>	<b>9,953,089</b>	<b>\$ 32.36</b>	<b>11,532,479</b>	<b>\$ 31.69</b>
<b>Options exercisable at end of year</b>	<b>5,547,126</b>	<b>\$ 30.27</b>	<b>7,033,996</b>	<b>\$ 30.54</b>

The weighted average share price at the date of exercise of stock options for the year ended December 31, 2017 was \$37.20 (\$35.17 in 2016).

Compensation expense due to the Plan transactions accounted for as equity-settled share-based payments of \$6 after-tax in 2017 (\$9 after-tax in 2016) has been recognized in the Consolidated Statements of Earnings.

21. Share-Based Payments (cont'd)

The following summarizes information on the ranges of exercise prices including weighted average remaining contractual life at December 31, 2017:

Exercise price ranges	Outstanding			Exercisable		
	Options	Weighted average remaining contractual life	Weighted average exercise price	Options	Weighted average exercise price	Expiry
\$31.27 - \$34.68	943,440	0.35	31.27	943,440	31.27	2018
\$31.14 - \$35.62	15,000	1.16	34.22	5,560	33.73	2019
\$23.16 - \$35.62	445,920	2.43	29.07	437,200	28.98	2020
\$23.16 - \$35.62	734,380	3.27	29.19	734,380	29.19	2021
\$23.16 - \$36.87	931,350	4.24	25.59	931,350	25.59	2022
\$27.13 - \$28.36	808,240	5.17	27.16	645,420	27.16	2023
\$30.33 - \$33.02	978,200	6.21	31.09	611,848	31.09	2024
\$35.62 - \$36.63	1,785,179	7.18	35.68	780,528	35.67	2025
\$34.68 - \$35.52	1,965,480	8.16	34.68	457,400	34.68	2026
\$36.87	1,345,900	9.16	36.87	—	—	2027

- (b) In order to promote a greater alignment of interest between Directors and the policyholders and shareholders of the Company, the Company and certain of its affiliates have established both a mandatory Deferred Share Unit Plan and a voluntary Deferred Share Unit Plan (the “Mandatory DSU Plans” and the “Voluntary DSU Plans” respectively) in which the Directors of the Company participate. Under the Mandatory DSU Plan, each Director who is a resident of Canada or the United States is required to receive 50% of his or her annual Board retainer in the form of Deferred Share Units (DSUs). Under the Voluntary DSU Plan, each Director may elect to receive the balance of his or her annual retainer (including Board Committee fees) and attendance fees entirely in the form of DSUs, entirely in cash, or equally in cash and DSUs. In both cases the number of DSUs granted is determined by dividing the amount of remuneration payable to the Director by the weighted average trading price per common share on the Toronto Stock Exchange for the last five trading days of the preceding fiscal quarter (such weighted average trading price being the “value of a Deferred Share Unit”). Directors receive additional DSUs in respect of dividends payable on the common shares of Lifeco based on the value of a Deferred Share Unit at that time. DSUs are generally redeemable at the time that an individual ceases to be a Director by a lump sum cash payment, based on the value of the DSUs on the date of redemption. In 2017, \$3 in directors fees were used to acquire DSUs (\$3 in 2016).
- (c) Certain employees of the Company are entitled to receive Performance Share Units (PSUs). Under these PSU plans, these employees are granted PSUs equivalent to Lifeco’s common shares vesting over a three-year period. Employees receive additional PSUs in respect of dividends payable on the common shares of Lifeco based on the value of a PSU at that time. At the maturity date, employees receive cash representing the value of the PSU at this date. The Company uses the fair-value based method to account for the Performance Share Units granted to employees under the plan. For the year ended December 31, 2017, the Company recognized compensation expense of \$23 (\$14 in 2016) for the PSU plans recorded in operating and administrative expenses in the Consolidated Statements of Earnings. At December 31, 2017, the carrying value of the PSU liability is \$40 (\$27 in 2016) recorded within other liabilities.
- (d) The Company's Employee Share Ownership Plan (ESOP) is a voluntary plan where eligible employees can contribute up to 5% of their previous year’s eligible earnings to purchase common shares of Great-West Lifeco Inc. The Company matches 50% of the total employee contributions. The contributions from the Company vest immediately and are expensed. For the year ended December 31, 2017, the Company recognized compensation expense of \$12 (\$11 in 2016) for the ESOP recorded in operating and administrative expenses in the Consolidated Statements of Earnings.

## 22. Pension Plans and Other Post-Employment Benefits

### Characteristics, Funding and Risk

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. 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. The assets supporting the funded pension plans are held in separate trustee pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets.

The significant defined benefit plans of the Company and its subsidiaries are closed to new entrants with certain plans also closed to future defined benefit accruals. New hires and employees who previously accrued defined benefits in the closed plans are eligible only for defined contribution benefits. The Company's defined benefit plan exposure will continue to be reduced in future years.

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

The Company and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. These plans are closed to new hires and were previously amended to limit which employees could become eligible to receive benefits. The amount of some of the post-employment benefits other than pensions depends on future cost escalation. These post-employment benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets.

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

The Company 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 Company determines if an economic benefit exists in the form of potential reductions in future contributions by the Company, from the payment of expenses 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 Company 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 Company.

## 22. Pension Plans and Other Post-Employment Benefits (cont'd)

The following reflects the financial position of the Company's contributory and non-contributory defined benefit plans:

**(a) Plan Assets, Benefit Obligation and Funded Status**

	Defined benefit pension plans		Other post-employment benefits	
	2017	2016	2017	2016
<b>Change in fair value of plan assets</b>				
<b>Fair value of plan assets, beginning of year</b>	\$ 5,600	\$ 5,503	\$ —	\$ —
Interest income	181	197	—	—
Actual return over interest income	253	195	—	—
Employer contributions	174	120	18	18
Employee contributions	17	20	—	—
Benefits paid	(284)	(205)	(18)	(18)
Administrative expenses	(4)	(9)	—	—
Surplus paid out to employer	—	(8)	—	—
Settlements	—	(19)	—	—
Net transfer out	(7)	(3)	—	—
Foreign exchange rate changes	131	(191)	—	—
<b>Fair value of plan assets, end of year</b>	<b>\$ 6,061</b>	<b>\$ 5,600</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Change in defined benefit obligation</b>				
<b>Defined benefit obligation, beginning of year</b>	\$ 6,086	\$ 5,789	\$ 369	\$ 365
Current service cost	131	124	—	1
Interest cost	194	205	14	14
Employee contributions	17	20	—	—
Benefits paid	(284)	(205)	(18)	(18)
Plan amendments	2	8	—	—
Curtailments and termination benefits <sup>(1)</sup>	(18)	(14)	1	—
Settlements	—	(19)	—	—
Actuarial loss (gain) on financial assumption changes	277	453	16	9
Actuarial loss (gain) on demographic assumption changes	12	(1)	(8)	(3)
Actuarial loss (gain) arising from member experience	11	(39)	1	1
Net transfer out	(7)	(3)	—	—
Foreign exchange rate changes	138	(232)	—	—
<b>Defined benefit obligation, end of year</b>	<b>\$ 6,559</b>	<b>\$ 6,086</b>	<b>\$ 375</b>	<b>\$ 369</b>
<b>Asset (liability) recognized on the Consolidated Balance Sheets</b>				
Funded status of plans - surplus (deficit)	\$ (498)	\$ (486)	\$ (375)	\$ (369)
Unrecognized amount due to asset ceiling	(92)	(91)	—	—
<b>Asset (liability) recognized on the Consolidated Balance Sheets</b>	<b>\$ (590)</b>	<b>\$ (577)</b>	<b>\$ (375)</b>	<b>\$ (369)</b>
Recorded in:				
Other assets (note 11)	\$ 193	\$ 214	\$ —	\$ —
Other liabilities (note 17)	(783)	(791)	(375)	(369)
<b>Asset (liability) recognized on the Consolidated Balance Sheets</b>	<b>\$ (590)</b>	<b>\$ (577)</b>	<b>\$ (375)</b>	<b>\$ (369)</b>
<b>Analysis of defined benefit obligation</b>				
Wholly or partly funded plans	\$ 6,304	\$ 5,843	\$ —	\$ —
Wholly unfunded plans	\$ 255	\$ 243	\$ 375	\$ 369

<sup>(1)</sup> The impact of curtailments and termination benefits resulting from the Canadian transformation were recognized as part of restructuring expenses and are not included in Pension and Other Post-Employment Benefits expense (note 27).

## 22. Pension Plans and Other Post-Employment Benefits (cont'd)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Company must assess whether the pension asset has economic benefit to the Company through future contribution reductions, from the payment of expenses from the plan or surplus refunds; in the event the Company is not entitled to a benefit a limit or 'asset ceiling' is required on the balance. The following provides a breakdown of the changes in the asset ceiling:

	<u>Defined benefit pension plans</u>	
	<u>2017</u>	<u>2016</u>
<b>Change in asset ceiling</b>		
Asset ceiling, beginning of year	\$ 91	\$ 83
Interest on asset ceiling	4	3
Change in asset ceiling	(3)	5
<b>Asset ceiling, end of year</b>	<u>\$ 92</u>	<u>\$ 91</u>

**(b) Pension and Other Post-Employment Benefits Expense**

The total pension and other post-employment benefit expense included in operating expenses and other comprehensive income are as follows:

	<u>All pension plans</u>		<u>Other post-employment benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Defined benefit current service cost	\$ 148	\$ 144	\$ —	\$ 1
Defined contribution current service cost	35	29	—	—
Employee contributions	(17)	(20)	—	—
Employer current service cost	166	153	—	1
Administrative expense	4	9	—	—
Plan amendments	2	8	—	—
Curtailments	(3)	(14)	—	—
Net interest cost	17	11	14	14
<b>Pension expense - profit or loss</b>	<u>186</u>	<u>167</u>	<u>14</u>	<u>15</u>
Actuarial (gain) loss recognized	300	413	9	7
Return on assets greater than assumed	(253)	(195)	—	—
Change in the asset ceiling	(3)	5	—	—
Actuarial loss - investment in associate <sup>(1)</sup>	1	—	—	—
<b>Pension re-measurements - other comprehensive (income) loss</b>	<u>45</u>	<u>223</u>	<u>9</u>	<u>7</u>
<b>Total pension expense including re-measurements</b>	<u>\$ 231</u>	<u>\$ 390</u>	<u>\$ 23</u>	<u>\$ 22</u>

<sup>(1)</sup> During 2017, the Company transferred actuarial losses of \$13 from accumulated other comprehensive income to accumulated surplus. These losses were for accumulated pension plan re-measurements for an investment in an associate that was disposed of (note 5).

22. Pension Plans and Other Post-Employment Benefits (cont'd)

(c) Asset Allocation by Major Category Weighted by Plan Assets

	<u>Defined benefit pension plans</u>	
	<u>2017</u>	<u>2016</u>
Equity securities	44%	46%
Debt securities	42%	41%
Real estate	8%	8%
Cash and cash equivalents	6%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>

No plan assets are directly invested in the Company's or related parties' securities. Plan assets include investments in segregated funds and other funds managed by subsidiaries of the Company of \$5,689 at December 31, 2017 and \$5,241 at December 31, 2016, of which \$5,616 (\$5,176 at December 31, 2016) are included on the Consolidated Balance Sheets. Plan assets do not include any property occupied or other assets used by the Company.

(d) Details of Defined Benefit Obligation

(i) Portion of Defined Benefit Obligation Subject to Future Salary Increases

	<u>Defined benefit pension plans</u>		<u>Other post-employment benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Benefit obligation without future salary increases	\$ 5,868	\$ 5,475	\$ 375	\$ 369
Effect of assumed future salary increases	691	611	—	—
<b>Defined benefit obligation</b>	<b>\$ 6,559</b>	<b>\$ 6,086</b>	<b>\$ 375</b>	<b>\$ 369</b>

The other post-employment benefits are not subject to future salary increases.

(ii) Portion of Defined Benefit Obligation Without Future Pension Increases

	<u>Defined benefit pension plans</u>		<u>Other post-employment benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Benefit obligation without future pension increases	\$ 5,992	\$ 5,659	\$ 375	\$ 369
Effect of assumed future pension increases	567	427	—	—
<b>Defined benefit obligation</b>	<b>\$ 6,559</b>	<b>\$ 6,086</b>	<b>\$ 375</b>	<b>\$ 369</b>

The other post-employment benefits are not subject to future pension increases.

## 22. Pension Plans and Other Post-Employment Benefits (cont'd)

## (iii) Maturity Profile of Plan Membership

	Defined benefit pension plans		Other post-employment benefits	
	2017	2016	2017	2016
Actives	38%	45%	16%	16%
Deferred vested	25%	18%	n/a	n/a
Retirees	37%	37%	84%	84%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Weighted average duration of defined benefit obligation	<b>19.3 years</b>	19.7 years	<b>12.3 years</b>	13.1 years

## (e) Cash Flow Information

	Pension plans	Other post-employment benefits	Total
<b>Expected employer contributions for 2018:</b>			
Funded (wholly or partly) defined benefit plans	\$ 181	\$ —	\$ 181
Unfunded plans	11	19	30
Defined contribution plans	38	—	38
<b>Total</b>	<b>\$ 230</b>	<b>\$ 19</b>	<b>\$ 249</b>

## (f) Actuarial Assumptions and Sensitivities

## (i) Actuarial Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2017	2016	2017	2016
<b>To determine benefit cost:</b>				
Discount rate - past service liabilities	3.2%	3.7%	3.8%	4.0%
Discount rate - future service liabilities	3.4%	3.8%	4.1%	4.3%
Rate of compensation increase	3.0%	3.0%	—	—
Future pension increases <sup>(1)</sup>	1.1%	1.5%	—	—
<b>To determine defined benefit obligation:</b>				
Discount rate - past service liabilities	3.0%	3.2%	3.5%	3.8%
Rate of compensation increase	3.1%	3.0%	—	—
Future pension increases <sup>(1)</sup>	1.3%	1.1%	—	—
<b>Medical cost trend rates:</b>				
Initial medical cost trend rate			4.9%	5.0%
Ultimate medical cost trend rate			4.5%	4.5%
Year ultimate trend rate is reached			2029	2029

<sup>(1)</sup> Represents the weighted average of plans subject to future pension increases.

22. Pension Plans and Other Post-Employment Benefits (cont'd)

(ii) Sample Life Expectancies Based on Mortality Assumption

	Defined benefit pension plans		Other post-employment benefits	
	2017	2016	2017	2016
<b>Sample life expectancies based on mortality assumption:</b>				
Male				
Age 65 in fiscal year	23.3	23.2	22.5	22.4
Age 65 for those age 35 in the fiscal year	25.4	25.4	24.0	24.0
Female				
Age 65 in fiscal year	25.2	25.0	24.9	24.8
Age 65 for those age 35 in the fiscal year	27.2	27.0	26.3	26.2

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. As mortality assumptions are significant in measuring the defined benefit obligation, the mortality assumptions applied by the Company take into consideration such factors as age, gender and geographic location, in addition to an estimation of future improvements in longevity.

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.

The calculation of the defined benefit obligation is sensitive to the mortality assumptions. The effect of a one-year increase in life expectancy would be an increase in the defined benefit obligation of \$184 for the defined benefit pension plans and \$16 for other post-employment benefits.

(iii) Impact of Changes to Assumptions

	1% increase		1% decrease	
	2017	2016	2017	2016
<b>Defined benefit pension plans:</b>				
Impact of a change to the discount rate	\$ (1,079)	\$ (1,027)	\$ 1,419	\$ 1,320
Impact of a change to the rate of compensation increase	313	291	(270)	(254)
Impact of a change to the rate of inflation	582	550	(514)	(498)
<b>Other post-employment benefits:</b>				
Impact of a change to assumed medical cost trend rates	28	30	(24)	(25)
Impact of a change to the discount rate	(41)	(43)	49	53

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.

**23. Accumulated Other Comprehensive Income (Loss)**

	2017					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains on available-for-sale assets	Re-measurements on defined benefit pension and other post-employment benefit plans	Total	Participating account	Shareholder
Balance, beginning of year	\$ 164	\$ 167	\$ (556)	\$ (225)	\$ 27	\$ (252)
Other comprehensive income (loss)	219	(86)	(54)	79	(67)	146
Income tax	—	17	16	33	18	15
	219	(69)	(38)	112	(49)	161
Disposal of investment in associate <sup>(1)</sup>	—	—	13	13	—	13
	219	(69)	(25)	125	(49)	174
Balance, end of year	\$ 383	\$ 98	\$ (581)	\$ (100)	\$ (22)	\$ (78)

<sup>(1)</sup> During 2017, the Company transferred actuarial losses of \$13 from accumulated other comprehensive income to accumulated surplus. These losses were for accumulated pension plan re-measurements for an investment in an associate that was disposed of (note 5).

	2016					
	Unrealized foreign exchange gains on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Re-measurements on defined benefit pension and other post-employment benefit plan	Total	Participating account	Shareholder
Balance, beginning of year	\$ 1,452	\$ 128	\$ (386)	\$ 1,194	\$ 61	\$ 1,133
Other comprehensive income (loss)	(1,288)	39	(230)	(1,479)	(46)	(1,433)
Income tax	—	—	60	60	12	48
	(1,288)	39	(170)	(1,419)	(34)	(1,385)
Balance, end of year	\$ 164	\$ 167	\$ (556)	\$ (225)	\$ 27	\$ (252)

## 24. Related Party Transactions

Great-West Lifeco Inc. is the parent of the Company. As such, the Company is related to Great-West Lifeco Inc. and its other major operating subsidiaries including Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC. In addition, Great-West Lifeco Inc. is a member of the Power Financial group of companies. Through this relationship, the Company is also related to the Power Financial group which includes IGM Financial, a company in the financial services sector along with its subsidiaries Investors Group, Mackenzie Financial and Investment Planning Council and Pargesa, a holding company with substantial holdings in a diversified industrial group based in Europe.

### (a) Principal subsidiaries

The consolidated financial statements of the Company include the operations of the following subsidiaries and their subsidiaries:

<u>Company</u>	<u>Incorporated in</u>	<u>Primary business operation</u>	<u>% Held</u>
GLC Asset Management Group Ltd.	Canada	Wealth management	100.00%
GWL Realty Advisors Inc.	Canada	Real estate investment management	100.00%
London Insurance Group Inc.	Canada	Insurance and wealth management	100.00%
Canada Life Financial Corporation	Canada	Insurance and wealth management	100.00%

### (b) Transactions with related parties included in the consolidated financial statements

#### Reinsurance Transactions

A subsidiary of London Insurance Group Inc. has agreements with Great-West Financial, an affiliated company, to assume certain life business. In 2017, for the Consolidated Statement of Earnings, these transactions resulted in a increase in premium income of \$534 (\$421 in 2016) and total paid or credited to policyholders of \$545 (\$411 in 2016). The transactions were at market terms and conditions.

During 2005, Great-West Life & Annuity Insurance Company of South Carolina (GWSC), an affiliated company, assumed on a coinsurance basis with funds withheld, certain of Canada Life's U.S. term life reinsurance business. During 2007, an additional amount of U.S term life reinsurance business was retroceded by Canada Life to GWSC. In 2017, for the Consolidated Statements of Earnings, these transactions resulted in a reduction in premium income of \$105 (\$112 in 2016) and total paid or credited to policyholders of \$122 (\$53 in 2016). These transactions were at market terms and conditions.

#### Other Related Party Transactions

In the normal course of business, the Company provided insurance benefits to other companies within the Power Financial group of companies. In all cases, transactions were at market terms and conditions.

During 2016, the Company issued a \$2,000 4.75% debenture to Great-West Lifeco Inc. (Lifeco), the Company's parent. The Company made a corresponding investment of \$2,000 in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has a legally enforceable right to settle these financial instruments on a net basis and the Company intends to exercise this right. Accordingly, this investment and debenture are offset in the consolidated financial statements of the Company.

During 2013, the Company issued a \$2,000 3.75% debenture to Lifeco. The Company made a corresponding investment of \$2,000 in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has a legally enforceable right to settle these financial instruments on a net basis and the Company intend to exercise this right. Accordingly, the investment and debenture are offset in the consolidated financial statements of the company.

In 2008, the Company issued \$2,000 of 7.127% debentures to Lifeco. The Company made a corresponding investment of \$2,000 in preferred shares of a wholly-owned subsidiary of Lifeco. The Company also issued \$1,200 of 5.75% debentures to Lifeco in 2003. The Company made a corresponding investment of \$1,200 in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has legally enforceable rights to settle

24. Related Party Transactions (cont'd)

these financial instruments on a net basis, and the Company intends to exercise these rights. Accordingly the investments and debentures are offset in the consolidated financial statements of the Company.

Segregated funds of the Company were invested in funds managed by Investors Group and Mackenzie Investments. The Company also has interests in mutual funds, open-ended investment companies and unit trusts. Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services. All transactions were provided at market terms and conditions (note 13).

During 2016 and 2017, the Company provided to and received from IGM certain administrative services. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. During 2016, the Company was appointed as sub-advisor to Great-West Funds, Inc. and Great-West Capital Management, LLC, affiliated companies, to act as an investment advisor to a series of Great-West Funds. All transactions were provided at market terms and conditions.

The Company held debentures issued by IGM, the interest rates and maturity dates are as follows:

	<u>2017</u>	<u>2016</u>
3.44%, matures January 26, 2027	\$ 10	\$ —
6.65%, matures December 13, 2027	16	16
7.45%, matures May 9, 2031	14	13
7.00%, matures December 31, 2032	13	13
4.56%, matures January 25, 2047	21	—
<b>Total</b>	<u>\$ 74</u>	<u>\$ 42</u>

During 2017, the Company purchased debentures from IGM with a total market value at December 31, 2017 of \$31.

During 2017, the Company purchased residential mortgages of \$137 from IGM (\$184 in 2016).

On December 7, 2016 the Company issued to Lifeco a 200 euro (\$302 at December 31, 2017), 15 year loan with an annual interest rate of 2.53% until first par call date of December 7, 2026, and, thereafter at a rate equal to the five-year euro semi-annual mid-swap rate plus 1.85% (note 15). During 2017, interest expense of \$7 (nil in 2016) is included in the Consolidated Statements of Earnings.

The Company has 6.74% debentures due to Lifeco, its parent, which have an outstanding balance of \$200 (\$200 in 2016). Financing charges of \$13 is included in the Consolidated Statements of Earnings (\$13 in 2016).

24. Related Party Transactions (cont'd)

**(c) Key management compensation**

Key management personnel constitute those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director. The individuals that comprise the key management personnel are the Board of Directors as well as certain key management and officers.

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

	<u>2017</u>	<u>2016</u>
Salary	\$ 13	\$ 13
Share-based awards	9	6
Option-based awards	2	3
Annual non-equity incentive plan compensation	9	8
Pension value	5	7
<b>Total</b>	<b>\$ 38</b>	<b>\$ 37</b>

**25. Income Taxes**

**(a) Components of the income tax expense**

(i) Income tax recognized in Consolidated Statements of Earnings

Current income tax

	<u>2017</u>	<u>2016</u>
<b>Total current income tax</b>	<b>\$ 247</b>	<b>\$ 292</b>

Deferred income tax

	<u>2017</u>	<u>2016</u>
Origination and reversal of temporary differences	\$ (56)	\$ 81
Effect of changes in tax rates or imposition of new taxes	32	(16)
Tax expense (benefit) arising from unrecognized tax losses and tax credits	1	—
<b>Total deferred income tax</b>	<b>\$ (23)</b>	<b>\$ 65</b>
<b>Total income tax expense</b>	<b>\$ 224</b>	<b>\$ 357</b>

(ii) Income tax recognized in other comprehensive income (note 23)

	<u>2017</u>	<u>2016</u>
Current income tax expense (recovery)	\$ (13)	\$ (11)
Deferred income tax expense (recovery)	(20)	(49)
<b>Total</b>	<b>\$ (33)</b>	<b>\$ (60)</b>

## 25. Income Taxes (cont'd)

(b) The effective income tax rate reported in the Consolidated Statements of Earnings varies from the combined Canadian federal and provincial income tax rate of 26.75% for the following items:

	2017		2016	
Earnings before income taxes	\$ 2,739		\$ 3,226	
Combined basic Canadian federal and provincial tax	733	26.75%	863	26.75%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(254)	(9.27)	(222)	(6.88)
Lower effective tax rates on income not subject to tax in Canada	(226)	(8.25)	(243)	(7.53)
U.S. tax reform impact of rate change on deferred income taxes	25	0.91	n/a	n/a
Impact of other rate changes on deferred income taxes	7	0.26	(16)	(0.50)
Other	(61)	(2.22)	(25)	(0.77)
<b>Total income tax expense and effective income tax rate</b>	<b>\$ 224</b>	<b>8.18%</b>	<b>\$ 357</b>	<b>11.07%</b>

(c) Composition and changes of net deferred income tax liabilities are as follows:

	2017						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
<b>Balance, beginning of year</b>	\$ (618)	\$ (397)	\$ 217	\$ (215)	\$ 144	\$ 103	(766)
Recognized in Statements of Earnings	20	1	(27)	4	23	2	23
Recognized in Statements of Comprehensive Income	—	6	—	—	—	14	20
Acquired in business combinations	—	—	2	(42)	—	1	(39)
Foreign exchange rate changes and other	19	2	(11)	(2)	—	(6)	2
<b>Balance, end of year</b>	<b>\$ (579)</b>	<b>\$ (388)</b>	<b>\$ 181</b>	<b>\$ (255)</b>	<b>\$ 167</b>	<b>\$ 114</b>	<b>(760)</b>

25. Income Taxes (cont'd)

	2016 (note 32)						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
Balance, beginning of year	\$ (536)	\$ (425)	212	\$ (208)	140	\$ 62	\$ (755)
Recognized in Statements of Earnings	(97)	42	6	(4)	4	(16)	(65)
Recognized in Statements of Comprehensive Income	—	(10)	—	—	—	59	49
Acquired in business combinations	—	—	5	(8)	—	1	(2)
Foreign exchange rate changes and other	15	(4)	(6)	5	—	(3)	7
Balance, end of year	<u>\$ (618)</u>	<u>\$ (397)</u>	<u>217</u>	<u>\$ (215)</u>	<u>144</u>	<u>\$ 103</u>	<u>\$ (766)</u>

Recorded on Consolidated Balance Sheets:

	2017	2016 (note 32)
Deferred tax assets	\$ 246	\$ 245
Deferred tax liabilities	(1,006)	(1,011)
<b>Total</b>	<u>\$ (760)</u>	<u>\$ (766)</u>

A deferred income tax asset is recognized for deductible temporary differences and unused losses and carryforwards only to the extent that realization of the related income tax benefit through future taxable profits is probable.

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

Management assesses the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets at December 31, 2017 are recoverable.

At December 31, 2017, the company has recognized a deferred tax asset of \$181 (\$217 in 2016) on tax loss carryforwards totaling \$1,031 (\$707 in 2016). Of this amount, \$933 expire between 2018 and 2037, while \$98 have no expiry date. The Company will realize this benefit in future years through a reduction in current income taxes payable.

The company has not recognized a deferred tax asset of \$25 (\$24 in 2016) on tax loss carryforwards totaling \$109 (\$105 in 2016). Of this amount, \$40 expire between 2018 and 2037 while \$69 have no expiry date.

A deferred income tax liability has not been recognized in respect of the temporary differences associated with investments in subsidiaries, branches and associates as the Company is 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.

**26. Operating and Administrative Expenses**

	<u>2017</u>	<u>2016</u>
Salaries and other employee benefits	\$ 1,757	\$ 1,694
General and administrative	705	689
Amortization of fixed assets	56	53
<b>Total</b>	<b>\$ 2,518</b>	<b>\$ 2,436</b>

**27. Restructuring**

Canadian Business Transformation

In 2017, the Company recorded a restructuring provision for the Canadian operations transformation plan of \$215 pre-tax (\$172 pre-tax in the shareholder account and \$43 pre-tax in the participating accounts) with the charge recorded in restructuring expenses in the Consolidated Statements of Earnings. This restructuring is 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 address costs across the Canadian operations and corporate functions primarily through a reduction in staff, exiting of certain lease agreements and information system impairments. The restructuring expense in the participating accounts is comprised of \$29 in London Life, \$7 in Great-West Life and \$7 in Canada Life.

At December 31, 2017, the Company has a restructuring provision of \$120 remaining in other liabilities. The change in the restructuring provision for the Canadian Business Transformation is set out below:

<b>Balance, beginning of year</b>	<b>\$ —</b>
Restructuring expense recorded	215
Amounts used	(95)
<b>Balance, end of year</b>	<b>\$ 120</b>

**28. Derivative Financial Instruments**

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end-user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 7 illustrates the credit quality of the Company's exposure to counterparties. Credit risk equivalent amounts are presented net of collateral received, including initial margin on exchange-traded derivatives of \$70 as at December 31, 2017 (\$20 at December 31, 2016).

(a) The following summarizes the Company's derivative portfolio and related credit exposure using the following definitions of risk as prescribed by OSFI:

Maximum Credit Risk	The total replacement cost of all derivative contracts with positive values.
Future Credit Exposure	The potential future credit exposure is calculated based on a formula prescribed by OSFI. The factors prescribed by OSFI for this calculation are based on derivative type and duration.
Credit Risk Equivalent	The sum of maximum credit risk and the potential future credit exposure less any collateral held.
Risk Weighted Equivalent	Represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

	2017				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
<b>Interest rate contracts</b>					
Swaps	\$ 1,701	\$ 110	\$ 20	\$ 128	\$ 8
Options purchased	100	50	1	51	4
	<b>1,801</b>	<b>160</b>	<b>21</b>	<b>179</b>	<b>12</b>
<b>Foreign exchange contracts</b>					
Forward contracts	1,429	10	33	38	3
Cross-currency swaps	8,849	146	597	682	41
	<b>10,278</b>	<b>156</b>	<b>630</b>	<b>720</b>	<b>44</b>
<b>Other derivative contracts</b>					
Equity contracts	70	—	4	4	—
Futures - long	13	—	—	—	—
Futures - short	598	1	—	—	—
	<b>681</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>—</b>
<b>Total</b>	<b>\$ 12,760</b>	<b>\$ 317</b>	<b>\$ 655</b>	<b>\$ 903</b>	<b>\$ 56</b>

## 28. Derivative Financial Instruments (cont'd)

	2016				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Swaps	\$ 2,125	\$ 155	\$ 20	\$ 175	\$ 11
Options purchased	96	48	1	49	4
	<u>2,221</u>	<u>203</u>	<u>21</u>	<u>224</u>	<u>15</u>
Foreign exchange contracts					
Forward contracts	1,588	35	18	52	5
Cross-currency swaps	7,970	87	523	591	32
	<u>9,558</u>	<u>122</u>	<u>541</u>	<u>643</u>	<u>37</u>
Other derivative contracts					
Equity contracts	62	1	4	4	1
Futures - long	11	—	—	—	—
Futures - short	563	2	—	—	—
	<u>636</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>1</u>
Total	<u>\$ 12,415</u>	<u>\$ 328</u>	<u>\$ 566</u>	<u>\$ 871</u>	<u>\$ 53</u>

(b) The following provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2017				Total estimated fair value
	Notional Amount			Total	
	1 year or less	Over 1 - 5 years	Over 5 years		
<b>Derivatives not designated as accounting hedges</b>					
<b>Interest rate contracts</b>					
Swaps	\$ 174	\$ 264	\$ 1,263	\$ 1,701	\$ 75
Options purchased	15	48	37	100	50
	<u>189</u>	<u>312</u>	<u>1,300</u>	<u>1,801</u>	<u>125</u>
<b>Foreign exchange contracts</b>					
Forward contracts	954	—	—	954	7
Cross-currency swaps	290	1,918	6,641	8,849	(866)
	<u>1,244</u>	<u>1,918</u>	<u>6,641</u>	<u>9,803</u>	<u>(859)</u>
<b>Other derivative contracts</b>					
Equity contracts	70	—	—	70	(1)
Futures - long	13	—	—	13	—
Futures - short	598	—	—	598	(1)
	<u>681</u>	<u>—</u>	<u>—</u>	<u>681</u>	<u>(2)</u>
<b>Net investment hedges</b>					
Foreign exchange forward contracts	—	475	—	475	(42)
<b>Total</b>	<u>\$ 2,114</u>	<u>\$ 2,705</u>	<u>\$ 7,941</u>	<u>\$ 12,760</u>	<u>\$ (778)</u>

## 28. Derivative Financial Instruments (cont'd)

	2016				Total estimated fair value
	Notional Amount			Total	
	1 year or less	Over 1 - 5 years	Over 5 years		
Derivatives not designated as accounting hedges					
Interest rate contracts					
Swaps	\$ 657	\$ 196	\$ 1,272	\$ 2,125	\$ 126
Options purchased	11	47	38	96	48
	668	243	1,310	2,221	174
Foreign exchange contracts					
Forward contracts	1,089	—	—	1,089	(7)
Cross-currency swaps	427	1,882	5,661	7,970	(1,373)
	1,516	1,882	5,661	9,059	(1,380)
Other derivative contracts					
Equity contracts	62	—	—	62	1
Futures - long	11	—	—	11	—
Futures - short	563	—	—	563	1
	636	—	—	636	2
Net investment hedges					
Foreign exchange forward contracts	450	49	—	499	6
Total	\$ 3,270	\$ 2,174	\$ 6,971	\$ 12,415	\$ (1,198)

Futures contracts included in the above are exchange traded contracts; all other contracts are over-the-counter.

**(c) 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. 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 Company 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 hedge minimum rate guarantees.

**Foreign Exchange Contracts**

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

**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 potential credit risk impact of significant declines in certain equity markets.

## 29. Legal Provisions and Contingent Liabilities

The Company 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 Company. 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 Company. Actual results could differ from management's best estimates.

## 30. Commitments

### (a) Letters of Credit

Letters of credit are written commitments provided by a bank. The total amount of letters of credit facilities are U.S. \$1,656 of which U.S. \$1,559 are currently issued.

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

### (b) Investment Commitments

Commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions were \$545 as at December 31, 2017, maturing within one year.

### (c) Lease Obligations

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

	2018	2019	2020	2021	2022	2023 and thereafter	Total
Future lease payments	\$ 66	52	45	41	32	144	\$ 380

### (d) Pledged Assets

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

- (i) The amount of assets included in the Company's balance sheet which have a security interest by way of pledging is \$1,562 (\$1,709 at December 31, 2016) 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) The Company has pledged, in the normal course of business, \$60 (\$52 at December 31, 2016) of assets of the Company for the purpose of providing collateral for the counterparty.

### 31. Segmented Information

The major operating segments of the Company are the participating and shareholder operations. The Company operates through Great-West Life and its wholly-owned subsidiaries LIG and CLFC. Within these segments the major business units are: Individual Customer, Group Customer, Europe/Reinsurance, and Corporate. These business units reflect the Company's management structure and internal financial reporting. Each of these segments operates in the financial services industry and the revenues from these business units are derived principally from life insurance, health insurance, retirement and investment services, and reinsurance businesses. Business activities and operations in the United States and those that are not associated with the specific business units are attributed to Corporate.

#### (a) Consolidated Net Earnings

	2017						
	Shareholder				Participating		Total Company
	Individual Customer	Group Customer	Europe/reinsurance	Corporate	Total	Total	
<b>Income</b>							
Total net premiums	\$ 1,476	\$ 7,179	\$ 16,152	\$ 582	\$ 25,389	\$ 4,642	\$ 30,031
Net investment income							
Regular net investment income	579	593	1,717	122	3,011	1,458	4,469
Changes in fair value through profit or loss	603	(6)	285	23	905	242	1,147
Total net investment income	1,182	587	2,002	145	3,916	1,700	5,616
Fee and other income	948	611	1,386	57	3,002	—	3,002
	<b>3,606</b>	<b>8,377</b>	<b>19,540</b>	<b>784</b>	<b>32,307</b>	<b>6,342</b>	<b>38,649</b>
<b>Benefits and expenses</b>							
Paid or credited to policyholders	1,872	6,148	16,600	654	25,274	5,220	30,494
Other <sup>(1)</sup>	959	1,361	1,591	35	3,946	1,073	5,019
Financing charges	—	—	13	39	52	—	52
Amortization of finite life intangible assets	18	30	31	18	97	6	103
Restructuring expenses	—	—	27	172	199	43	242
<b>Earnings (loss) before income taxes</b>	<b>757</b>	<b>838</b>	<b>1,278</b>	<b>(134)</b>	<b>2,739</b>	<b>—</b>	<b>2,739</b>
Income taxes (recovery)	152	187	50	(124)	265	(41)	224
<b>Net earnings (loss)</b>	<b>605</b>	<b>651</b>	<b>1,228</b>	<b>(10)</b>	<b>2,474</b>	<b>41</b>	<b>2,515</b>
Net earnings - participating policyholder	—	—	—	—	—	41	41
<b>Net earnings (loss) - common shareholder</b>	<b>\$ 605</b>	<b>\$ 651</b>	<b>\$ 1,228</b>	<b>\$ (10)</b>	<b>\$ 2,474</b>	<b>\$ —</b>	<b>\$ 2,474</b>

<sup>(1)</sup> Includes commissions, operating and administrative expenses and premium taxes.

## 31. Segmented Information (cont'd)

	2016						
	Shareholder				Participating		Total Company
	Individual Customer <sup>(1)</sup>	Group Customer <sup>(1)</sup>	Europe/reinsurance	Corporate	Total	Total	
Income							
Total net premiums	\$ 1,487	\$ 6,894	\$ 13,207	\$ 464	\$ 22,052	\$ 4,205	\$ 26,257
Net investment income							
Regular net investment income	623	663	1,767	166	3,219	1,423	4,642
Changes in fair value through profit or loss	100	(38)	3,089	—	3,151	655	3,806
Total net investment income	723	625	4,856	166	6,370	2,078	8,448
Fee and other income	870	573	1,295	52	2,790	—	2,790
	3,080	8,092	19,358	682	31,212	6,283	37,495
Benefits and expenses							
Paid or credited to policyholders	1,374	6,037	16,391	492	24,294	4,711	29,005
Other <sup>(2)</sup>	928	1,319	1,474	34	3,755	1,346	5,101
Financing charges	—	—	18	32	50	—	50
Amortization of finite life intangible assets	16	27	30	16	89	7	96
Restructuring expenses	—	—	17	—	17	—	17
Earnings before income taxes (loss)	762	709	1,428	108	3,007	219	3,226
Income taxes (recovery)	141	143	147	(103)	328	29	357
Net earnings	621	566	1,281	211	2,679	190	2,869
Net earnings - participating policyholder	—	—	—	—	—	190	190
Net earnings - common shareholder	\$ 621	\$ 566	\$ 1,281	\$ 211	\$ 2,679	\$ —	\$ 2,679

<sup>(1)</sup> Effective January 1, 2017, the Company realigned its Individual Insurance, Wealth Management and Group Insurance business units into two business units: Individual Customer and Group Customer. The realignment resulted in a change to comparative figures within these business units. The adjustment had no impact on the net earnings or cash flows of the Company.

<sup>(2)</sup> Includes commissions, operating and administrative expenses and premium taxes.

31. Segmented Information (cont'd)

(b) Consolidated Total Assets

	2017		
	Shareholder	Participating account	Total
<b>Assets</b>			
Invested assets	\$ 82,370	\$ 44,306	\$ 126,676
Goodwill and intangible assets	7,931	—	7,931
Other assets	23,279	160	23,439
Investments on account of segregated fund policyholders	183,319	—	183,319
<b>Total</b>	<b>\$ 296,899</b>	<b>\$ 44,466</b>	<b>\$ 341,365</b>
	2016 (note 32)		
	Shareholder	Participating account	Total
<b>Assets</b>			
Invested assets	\$ 78,486	\$ 42,329	\$ 120,815
Goodwill and intangible assets	7,555	—	7,555
Other assets	24,811	1	24,812
Investments on account of segregated fund policyholders	164,989	—	164,989
<b>Total</b>	<b>\$ 275,841</b>	<b>\$ 42,330</b>	<b>\$ 318,171</b>

(c) Geographic Distribution of Total Assets and Income:

	2017		2016 (note 32)	
	Income	Assets	Income	Assets
Canada	\$ 18,157	\$ 161,191	\$ 17,332	\$ 152,379
International	20,492	180,174	20,163	165,792
<b>Total</b>	<b>\$ 38,649</b>	<b>\$ 341,365</b>	<b>\$ 37,495</b>	<b>\$ 318,171</b>

32. Comparative Figures

During the year, the Company reclassified certain comparative figures for the change in accounting policy (note 2) for presentation of certain income tax balances (notes 7, 12, 25, and 31).

These reclassifications had no impact on the total equity or net earnings of the Company.

## INDEPENDENT AUDITOR'S REPORT

### To the Policyholders and the Shareholder of The Great-West Life Assurance Company

We have audited the accompanying consolidated financial statements of The Great-West Life Assurance Company, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Consolidated Financial Statements

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

#### Auditor's Responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Great-West Life Assurance Company as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ **Deloitte LLP**

Chartered Professional Accountants

Winnipeg, Manitoba  
February 8, 2018

## APPOINTED ACTUARY'S REPORT

### To the Policyholders, Shareholder and Directors of The Great-West Life Assurance Company

I have valued the policy liabilities and reinsurance assets of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 2017 and their changes in the consolidated statement of earnings for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance assets makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.



**Tyrone G. Faulds**

Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba  
February 8, 2018

## PARTICIPATING POLICYHOLDER DIVIDEND POLICY

This Policyholder Dividend Policy, in conjunction with the Participating Account Management Policy, has been established by the Board of Directors and applies to all participating insurance policies issued or assumed by the Company. The Board of Directors may amend this policy from time to time at its discretion. The factors most likely to be considered in deciding whether to amend this policy include changes in applicable legal or regulatory requirements, professional guidelines, industry practices or significant business changes. The Appointed Actuary has overall accountability for the administration of this policy.

Earnings are generated in the participating account when the experience in the participating account for factors such as investment income, mortality, lapses, expenses and taxes is collectively more favourable than the assumptions for these factors used when pricing the participating insurance policies. The Company may distribute a portion of the earnings at the discretion of the Board of Directors in accordance with this policy.

Participating insurance policies are eligible for periodic policyholder dividends. Policyholder dividends are not guaranteed. The amount to be distributed from the participating account as policyholder dividends is determined at least annually following a review of the experience and trends in experience. Experience in a given year may be amortized into the dividend scale to avoid undue fluctuations in dividends. The amount distributed is also influenced by considerations such as the need to retain earnings as surplus as described in the Participating Account Management Policy.

The amount distributed as policyholder dividends is divided among classes of policies by setting the policyholder dividend scale. These dividend classes are groupings of participating policies with certain product and policy attributes in common.

The Company follows the contribution principle when setting the policyholder dividend scale. This means the amount distributed as policyholder dividends is divided among dividend classes in proportion to the amount that those classes are considered to have contributed to the participating account earnings. A contribution to earnings will be made from a particular dividend class to the extent the experience for that particular class is different from the assumptions used when pricing that class of policies. When applying the contribution principle, attention is paid to achieving reasonable equity between dividend classes and between generations of policies within a dividend class, taking into account practical considerations and limits, legal and regulatory requirements, professional guidelines and industry practices. For certain blocks of policies, the policyholder dividend scale may be determined using methods designed to approximate the contribution to earnings of those blocks.

The policyholder dividends are credited according to the terms of each policy. A change made by a policyholder to a policy after it is issued may, in some cases, result in a change to the policy's dividend class and thus a change to the amount of policyholder dividends credited thereafter.

Termination dividends are not payable under any participating policies issued by the Company.

Prior to the declaration of policyholder dividends by the Board, the Appointed Actuary reports to the Board of Directors with his opinion on the fairness to participating policyholders of the proposed policyholder dividends and on their compliance with this policy, applicable legislative and regulatory requirements and applicable professional practice standards. Policy illustrations will reflect changes to the policyholder dividend scale as soon as practical.

## PARTICIPATING ACCOUNT FINANCIAL DISCLOSURE

(in Canadian \$ millions)

Participating Account	Accounting Item	2017	2016
Canada	<b>Opening surplus and accumulated other comprehensive income (AOCI)</b>	<b>\$ 610</b>	\$ 607
	Net earnings (including OCI) before distributions	<b>176</b>	163
	Amounts transferred to shareholders under s. 461 of the ICA	<b>(4)</b>	(4)
	Other transfers or accruals under s. 462 of the ICA	<b>(1)</b>	-
	Net earnings (including OCI) before payment of policyholder dividends	<b>171</b>	159
	Policyholder dividends distributed during the year	<b>(159)</b>	(156)
	<b>Closing surplus and accumulated other comprehensive income (AOCI)</b>	<b>\$ 622</b>	\$ 610
	Total assets at year end	<b>\$ 4,950</b>	\$ 4,670
	Section 461 transfer as a % of total distributions	<b>2.50%</b>	2.50%

## PARTICIPATING ACCOUNT MANAGEMENT POLICY

This Participating Account Management Policy has been established by the Board of Directors, in conjunction with the Participating Policyholder Dividend Policy, and may be amended by the Board from time to time at its discretion. The factors most likely to be considered in deciding whether to amend this policy include changes in applicable legal or regulatory requirements, professional guidelines, industry practices or significant business changes. The Appointed Actuary has overall accountability for the administration of this policy, having regard for relevant corporate policies.

The participating account is managed with regard to the Company's enterprise risk management framework through which the Board and management establish the Company's risk strategy, articulate and monitor adherence to risk appetite and risk limits and identify, measure, manage, monitor and report on risks.

As required by the Insurance Companies Act, the Company maintains accounts for its participating insurance policies separately from those maintained in respect of other policies. This facilitates the measurement of the earnings attributable to the participating account.

The participating account is maintained in respect of participating life insurance policies and a small block of participating annuities that have been issued or assumed by the Company. The participating account remains open to new participating policies issued or assumed by the Company.

Assets of the Company held within its general funds are allocated to the participating account and non-participating account segments for the purpose of determining investment income for each account. Assets are allocated to each segment according to the investment guidelines established for the segments. These guidelines outline criteria for asset mix, liquidity, currency risk and interest rate risk. These guidelines are intended to recognize considerations such as the business objectives, liability characteristics, liquidity requirements, tax considerations and interest rate risk tolerance of each segment. Assets allocated to a segment may from time to time be reallocated to another segment within the same account or another account provided the assets exchanged comply with the investment policy of the respective segments. Any such exchanges are effected at fair value.

On an annual basis the Board of Directors reviews and approves investment policies and guidelines which govern investment activities. The investment policies outline a number of principles for investing in assets, including risk tolerance and the approach to managing investment risk. Investment risk is managed through underwriting standards, exposure limits and specific guidelines governing asset classes and investment operations. The investment policies establish limits for the concentration of assets in single geographic areas, industries, companies and types of businesses as part of the risk management process. The Company may use derivative products for risk management purposes to hedge asset and liability positions, or as substitutes for cash within specified limits.

The assets supporting the participating account liabilities are notionally divided into two segments for defining investment needs and objectives and managing the portfolio: (1) investments that are used to satisfy near term policy benefits (next 10 years) and (2) investments that are used to achieve longer term objectives of the participating account.

The investments used for the near term are primarily fixed income assets. The cashflows of these assets, together with the participating policy premiums are expected to provide for the policyholder benefits for the next 10 years. These benefits include dividends, death benefits, cash surrender values and other policy benefits such as waiver of premium.

The investments used to achieve the longer term objectives of the participating account, include a combination of 1 to 10 year fixed income assets and a diversified pool of common stocks and real estate. As a result, the fixed income assets in this segment are expected to mature and be reinvested several times before satisfying the policy benefits. The focus in managing this segment is to create value by reinvesting in a disciplined manner as investment spreads, interest rate levels and equity market conditions evolve and cycle. The performance of this part of the strategy is a key driver of changes in the dividend scale interest rate and this rate is an important contributor to changes in the dividend scale.

Investment income is allocated to the participating account in accordance with the Company's investment income allocation policy. Generally, investment income results are allocated directly to a segment based on the assets allocated to the segment. Each year the Appointed Actuary reviews the method used for allocating investment income to the participating account and reports to the Board of Directors on its fairness and equitableness.

Expenses and taxes incurred by the Company are allocated to the participating account in accordance with the Company's expense allocation and tax allocation policies.

Expenses are allocated by the area incurring the expense to the appropriate company and line of business. As a general principle, expenses are allocated to a line of business in accordance with its business activities. In addition, from time to time the Company makes significant expenditures/investments outside of regular business activities which may include but are not limited to transactions such as acquisitions, restructurings, and capital expenditures (e.g. major IT systems), the intent and effect of which is to reduce future expenses. The governing principle for fair and equitable treatment of such expenditures/investments is that expenses will be allocated to the lines of business recognizing both the benefit derived by the line of business from that expenditure/investment and the contribution made by the line of business to that expenditure/investment.

In general, expenses that are exclusively related to participating business are allocated directly to the participating account. Expenses related to both participating and non-participating business are allocated based on business statistics when the expenses vary based on those statistics, based on managers' estimates supported by time studies or other assessments, or in proportion to the total expenses allocated using all of the methods previously mentioned.

For unusual items, management will determine and report to the Appointed Actuary the resulting allocation of expenses to each line of business, including the basis and justification for it.

Taxes are allocated to the participating account using the characteristics of the participating and non-participating accounts that are determinative of the relevant tax costs.

Each year the Appointed Actuary reviews the method used for allocating expenses and taxes to the participating account and reports to the Board of Directors on its fairness and equitableness.

The participating account surplus is managed within the Company's capital management framework and with regard to regulatory requirements. Surplus is required for a number of purposes including to help ensure the Company can meet its obligations to participating policyholders, help ensure

financial strength and stability of the Company, finance new business growth and acquisitions which may benefit the participating account, provide for transitions during periods of major change, and to avoid undue fluctuations in dividends; subject to items such as practical considerations and limits, legal and regulatory requirements, and industry practices. The surplus position is reviewed annually, having regard for the specific circumstances of the participating account. Based on the review, contributions to surplus may be adjusted by increasing or decreasing the dividend scale.

As permitted by the Insurance Companies Act, the Company may distribute to the shareholders a percentage of the amount distributed to policyholders in respect of a financial year. Prior to any such distribution, the Appointed Actuary will confirm to the Board of Directors that the proposed distribution is permitted under the terms of the Insurance Companies Act. The proportion distributed to the shareholders will not exceed the prescribed amount as determined under section 461 of the Insurance Companies Act. Any distribution made to the shareholders will be published in the Company's annual report.

## SOURCES OF EARNINGS

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is not an International Financial Reporting Standards (IFRS) measure. There is no standard SOE methodology. The calculation of SOE is dependent on and sensitive to the methodology, estimates and assumptions used.

SOE identifies various sources of IFRS net earnings. It provides an analysis of the difference between actual net income and expected net income based on assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

### Expected Profit on In-Force Business

This component represents the portion of the consolidated net income on business in-force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions. It includes releases of provisions for adverse deviations, expected net earnings on deposits, and expected net management fees.

### Impact of New Business

This component represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale.

### Experience Gains and Losses

This component represents gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

### Management Actions and Changes in Assumptions

This component represents the impact on net income resulting from management actions, changes in actuarial assumptions or methodology, changes in margins for adverse deviations, and correction of errors.

### Other

This component represents the amounts not included in any other line of the sources of earnings. The impact of U.S. tax reform has been separated out in this presentation.

### Earnings on Surplus

This component represents the earnings on the Company's surplus funds.

Great-West Life's sources of earnings are shown below for 2017 and 2016.

## Sources of Earnings

(in Canadian \$ millions)

For the year to date at December 31, 2017

	Shareholder net earnings				
	Individual Customer	Group Customer	Europe/ Reinsurance	Corporate	Total
Expected profit on in-force business	\$ 616	\$ 545	\$ 1,038	\$ (5)	\$ 2,194
Impact of new business	36	20	(43)	-	13
Experience gains and losses	124	197	(43)	26	304
Management actions and changes in assumptions	(19)	76	286	(15)	328
Impact of U.S. tax reform on insurance contract liabilities and expenses	-	-	(18)	(1)	(19)
Other	-	-	(27)	(172)	(199)
Earnings on surplus	-	-	85	33	118
<b>Net earnings before tax</b>	<b>757</b>	<b>838</b>	<b>1,278</b>	<b>(134)</b>	<b>2,739</b>
Taxes (excl. impact of U.S. tax reform)	(152)	(187)	(69)	168	(240)
U.S. tax reform impact on deferred tax balances	-	-	16	(44)	(28)
Tax recovery on impact of U.S. tax reform on insurance contract liabilities and expenses	-	-	3	-	3
<b>Net earnings before non-controlling interests</b>	<b>605</b>	<b>651</b>	<b>1,228</b>	<b>(10)</b>	<b>2,474</b>
Non-controlling interests	-	-	-	-	-
<b>Net earnings - shareholder</b>	<b>605</b>	<b>651</b>	<b>1,228</b>	<b>(10)</b>	<b>2,474</b>
Preferred share dividends	-	-	-	-	-
<b>Net earnings - common shareholder</b>	<b>\$ 605</b>	<b>\$ 651</b>	<b>\$ 1,228</b>	<b>\$ (10)</b>	<b>\$ 2,474</b>

**Sources of Earnings**

(in Canadian \$ millions)

For the year to date at December 31, 2016	Shareholder net earnings				
	Individual Customer	Group Customer	Europe/ Reinsurance	Corporate	Total
Expected profit on in-force business	\$ 596	\$ 562	\$ 1,017	\$ 21	\$ 2,196
Impact of new business	(45)	23	(79)	-	(101)
Experience gains and losses	209	64	5	(1)	277
Management actions and changes in assumptions	2	60	365	(1)	426
Other	-	-	(17)	-	(17)
Earnings on surplus	-	-	137	89	226
Net earnings before tax	762	709	1,428	108	3,007
Taxes	(141)	(143)	(147)	103	(328)
Net earnings before non-controlling interests	621	566	1,281	211	2,679
Non-controlling interests	-	-	-	-	-
Net earnings - shareholder	621	566	1,281	211	2,679
Preferred share dividends	-	-	-	-	-
Net earnings - common shareholder	\$ 621	\$ 566	\$ 1,281	\$ 211	\$ 2,679

**Analysis of Results**

Expected profit on in-force business is the major driver of earnings and accounted for 80% of pre-tax earnings in 2017. The expected profit on in-force business of \$2,194 in 2017 was \$2 lower than 2016. The slight decrease year-over-year is primarily a result of the impact of currency and lower expected margins for group business in Canada. These were partially offset by higher net fee income in Europe.

The new business gain of \$13 in 2017 was \$114 higher than 2016 primarily due to lower strain in Canada and new longevity swaps and annuity business in Europe.

Experience gains of \$304 in 2017 were \$27 higher than 2016. The gains in 2017 were primarily a result of investment experience in Canada and Europe, mortality results in Europe, and morbidity results in Canada. These gains were partially offset by property catastrophe reinsurance losses in Europe and policyholder behaviour results in Canada. The gains in 2016 were primarily a result of investment experience in Canada and Europe and longevity results in Europe. These gains were partially offset by morbidity and policyholder behaviour results in Canada and life mortality results and expenses in Europe.

Management actions and changes in assumptions contributed \$309 (including the impact of U.S. tax reform) to pre-tax earnings in 2017 compared to \$426 in 2016. The most significant contributors in 2017 were updated longevity assumptions, updated economic assumptions, updated morbidity assumptions, and updated life mortality assumptions. These were partially offset by updated policyholder behaviour assumptions, modelling refinements, updated provision for claims, and updated expense and tax assumptions.

Other of \$(199) in 2017 is due to restructuring costs in Canada and Ireland.

Pre-tax earnings on surplus decreased by \$108 in 2017 compared to 2016 primarily as a result of lower mark to market real estate gains in Canada, lower OCI gains and lower investment income.

**SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY<sup>(1)</sup>**

Name	Principal Office Address	Carrying Value <sup>(2)</sup> (in Canadian \$ millions)	Voting Share Ownership
Canada Life Financial Corporation	Toronto, Ontario	\$ 15,977	100%
The Canada Life Assurance Company	Toronto, Ontario	\$ 11,521	100%
Canada Life Capital Corporation Inc.	Toronto, Ontario	\$ 8,802	100%
The Canada Life Group (U.K.) Limited	Potters Bar, Hertfordshire, England	\$ 7,907	100%
Canada Life Limited	Potters Bar, Hertfordshire, England	\$ 5,748	100%
Irish Life Group Limited	Dublin, Ireland	\$ 2,953	100%
Irish Life Assurance p.l.c.	Dublin, Ireland	\$ 2,084	100%
The Canada Life Insurance Company of Canada	Toronto, Ontario	\$ 767	100%
London Insurance Group Inc.	London, Ontario	\$ 4,535	100%
London Life Insurance Company	London, Ontario	\$ 2,285	100%
London Reinsurance Group Inc.	London, Ontario	\$ 564	100%
Quadrus Investment Services Ltd.	London, Ontario	\$ 42	100%
GLC Asset Management Group Ltd.	Winnipeg, Manitoba	\$ 29	100%
GWL Realty Advisors Inc.	Winnipeg, Manitoba	\$ 2	100%

<sup>(1)</sup> The table above depicts the material and certain other subsidiaries of the Company at December 31, 2017.

<sup>(2)</sup> The carrying value represents the Company's equity in its subsidiaries.

## Five-Year Summary

(in Canadian \$ millions except per share amounts)

At December 31	2017	2016	2015	2014	2013
Total assets under administration <sup>(1)</sup>	\$ 449,237	\$ 420,428	\$ 410,057	\$ 370,750	\$ 341,227
<b>For the Year Ended December 31</b>					
Premiums and deposits:					
Net premium income (Life insurance, guaranteed annuities and insured health products)	\$ 30,031	\$ 26,257	\$ 21,106	\$ 18,083	\$ 17,364
Self-funded premium equivalents (Administrative services only contracts)	2,827	2,751	2,625	2,603	2,567
Segregated funds deposits:					
Individual products	16,089	12,776	12,436	11,482	8,041
Group products	5,659	4,976	4,862	6,061	4,689
Proprietary mutual funds and institutional deposits	11,256	18,767	10,761	5,658	4,840
Total premiums and deposits	\$ 65,862	\$ 65,527	\$ 51,790	\$ 43,887	\$ 37,501
<b>Condensed Statements of Earnings</b>					
<b>Income</b>					
Total net premiums	\$ 30,031	\$ 26,257	\$ 21,106	\$ 18,083	\$ 17,364
Net investment income					
Regular net investment income	4,469	4,642	4,731	4,720	4,401
Changes in fair value through profit or loss	1,147	3,806	(1,531)	6,812	(2,377)
Total net investment income	5,616	8,448	3,200	11,532	2,024
Fee and other income	3,002	2,790	2,679	2,602	2,137
Total income	38,649	37,495	26,985	32,217	21,525
<b>Benefits and expenses</b>					
Paid or credited to policyholders	30,494	29,005	19,199	24,747	15,074
Other	5,071	5,151	4,530	4,191	3,768
Amortization of finite life intangible assets	103	96	77	75	66
Restructuring expenses	242	17	23	29	104
<b>Earnings before income taxes</b>	<b>2,739</b>	<b>3,226</b>	<b>3,156</b>	<b>3,175</b>	<b>2,513</b>
Income taxes	224	357	343	485	363
<b>Net earnings</b>	<b>2,515</b>	<b>2,869</b>	<b>2,813</b>	<b>2,690</b>	<b>2,150</b>
Net earnings (loss) - participating account	41	190	114	88	(94)
<b>Net earnings - common shareholder</b>	<b>\$ 2,474</b>	<b>\$ 2,679</b>	<b>\$ 2,699</b>	<b>\$ 2,602</b>	<b>\$ 2,244</b>
<b>Book value per common share</b>	<b>\$ 8,224</b>	<b>\$ 7,766</b>	<b>\$ 7,960</b>	<b>\$ 7,144</b>	<b>\$ 6,780</b>
<b>Dividends to common shareholder - per share</b>	<b>\$ 692.22</b>	<b>\$ 744.10</b>	<b>\$ 761.87</b>	<b>\$ 706.06</b>	<b>\$ 539.79</b>

<sup>(1)</sup> Comparative figures for 2016 have been reclassified as described in note 32 to the Company's December 31, 2017 financial statements.

## DIRECTORS AND SENIOR OFFICERS

### Board of Directors

**R. Jeffrey Orr** <sup>3,4,5,6,7</sup>

Chair of the Board of the Company  
President and Chief Executive Officer,  
Power Financial Corporation

**Deborah J. Barrett, CPA, CA, ICD.D** <sup>1,3,7</sup>

Corporate Director

**Marcel R. Coutu** <sup>3,4,5,6,7</sup>

Corporate Director

**André Desmarais, O.C., O.Q.** <sup>3,4,5,6,7</sup>

Deputy Chairman, President and  
Co-Chief Executive Officer,  
Power Corporation of Canada

Executive Co-Chairman,  
Power Financial Corporation

**Olivier Desmarais** <sup>3,5,6,7</sup>

Senior Vice-President,  
Power Corporation of Canada and  
Power Financial Corporation

**Paul Desmarais, Jr., O.C., O.Q.** <sup>3,4,5,6,7</sup>

Chairman and Co-Chief Executive Officer,  
Power Corporation of Canada

Executive Co-Chairman,  
Power Financial Corporation

**Paul Desmarais III** <sup>3,6</sup>

Senior Vice-President,  
Power Corporation of Canada and  
Power Financial Corporation

**Gary A. Doer, O.M** <sup>3,6,7</sup>

Senior Business Advisor,  
Dentons Canada LLP

**David G. Fuller** <sup>3,6,7</sup>

Executive Vice-President,  
TELUS Corporation and President,  
TELUS Consumer and Small Business Solutions

**Claude Généreux** <sup>3,5,6,7</sup>

Executive Vice-President,  
Power Corporation of Canada and  
Power Financial Corporation

**Chaviva M. Hošek, O.C., Ph.D., LL.D.** <sup>1,2</sup>

Corporate Director

**J. David A. Jackson, LL.B.** <sup>3,4,5,6,7</sup>

Senior Counsel,  
Blake, Cassels & Graydon LLP

**Paul A. Mahon** <sup>3,6</sup>

President and Chief Executive Officer  
of the Company,  
Great-West Lifeco Inc.,  
London Life Insurance Company,  
Canada Life Financial Corporation,  
The Canada Life Assurance Company

**Susan J. McArthur** <sup>3,5,6,7</sup>

Managing Partner,  
GreenSoil Investments

**Rima Qureshi** <sup>3,6,7</sup>

Executive Vice-President and  
Chief Strategy Officer,  
Verizon Communications Inc.

**Donald M. Raymond, Ph.D., CFA** <sup>3,6,7</sup>

Managing Partner and Chief Investment Officer,  
Alignvest Management Corporation and Alignvest  
Investment Management Corporation

**Henri-Paul Rousseau, Ph.D.** <sup>3,6,7</sup>

Vice-Chairman,  
Power Corporation of Canada and  
Power Financial Corporation

**T. Timothy Ryan** <sup>3,4,5,6,7</sup>

Corporate Director

**Jerome J. Selitto** <sup>2,3,6,7</sup>

President,  
Avex Funding Corporation

**James M. Singh, CPA, CMA, FCMA(UK)** <sup>1,2,3,6,7</sup>

Executive Chairman,  
CSM Bakery Solutions Limited

**Gregory D. Tretiak, FCPA, FCA** <sup>1,3,6,7</sup>

Executive Vice-President and Chief Financial Officer,  
Power Corporation of Canada and  
Power Financial Corporation

**Siim A. Vanaselja, FCPA, FCA** <sup>1,3,6,7</sup>

Corporate Director

**Brian E. Walsh** <sup>4,5,7</sup>

Principal and Chief Strategist,  
Titan Advisors LLC

### Committees

**1. Audit Committee**

Chair: Siim Vanaselja

**2. Conduct Review Committee**

Chair: Chaviva M. Hošek

**3. Executive Committee**

Chair: R. Jeffrey Orr

**4. Governance and Nominating Committee**

Chair: R. Jeffrey Orr

**5. Human Resources Committee**

Chair: Claude Généreux

**6. Investment Committee**

Chair: R. Jeffrey Orr

**7. Risk Committee**

Chair: Gregory D. Tretiak

### Senior Officers

**Paul A. Mahon**

President and Chief Executive Officer

**Arshil Jamal**

President and Chief Operating Officer,  
Europe

**Stefan K. Kristjanson**

President and Chief Operating Officer,  
Canada

**Brian R. Allison**

Executive Vice-President and  
Chief Investment Officer

**Philip Armstrong**

Executive Vice-President and  
Global Chief Information Officer

**Graham R. Bird**

Executive Vice-President and  
Chief Risk Officer

**Andrew D. Brands**

Executive Vice-President and  
General Counsel

**Garry MacNicholas**

Executive Vice-President and  
Chief Financial Officer

**Grace M. Palombo**

Executive Vice-President and  
Chief Human Resources Officer

**Ross J. Petersmeyer**

Senior Vice-President, Regulatory Affairs

**Nancy D. Russell**

Senior Vice-President and  
Chief Internal Auditor

**Anne C. Sonnen**

Senior Vice-President and  
Chief Compliance Officer

**Laurie A. Speers**

Vice-President and Corporate Secretary

**Dervla M. Tomlin**

Executive Vice-President and Chief Actuary

## **POLICYHOLDER AND SHAREHOLDER INFORMATION**

### **Head Office**

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 1V3

### **Financial Information**

For financial information about Great-West Life, please contact the Senior Vice-President and Chief Financial Officer, Canada at 204-946-4558.

View our annual report online at [Greatwestlife.com](http://Greatwestlife.com). For printed copies of our annual report, contact the Corporate Secretary's Office at 204-946-4388 or [corporate.secretary@gwl.ca](mailto:corporate.secretary@gwl.ca).

THE  
**Great-West Life**  
ASSURANCE  COMPANY

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