Canada Life™

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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CANADA LIFE: GUIDING OUR CUSTOMERS IN A CHANGING WORLD

For more than 170 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 advisors* and their commitment to our customers and to our communities.

Together, Great-West Life, London Life and Canada Life 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. Canada Life reported a minimum continuing capital and surplus requirements ratio of 284 per cent at Dec. 31, 2017.**

Together, Great-West Life, London Life and Canada Life 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.

$255.2 million	Dividends paid out to Canada Life participating policyholders
$9.4 billion	Benefits paid to Canadian customers
$109 billion	Retirement and investment holdings in Canada
$13.5 million	Contributed to Canadian communities

Our organization

Founded in 1847, Canada Life was Canada's first domestic life insurance company, and 2017 marked our 170th anniversary. We provide insurance and wealth management products and services in Canada, the United Kingdom, Isle of Man and Germany, and in Ireland through Irish Life.

In Europe, where Canada Life's operations date back to 1903, we help secure the financial future of individuals and their families through diverse investment, retirement and insurance solutions to meet customers' unique needs. Our asset management teams – Canada Life in the U.K., and Irish Life Investment Managers and Setanta Asset Management in Ireland – are dedicated stewards of our customers' investments that they have entrusted with us.

As a leading provider of traditional mortality, structured and longevity reinsurance solutions for life insurers in the U.S. and in Europe, Canada Life operates through branches and subsidiaries in the United States, Barbados and Ireland.

Canada Life, Great-West Life and London Life are members of the Power Financial Corporation group of companies.

For more information, including current credit ratings, visit Canadalife.com.

* In Quebec, advisor refers to a financial security advisor for individual insurance and segregated fund policies.

** 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.

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, Canada 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. 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.

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.

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, together with Great-West Life and London Life, the company is participating in a branding review 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.

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

Canada Life believes good corporate governance is essential to creating positive outcomes for customers and delivering consistently strong long-term performance for shareholders.

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
Premiums and deposits:			
Net premium income (Life insurance, guaranteed annuities and insured health products)	$ 8,387	$ 7,130	18 %
Segregated funds deposits:			
Individual products	13,279	10,072	32 %
Group products	28	47	(40)%
Proprietary mutual funds and institutional deposits	10,424	18,047	(42)%
Total premiums and deposits [1]	32,118	35,296	(9)%
Fee and other income	1,546	1,443	7 %
Net policyholder benefits, dividends and experience refunds	7,256	7,459	(3)%
Summary of net earnings attributable to:			
Participating account			
Net earnings before policyholder dividend	$ 299	$ 453	(34)%
Policyholder dividends	312	314	(1)%
Net earnings (loss) - participating account [4]	(13)	139	(109)%
Preferred share dividends	14	14	— %
Common shareholder [4]	1,639	1,538	7 %
Net earnings	$ 1,640	$ 1,691	(3)%
Per common share			
Dividends paid	$ 4.41	$ 2.59	70 %
Book value	42.61	39.16	9 %
Total assets	$ 212,684	$ 196,992	8 %
Proprietary mutual funds and institutional net assets [2]	47,782	41,542	15 %
Total assets under management [2]	260,466	238,534	9 %
Other assets under administration [3]	41,945	38,952	8 %
Total assets under administration	$ 302,411	$ 277,486	9 %
Participating account surplus	$ 339	$ 357	(5)%
Non-controlling interests	96	90	7 %
Shareholders' equity	11,522	10,337	11 %
Total equity	$ 11,957	$ 10,784	11 %

(1) 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.

(2) 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.

(3) 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.

(4) 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 costs of $43 attributable to the common shareholder and $5 attributable to participating account.

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
Income		
Premium income		
Gross premiums written	**$ 23,172**	$ 19,934
Ceded premiums	**(14,785)**	(12,804)
Total net premiums	**8,387**	7,130
Net investment income (note 5)		
Regular net investment income	**2,802**	2,922
Changes in fair value through profit or loss	**763**	3,236
Total net investment income	**3,565**	6,158
Fee and other income	**1,546**	1,443
	13,498	14,731
Benefits and expenses		
Policyholder benefits		
Gross	**19,830**	18,118
Ceded	**(12,948)**	(11,037)
Total net policyholder benefits	**6,882**	7,081
Policyholder dividends and experience refunds	**374**	378
Changes in insurance and investment contract liabilities	**1,879**	2,731
Total paid or credited to policyholders	**9,135**	10,190
Commissions	**934**	1,144
Operating and administrative expenses (note 27)	**1,295**	1,202
Premium taxes	**189**	140
Financing charges (note 14)	**40**	39
Amortization of finite life intangible assets (note 9)	**38**	36
Restructuring expenses (note 28)	**61**	17
Earnings before income taxes	**1,806**	1,963
Income taxes (note 26)	**160**	263
Net earnings before non-controlling interests	**1,646**	1,700
Attributable to non-controlling interests (note 19)	**6**	9
Net earnings	**1,640**	1,691
Net earnings (loss) - participating account (note 18)	**(13)**	139
Net earnings - shareholders	**1,653**	1,552
Preferred share dividends	**14**	14
Net earnings - common shareholder	**$ 1,639**	$ 1,538

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian $ millions)

	For the years ended December 31	
	2017	2016
Net earnings	**$ 1,640**	$ 1,691
Other comprehensive income		
Items that may be reclassified subsequently to Consolidated Statements of Earnings		
Unrealized foreign exchange gains (losses) on translation of foreign operations	**270**	(1,262)
Unrealized gains (losses) on available-for-sale assets	**(26)**	129
Income tax (expense) benefit	**5**	(13)
Realized (gains) on available-for-sale assets	**(12)**	(54)
Income tax expense (benefit)	**1**	3
Total items that may be reclassified	**238**	(1,197)
Items that will not be reclassified to Consolidated Statements of Earnings		
Re-measurements on defined benefit pension and other post-employment benefit plans (note 23)	**69**	(158)
Income tax (expense) benefit	**(19)**	39
Total items that will not be reclassified	**50**	(119)
Total other comprehensive income (loss)	**288**	(1,316)
Comprehensive income	**$ 1,928**	$ 375

CONSOLIDATED BALANCE SHEETS

(in Canadian $ millions)

	December 31	
	2017	2016 (note 33)
Assets		
Cash and cash equivalents (note 4)	**$ 2,043**	$ 1,939
Bonds (note 5)	**63,432**	59,958
Mortgage loans (note 5)	**6,799**	6,610
Stocks (note 5)	**2,791**	2,774
Investment properties (note 5)	**3,222**	3,033
Loans to policyholders	**933**	973
	79,220	75,287
Funds held by ceding insurers (note 6)	**9,499**	10,186
Goodwill (note 9)	**794**	756
Intangible assets (note 9)	**362**	335
Derivative financial instruments (note 29)	**206**	206
Owner occupied properties (note 10)	**281**	221
Fixed assets (note 10)	**65**	60
Other assets (note 11)	**1,104**	994
Premiums in course of collection, accounts and interest receivable	**2,511**	2,322
Reinsurance assets (note 12)	**8,503**	9,309
Current income taxes	**7**	18
Deferred tax assets (note 26)	**97**	125
Investments on account of segregated fund policyholders (note 13)	**110,035**	97,173
Total assets	**$ 212,684**	$ 196,992
Liabilities		
Insurance contract liabilities (note 12)	**$ 80,717**	$ 78,459
Investment contract liabilities (note 12)	**1,762**	1,925
Debentures and other debt instruments (note 15)	**975**	1,237
Capital trust securities (note 16)	**150**	150
Funds held under reinsurance contracts	**2,423**	2,430
Derivative financial instruments (note 29)	**723**	1,032
Accounts payable	**1,161**	881
Other liabilities (note 17)	**1,901**	1,978
Current income taxes	**410**	459
Deferred tax liabilities (note 26)	**470**	484
Investment and insurance contracts on account of segregated fund policyholders (note 13)	**110,035**	97,173
Total liabilities	**200,727**	186,208
Equity		
Participating account surplus	**339**	357
Non-controlling interests (note 19)	**96**	90
Shareholders' equity		
Share capital (note 20)		
Preferred shares	**200**	200
Common shares	**2,672**	2,277
Accumulated surplus	**8,329**	7,845
Accumulated other comprehensive income (loss) (note 24)	**238**	(68)
Contributed surplus	**83**	83
Total equity	**11,957**	10,784
Total liabilities and equity	**$ 212,684**	$ 196,992

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**	**Non-controlling interests**	**Participating account surplus**	**Total equity**
Balance, beginning of year	**$ 2,477**	**$ 83**	**$ 7,845**	**$ (68)**	**$ 10,337**	**$ 90**	**$ 357**	**$ 10,784**
Net earnings (loss)	**—**	**—**	**1,653**	**—**	**1,653**	**6**	**(13)**	**1,646**
Other comprehensive income (loss)	**—**	**—**	**—**	**293**	**293**	**—**	**(5)**	**288**
	2,477	**83**	**9,498**	**225**	**12,283**	**96**	**339**	**12,718**
Issue of common shares to parent company (note 20)	**395**	**—**	**—**	**—**	**395**	**—**	**—**	**395**
Dividends to shareholders								
Preferred shareholders	**—**	**—**	**(14)**	**—**	**(14)**	**—**	**—**	**(14)**
Common shareholder	**—**	**—**	**(1,142)**	**—**	**(1,142)**	**—**	**—**	**(1,142)**
Disposal of investment in associate (note 5)	**—**	**—**	**(13)**	**13**	**—**	**—**	**—**	**—**
Balance, end of year	**$ 2,872**	**$ 83**	**$ 8,329**	**$ 238**	**$ 11,522**	**$ 96**	**$ 339**	**$ 11,957**

	December 31, 2016							
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Participating account surplus	Total equity
Balance, beginning of year	$ 2,477	$ 83	$ 6,977	$ 1,244	$ 10,781	$ 81	$ 222	$ 11,084
Net earnings	—	—	1,552	—	1,552	9	139	1,700
Other comprehensive loss	—	—	—	(1,312)	(1,312)	—	(4)	(1,316)
	2,477	83	8,529	(68)	11,021	90	357	11,468
Dividends to shareholders								
Preferred shareholders	—	—	(14)	—	(14)	—	—	(14)
Common shareholder	—	—	(670)	—	(670)	—	—	(670)
Balance, end of year	$ 2,477	$ 83	$ 7,845	$ (68)	$ 10,337	$ 90	$ 357	$ 10,784

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian $ millions)

	For the years ended December 31	
	2017	2016
Operations		
Earnings before income taxes	**$ 1,806**	$ 1,963
Income taxes paid, net of refunds received	**(255)**	(103)
Adjustments:		
Change in insurance and investment contract liabilities	**634**	3,347
Change in funds held by ceding insurers	**850**	561
Change in funds held under reinsurance contracts	**118**	216
Change in reinsurance assets	**864**	(776)
Changes in fair value through profit or loss	**(763)**	(3,236)
Other	**(78)**	62
	3,176	2,034
Financing Activities		
Issue of common shares (note 20)	**395**	—
Decrease in debentures and other debt instruments (note 15)	**(284)**	—
Promissory note payable to parent (note 25)	**—**	284
Repayment of promissory note to related party	**—**	(9)
Dividends paid on common shares	**(1,142)**	(670)
Dividends paid on preferred shares	**(14)**	(14)
	(1,045)	(409)
Investment Activities		
Bond sales and maturities	**12,341**	12,722
Mortgage loan repayments	**627**	727
Stock sales	**1,457**	471
Investment property sales	**72**	62
Change in loans to policyholders	**13**	(3)
Business acquisitions, net of cash and cash equivalents acquired	**—**	(33)
Investment in bonds	**(14,466)**	(13,901)
Investment in mortgage loans	**(757)**	(698)
Investment in stocks	**(1,263)**	(571)
Investment in investment properties	**(88)**	(51)
	(2,064)	(1,275)
Effect of changes in exchange rates on cash and cash equivalents	**37**	(160)
Increase in cash and cash equivalents	**104**	190
Cash and cash equivalents, beginning of year	**1,939**	1,749
Cash and cash equivalents, end of year	**$ 2,043**	$ 1,939
Supplementary cash flow information		
Interest income received	**$ 2,608**	$ 2,803
Interest paid	**40**	35
Dividend income received	**59**	74

1. Corporate Information

The Canada Life Assurance Company (Canada Life or the Company) is a company incorporated and domiciled in Canada. The registered address of the Company is 330 University Avenue, Toronto, Ontario, Canada, M5G 1R8. Canada Life is a wholly-owned subsidiary of Canada Life Financial Corporation (CLFC), whose indirect parent is 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).

Canada Life is a financial services company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, Europe and the United States, through its subsidiaries The Canada Life Group (U.K.) Limited (CLG (U.K.)), Canada Life Limited (CLL) and Irish Life Group Limited (Irish Life).

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 International Financial Reporting Standards (IFRS) for IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes and Annual Improvements 2014 - 2016 Cycle* for the amendments 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 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 a decrease to current income tax liabilities of $4, with an increase to deferred tax liabilities of $4 respectively at December 31, 2016. These adjustments and reclassifications had no impact on the total equity or net earnings of the Company (note 33).

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.

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

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 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 23).
- 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 26).
- Management applies judgment in assessing the recoverability of the deferred income tax asset carrying values based on future years’ taxable income projections (note 26).
- 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 30).
- 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 32).

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

- 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 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 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 and 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) Participating Account

The Company is required to maintain the participating account separately from the shareholder account. The liabilities for participating policies issued or assumed by the Company 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 division 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 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 is recognized as income on the shareholder account and as an expense in the participating account when paid. To date all seed capital has been repaid except for $19 (U.S. $15).

(h) 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 29 as prescribed by the Office of the Superintendent of Financial Institutions (OSFI) in Canada.

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

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.

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.

<u>Derivatives not designated as hedges for accounting purposes</u>
For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

<u>Fair value hedges</u>
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.

<u>Cash flow hedges</u>
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 does not have any instruments designated as cash flow hedges.

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

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 an instrument designated as a net investment hedge.

(i) 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.

(j) 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.

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.

(k) 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.

(l) 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.

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

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.

(m) 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 contacts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

On the liability side, funds held under reinsurance contracts consist mainly of amounts retained by 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.

(n) 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 asset includes brand value. 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.

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

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.

(o) 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.

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 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.

(p) 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.

(q) 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.

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

(r) 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.

(s) 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 discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment 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.

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 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 Actuary of the Company is responsible for determining the amount of the liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuary determines 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.

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

(t) 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.

(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.

<u>Current Income Tax</u>
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.

<u>Deferred Income Tax</u>
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 23). 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.

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 net of tax, where applicable.

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

Participating account surplus represents the proportion of equity attributable to the participating account of the Company and its subsidiaries.

(y) Share-Based Payments

Lifeco has a stock option plan (the Lifeco 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 method of accounting for the valuation of compensation expense for shares and share options granted to employees under its stock option plans (note 22). Compensation expense is recognized as an increase to compensation expense in the Consolidated Statements of Earnings 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.

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 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 business segments are the participating and shareholder operations. Within these segments the major business units are: Individual Customer, Group Customer, Europe/Reinsurance, United States and Corporate. These business units reflect the Company's management structure and internal financial reporting. Each of these business units operates in the financial services industry and the revenues are derived principally from life, health and disability insurance, annuity products, creditor and direct marketing, savings products and life, accident and health reinsurance. 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
IFRS 15 - *Revenue from Contracts with Customers*	In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 11, *Construction Contract*s and IAS 18, *Revenue*. 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. 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.
IFRS 16 - *Leases*	In January 2016, the IASB issued IFRS 16, *Leases,* 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. In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model. 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.

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

New Standard	**Summary of Future Changes**
IFRS 17 - *Insurance Contracts*	In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces new measurement models depending on the nature of the insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the 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 (b) the contractual service margin - the future profit for providing insurance coverage. The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. IFRS 17 also requires 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. 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. 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.

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

<table>
<tr><th>New Standard</th><th>Summary of Future Changes</th></tr>
<tr><td>IFRS 9 - Financial Instruments</td><td>
In July 2014, the IASB issued a final version of IFRS 9, Financial Instruments (IFRS 9) to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard provides changes to financial instruments accounting for the following:

classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset;
impairment based on an expected loss model; and
hedge accounting that incorporates the risk management practices of an entity.

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

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

The Company qualifies for the amendment and will be applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17, Insurance Contracts simultaneously on January 1, 2021.
In October 2017, the IASB issued an amendment to IFRS 9 that certain prepayable financial assets with negative compensation can be measured at amortized cost or fair value through other comprehensive income instead of fair value through profit or loss under a certain condition.
The Company continues to evaluate the impact for the adoption of this standard with the adoption of IFRS 17, Insurance Contracts.
</td></tr>
<tr><td>Annual Improvements 2014 - 2016 Cycle</td><td>
In December 2016, the IASB issued Annual Improvements 2014 - 2016 Cycle 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, Disclosure of Interests in Other Entities, IFRS 1, First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures.
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.
</td></tr>
</table>

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

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

3. Business Acquisition

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

	2017	2016
Cash	**$ 1,529**	$ 1,118
Short-term deposits	**514**	821
Total	**$ 2,043**	$ 1,939

At December 31, 2017 cash of $237 was restricted for use by the Company ($171 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 Carrying value	2017 Fair value	2016 Carrying value	2016 Fair value
Bonds				
Designated fair value through profit or loss [1]	**$ 47,529**	**$ 47,529**	$ 45,771	$ 45,771
Classified fair value through profit or loss [1]	**12**	**12**	62	62
Available-for-sale	**7,452**	**7,452**	6,338	6,338
Loans and receivables	**8,439**	**9,368**	7,787	8,699
	63,432	**64,361**	59,958	60,870
Mortgage loans				
Residential	**1,938**	**2,054**	1,697	1,808
Commercial	**4,861**	**5,368**	4,913	5,432
	6,799	**7,422**	6,610	7,240
Stocks				
Designated fair value through profit or loss [1]	**2,688**	**2,688**	2,445	2,445
Available-for-sale	**1**	**1**	1	1
Available-for-sale, at cost [2]	**100**	**100**	135	135
Equity method [3]	**2**	**2**	193	193
	2,791	**2,791**	2,774	2,774
Investment properties	**3,222**	**3,222**	3,033	3,033
Total	**$ 76,244**	**$ 77,796**	$ 72,375	$ 73,917

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

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

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

(3) 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 23). 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	**$ 6,778**	**$ 11,028**	**$ 45,602**	**$ 63,408**
Mortgage loans	**221**	**1,410**	**5,135**	**6,766**
Total	**$ 6,999**	**$ 12,438**	**$ 50,737**	**$ 70,174**

5. Portfolio Investments (cont'd)

	2016			
	Term to maturity			
	1 year or less	1-5 years	Over 5 years	Total
Bonds	$ 7,086	$ 10,368	$ 42,469	$ 59,923
Mortgage loans	119	1,211	5,225	6,555
Total	$ 7,205	$ 11,579	$ 47,694	$ 66,478

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

(c) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

	2017	2016
Impaired amounts by classification		
Fair value through profit or loss	**$ 18**	$ 32
Available-for-sale	**5**	4
Loans and receivables	**37**	55
Total	**$ 60**	$ 91

The carrying amount of impaired investments includes $24 bonds, $33 mortgage loans, and $3 stocks as at December 31, 2017 ($35 bonds, $55 mortgage loans, and $1 stocks as 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 allowances for credit losses related to investments classified as loans and receivables are as follows:

	2017			2016		
	Bonds	**Mortgage loans**	**Total**	Bonds	Mortgage loans	Total
Balance, beginning of year	**$ 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)
Balance, end of year	**$ —**	**$ 40**	**$ 40**	$ 1	$ 35	$ 36

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

5. Portfolio Investments (cont'd)

(d) Net investment income comprises the following:

	2017					
	Bonds	**Mortgage loans**	**Stocks**	**Investment properties**	**Other**	**Total**
Regular net investment income:						
Investment income earned	**$ 2,260**	**$ 303**	**$ 60**	**$ 178**	**$ 18**	**$ 2,819**
Net realized gains						
Available-for-sale	**12**	**—**	**—**	**—**	**—**	**12**
Other classifications	**11**	**46**	**—**	**—**	**—**	**57**
Net allowances for credit losses on loans and receivables	**7**	**(9)**	**—**	**—**	**—**	**(2)**
Other income (expenses)	**—**	**—**	**—**	**(13)**	**(71)**	**(84)**
	2,290	**340**	**60**	**165**	**(53)**	**2,802**
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	**1**	**—**	**—**	**—**	**—**	**1**
Designated fair value through profit or loss	**498**	**—**	**195**	**—**	**(36)**	**657**
Recorded at fair value through profit or loss	**—**	**—**	**—**	**105**	**—**	**105**
	499	**—**	**195**	**105**	**(36)**	**763**
Total	**$ 2,789**	**$ 340**	**$ 255**	**$ 270**	**$ (89)**	**$ 3,565**

	2016					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 2,287	$ 325	$ 56	$ 190	$ 87	$ 2,945
Net realized gains						
Available-for-sale	54	—	—	—	—	54
Other classifications	1	22	—	—	—	23
Net allowances for credit losses on loans and receivables	(1)	(31)	—	—	—	(32)
Other income (expenses)	—	—	—	(11)	(57)	(68)
	2,341	316	56	179	30	2,922
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	3	—	—	—	—	3
Designated fair value through profit or loss	3,130	—	271	—	(142)	3,259
Recorded at fair value through profit or loss	—	—	—	(26)	—	(26)
	3,133	—	271	(26)	(142)	3,236
Total	$ 5,474	$ 316	$ 327	$ 153	$ (112)	$ 6,158

5. Portfolio Investments (cont'd)

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 from stocks includes dividends, distributions from private equity and equity income from the investment in 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.

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

	2017	2016
Balance, beginning of year	**$ 3,033**	$ 3,703
Additions	**88**	51
Change in fair value through profit or loss	**105**	(26)
Disposals	**(72)**	(62)
Foreign exchange rate changes	**68**	(633)
Balance, end of year	**$ 3,222**	$ 3,033

(f) 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 $4,481 ($4,851 at December 31, 2016).

6. Funds Held by Ceding Insurers

At December 31, 2017, the Company had amounts on deposit of $9,499 ($10,186 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.

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

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
Total	**$ 8,044**	**$ 8,044**	$ 8,723	$ 8,723
Supporting:				
Reinsurance liabilities	**$ 7,777**	**$ 7,777**	$ 8,218	$ 8,218
Surplus	**267**	**267**	505	505
Total	**$ 8,044**	**$ 8,044**	$ 8,723	$ 8,723

(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
Total	**$ 7,806**	$ 8,391

(c) Asset Quality

Bond Portfolio By Credit Rating

	2017	2016
AAA	**$ 714**	$ 618
AA	**3,204**	3,792
A	**3,240**	3,300
BBB	**439**	476
BB and lower	**209**	205
Total	**$ 7,806**	$ 8,391

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.

	2017	2016
Cash and cash equivalents	**$ 2,043**	$ 1,939
Bonds		
Fair value through profit or loss	**47,541**	45,833
Available-for-sale	**7,452**	6,338
Loans and receivables	**8,439**	7,787
Mortgage loans	**6,799**	6,610
Loans to policyholders	**933**	973
Funds held by ceding insurers [(1)]	**9,499**	10,186
Reinsurance assets	**8,503**	9,309
Interest due and accrued	**681**	665
Accounts receivable	**1,163**	1,012
Premiums in course of collection	**667**	645
Trading account assets	**91**	81
Finance leases receivable	**160**	80
Other assets [(2)]	**72**	97
Derivative assets	**206**	206
	$ 94,249	$ 91,761

(1) 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).

(2) 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 $38 of collateral received from counterparties as at December 31, 2017 ($6 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	**$ 711**	**$ 12,249**	**$ 204**	**$ 13,164**
Government related	**8,080**	**7,492**	**367**	**15,939**
Agency securitized	**—**	**8**	**40**	**48**
Non-agency securitized	**616**	**1,700**	**314**	**2,630**
Financials	**1,806**	**5,426**	**170**	**7,402**
Communications	**280**	**978**	**60**	**1,318**
Consumer products	**1,435**	**2,993**	**271**	**4,699**
Energy	**535**	**812**	**143**	**1,490**
Industrials	**678**	**1,643**	**347**	**2,668**
Technology	**299**	**410**	**28**	**737**
Transportation	**1,169**	**1,098**	**31**	**2,298**
Utilities	**3,947**	**4,196**	**590**	**8,733**
Total long-term bonds	**19,556**	**39,005**	**2,565**	**61,126**
Short-term bonds	**683**	**1,623**	**—**	**2,306**
Total	**$ 20,239**	**$ 40,628**	**$ 2,565**	**$ 63,432**

	2016			
	Canada	Europe/ Reinsurance	United States	Total
Bonds issued or guaranteed by:				
Treasuries	$ 954	$ 10,647	$ 254	$ 11,855
Government related	7,444	6,709	392	14,545
Agency securitized	—	134	58	192
Non-agency securitized	826	1,809	314	2,949
Financials	1,658	5,166	165	6,989
Communications	234	938	77	1,249
Consumer products	1,318	3,023	292	4,633
Energy	467	913	175	1,555
Industrials	623	1,540	387	2,550
Technology	270	416	30	716
Transportation	1,086	1,055	35	2,176
Utilities	3,336	4,179	631	8,146
Total long-term bonds	18,216	36,529	2,810	57,555
Short-term bonds	888	1,515	—	2,403
Total	$ 19,104	$ 38,044	$ 2,810	$ 59,958

7. Financial Instruments Risk Management (cont'd)

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

	2017			
	Single family residential	**Multi-family residential**	**Commercial**	**Total**
Canada	**$ 370**	**$ 901**	**$ 1,527**	**$ 2,798**
United States	**—**	**254**	**151**	**405**
Europe/Reinsurance	**—**	**413**	**3,183**	**3,596**
Total	**$ 370**	**$ 1,568**	**$ 4,861**	**$ 6,799**

	2016			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 347	$ 757	$ 1,512	$ 2,616
United States	—	210	194	404
Europe/Reinsurance	—	383	3,207	3,590
Total	$ 347	$ 1,350	$ 4,913	$ 6,610

(iii) Asset Quality

Bond Portfolio By Credit Rating

	2017	2016
AAA	**$ 9,644**	$ 9,022
AA	**23,263**	21,908
A	**22,012**	20,804
BBB	**7,948**	7,664
BB and lower	**565**	560
Total	**$ 63,432**	$ 59,958

Derivative Portfolio by Credit Rating

	2017	2016
Over-the-counter contracts (counterparty ratings):		
AA	**$ 78**	$ 83
A	**114**	107
BBB	**13**	15
Exchange traded	**1**	1
Total	**$ 206**	$ 206

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	**$ —**	$ —
30 - 90 Days	**—**	—
Greater than 90 days	**1**	1
Total	**$ 1**	$ 1

(v) The following outlines the future asset credit losses provided for in insurance contract liabilities. These amounts are in addition to the allowances for asset losses included with assets:

	2017	2016
Participating	**$ 357**	$ 318
Non-participating	**1,188**	1,293
Total	**$ 1,545**	$ 1,611

(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 85% (approximately 85% 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.

	Payments due by period						
	Total	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**	**over 5 years**
Debentures	$ 975	$ —	$ —	$ —	$ —	$ —	$ 975
Capital trust securities [1]	150	—	—	—	—	—	150
Purchase obligations	42	14	23	5	—	—	—
Pension contributions	97	97	—	—	—	—	—
Total	**$ 1,264**	**$ 111**	**$ 23**	**$ 5**	**$ —**	**$ —**	**$ 1,125**

[1] Payments due have not been reduced to reflect that the Company held capital trust securities of $25 principal amount ($35 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, euros, and U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in 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 0.15% (0.16% 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.

7. Financial Instruments Risk Management (cont'd)

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.

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
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	**$ (168)**	**$ 534**	$ (139)	$ 415
Increase (decrease) in net earnings	**$ 114**	**$ (382)**	$ 101	$ (305)

(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 reinsurance treaties and 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:

7. Financial Instruments Risk Management (cont'd)

	2017		2016	
	10% increase	**10% decrease**	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	**$ (54)**	**$ 76**	$ (47)	$ 55
Increase (decrease) in net earnings	**$ 45**	**$ (61)**	$ 40	$ (45)

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
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	**$ (421)**	**$ 439**	$ (387)	$ 405
Increase (decrease) in net earnings	**$ 351**	**$ (359)**	$ 321	$ (331)

(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.

7. Financial Instruments Risk Management (cont'd)

	2017			
		Related amounts not set-off in the Balance Sheet		
	Gross amount of financial instruments presented in the Balance Sheet	**Offsetting counterparty position (1)**	**Financial collateral received/ pledged (2)**	**Net exposure**
Financial instruments - assets				
Derivative financial instruments	**$ 206**	**$ (176)**	**$ (7)**	**$ 23**
Total financial instruments - assets	**$ 206**	**$ (176)**	**$ (7)**	**$ 23**
Financial instruments - liabilities				
Derivative instruments	**$ 723**	**$ (176)**	**$ (193)**	**$ 354**
Total financial instruments - liabilities	**$ 723**	**$ (176)**	**$ (193)**	**$ 354**

	2016			
		Related amounts not set-off in the Balance Sheet		
	Gross amount of financial instruments presented in the Balance Sheet	Offsetting counterparty position (1)	Financial collateral received/ pledged (2)	Net exposure
Financial instruments - assets				
Derivative financial instruments	$ 206	$ (177)	$ (4)	$ 25
Total financial instruments - assets	$ 206	$ (177)	$ (4)	$ 25
Financial instruments - liabilities				
Derivative instruments	$ 1,032	$ (177)	$ (268)	$ 587
Total financial instruments - liabilities	$ 1,032	$ (177)	$ (268)	$ 587

(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 $38 ($6 at December 31, 2016), and pledged on derivative liabilities was $229 ($303 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.

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.

8. Fair Value Measurement (cont'd)

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

	2017			
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 2,043	$ —	$ —	$ 2,043
Financial assets at fair value through profit or loss				
Bonds	—	47,476	65	47,541
Stocks	2,670	—	18	2,688
Total financial assets at fair value through profit or loss	2,670	47,476	83	50,229
Available-for-sale financial assets				
Bonds	—	7,452	—	7,452
Stocks	—	—	1	1
Total available-for-sale financial assets	—	7,452	1	7,453
Investment properties	—	—	3,222	3,222
Funds held by ceding insurers	132	7,806	—	7,938
Derivatives [(1)]	1	205	—	206
Reinsurance assets	—	131	—	131
Other assets - trading account assets	91	—	—	91
Total assets measured at fair value	**$ 4,937**	**$ 63,070**	**$ 3,306**	**$ 71,313**
Liabilities measured at fair value				
Derivatives [(2)]	$ 2	$ 721	$ —	$ 723
Investment contract liabilities	—	1,740	22	1,762
Total liabilities measured at fair value	**$ 2**	**$ 2,461**	**$ 22**	**$ 2,485**

(1) Excludes collateral received from counterparties of $38.
(2) Excludes collateral pledged to counterparties of $208.

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)

	2016			
Assets measured at fair value	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,939	$ —	$ —	$ 1,939
Financial assets at fair value through profit or loss				
Bonds	—	45,832	1	45,833
Stocks	2,427	1	17	2,445
Total financial assets at fair value through profit or loss	2,427	45,833	18	48,278
Available-for-sale financial assets				
Bonds	—	6,338		6,338
Stocks		—	1	1
Total available-for-sale financial assets	—	6,338	1	6,339
Investment properties	—	—	3,033	3,033
Funds held by ceding insurers	214	8,391	—	8,605
Derivatives (1)	1	205	—	206
Reinsurance assets	—	162	—	162
Other assets - trading assets	81	—	—	81
Total assets measured at fair value	$ 4,662	$ 60,929	$ 3,052	$ 68,643
Liabilities measured at fair value				
Derivatives (2)	$ 1	$ 1,031	$ —	$ 1,032
Investment contract liabilities	—	1,905	20	1,925
Total liabilities measured at fair value	$ 1	$ 2,936	$ 20	$ 2,957

(1) Excludes collateral received from counterparties of $6.
(2) Excludes collateral pledged to counterparties of $283.

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 [3]**	**Available-for-sale stocks**	**Investment properties**	**Total Level 3 assets**	**Investment contract liabilities**
Balance, beginning of year	$ 1	$ —	$ 17	$ 1	$ 3,033	$ 3,052	$ 20
Total gains							
Included in net earnings	1		1	—	105	107	—
Included in other comprehensive income [1]	4	—	—	—	68	72	—
Purchases	—	—	—	—	88	88	—
Sales	—	—	—	—	(72)	(72)	—
Other	—	—	—	—	—	—	2
Transfers into Level 3 [2]	60	—	—	—	—	60	—
Transfers out of Level 3 [2]	(1)	—	—	—	—	(1)	—
Balance, end of year	$ 65	$ —	$ 18	$ 1	$ 3,222	$ 3,306	$ 22
Total gains for the year included in net investment income	$ 1	$ —	$ 1	$ —	$ 105	$ 107	$ —
Change in unrealized gains for the year included in earnings for assets held at December 31, 2017	$ 1	$ —	$ 1	$ —	$ 84	$ 86	$ —

(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 [3]	Available-for-sale stocks	Investment properties	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	$ 10	$ 1	$ 22	$ 1	$ 3,703	$ 3,737	$ 27
Total losses							
Included in net earnings	—	—	(1)	—	(26)	(27)	—
Included in other comprehensive income [1]	—	—	—	—	(633)	(633)	—
Purchases	—	—	7	—	51	58	—
Sales	—	—	(11)	—	(62)	(73)	—
Other	—	—	—	—	—	—	(7)
Transfers into Level 3 [2]	—	—	—	—	—	—	—
Transfers out of Level 3 [2]	(9)	(1)	—	—	—	(10)	—
Balance, end of year	$ 1	$ —	$ 17	$ 1	$ 3,033	$ 3,052	$ 20
Total losses for the year included in net investment income	$ —	$ —	$ (1)	$ —	$ (26)	$ (27)	$ —
Change in unrealized losses for the year included in earnings for assets held at December 31, 2016	$ —	$ —	$ (1)	$ —	$ (27)	$ (28)	$ —

(1) Amount of other comprehensive income for investment properties represents the unrealized gain (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 and liabilities categorized as Level 3 in the fair value hierarchy:

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.6% - 10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.8% - 7.5%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 1.4%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.

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

	2017				
	Level 1	Level 2	Level 3	Other assets/ liabilities not held at fair value	Total
Assets disclosed at fair value					
Loans and receivables financial assets					
Bonds	$ —	$ 8,112	$ 54	$ 1,202	$ 9,368
Mortgage loans	—	7,422	—	—	7,422
Loans to policyholders	—	933	—	—	933
Total loans and receivables financial assets	—	16,467	54	1,202	17,723
Available-for-sale financial assets					
Stocks (1)	—	—	—	100	100
Other stocks (2)	—	—	—	2	2
Funds held by ceding insurers	—	—	—	106	106
Total assets disclosed at fair value	$ —	$ 16,467	$ 54	$ 1,410	$ 17,931
Liabilities disclosed at fair value					
Debentures and other debt instruments	$ —	$ 128	$ —	$ 875	$ 1,003
Capital trust securities	—	221	—	—	221
Total liabilities disclosed at fair value	$ —	$ 349	$ —	$ 875	$ 1,224

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

(2) Other stocks includes equity investments over which the Company exerts significant influence but does not control.

8. Fair Value Measurement (cont'd)

	2016				
	Level 1	Level 2	Level 3	Other assets/ liabilities not held at fair value	Total
Assets disclosed at fair value					
Loans and receivables financial assets					
Bonds	$ —	$ 7,416	$ 74	$ 1,209	$ 8,699
Mortgage loans	—	7,240	—	—	7,240
Loans to policyholders	—	973	—	—	973
Total loans and receivables financial assets	—	15,629	74	1,209	16,912
Available-for-sale financial assets					
Stocks (1)	—	—	—	135	135
Other stocks (2)	—	—	—	193	193
Funds held by ceding insurers	—	—	—	118	118
Total assets disclosed at fair value	$ —	$ 15,629	$ 74	$ 1,655	$ 17,358
Liabilities disclosed at fair value					
Debentures and other debt instruments	$ —	$ 405	$ —	$ 852	$ 1,257
Capital trust securities	—	212	—	—	212
Total liabilities disclosed at fair value	$ —	$ 617	$ —	$ 852	$ 1,469

(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 investment in Allianz Ireland, an unlisted general insurance company operating in Ireland over which the Company exerts significant influence but does not control.

9. Goodwill and Intangible Assets

(a) Goodwill

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

	2017	2016
Balance, beginning of year	**$ 756**	$ 731
Business acquisition	**—**	95
Changes in foreign exchange rates	**38**	(70)
Balance, end of year	**$ 794**	$ 756

9. Goodwill and Intangible Assets (cont'd)

(ii) Within the operating segments 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:

	2017	2016 [1]
Individual Customer	**$ 16**	$ 16
Group Customer	**10**	10
Insurance and Annuities	**749**	711
United States	**19**	19
Total	**$ 794**	$ 756

[1] 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.

(b) Intangible Assets

Intangible assets of $362 ($335 in 2016) include 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**	**Total**
Cost			
Balance, beginning of year	**$ 136**	**$ —**	**$ 136**
Changes in foreign exchange rates	**9**	**—**	**9**
Balance, end of year	**$ 145**	**$ —**	**$ 145**

	2016		
	Brands and trademarks	Customer contract related	Total
Cost			
Balance, beginning of year	$ 144	$ 3	$ 147
Transfer to finite life	—	(3)	(3)
Changes in foreign exchange rates	(8)	—	(8)
Balance, end of year	$ 136	$ —	$ 136

Indefinite life intangible assets have been assigned to the Insurance and Annuities cash generating unit grouping within the Europe/Reinsurance business unit.

9. Goodwill and Intangible Assets (cont'd)

(ii) 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				
Balance, beginning of year	**$ 162**	**$ 28**	**$ 184**	**$ 374**
Additions	**—**	**—**	**43**	**43**
Changes in foreign exchange rates	**10**	**2**	**11**	**23**
Disposals	**—**	**—**	**(7)**	**(7)**
Balance, end of year	**$ 172**	**$ 30**	**$ 231**	**$ 433**
Accumulated amortization and impairment				
Balance, beginning of year	**$ (40)**	**$ (14)**	**$ (121)**	**$ (175)**
Changes in foreign exchange rates	**(3)**	**(1)**	**(5)**	**(9)**
Disposals	**—**	**—**	**6**	**6**
Amortization	**(15)**	**(1)**	**(22)**	**(38)**
Balance, end of year	**$ (58)**	**$ (16)**	**$ (142)**	**$ (216)**
Net carrying amount	**$ 114**	**$ 14**	**$ 89**	**$ 217**

	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	$ 127	$ 30	$ 143	$ 300
Additions	39	—	46	85
Transfers from indefinite life	3	—	—	3
Changes in foreign exchange rates	(7)	(2)	(5)	(14)
Balance, end of year	$ 162	$ 28	$ 184	$ 374
Accumulated amortization and impairment				
Balance, beginning of year	$ (30)	$ (13)	$ (102)	$ (145)
Changes in foreign exchange rates	3	—	3	6
Amortization	(13)	(1)	(22)	(36)
Balance, end of year	$ (40)	$ (14)	$ (121)	$ (175)
Net carrying amount	$ 122	$ 14	$ 63	$ 199

The weighted average remaining amortization period of the customer contract related and distribution channels are 11 and 16 years respectively (12 and 17 years respectively at December 31, 2016).

9. Goodwill and Intangible Assets (cont'd)

(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 acquisition transactions. These valuation multiples may include price-to-earnings or price-to-book measures for life insurers and asset managers. This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 inputs.

In the fourth quarter of 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 fixed assets and the changes in the carrying value of owner occupied properties and fixed assets are as follows:

	2017	2016
Carrying value, beginning of year	**$ 230**	$ 230
Less: accumulated depreciation/impairments	**(9)**	(7)
Net carrying value, beginning of year	**221**	223
Additions	**57**	6
Depreciation	**(2)**	(2)
Changes in foreign exchange rates	**5**	(6)
Net carrying value, end of year	**$ 281**	$ 221

The net carrying value of fixed assets is $65 at December 31, 2017 ($60 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

	2017	2016
Deferred acquisition costs	**$ 574**	$ 523
Defined benefit pension plan asset (note 23)	**193**	214
Trading account assets	**91**	81
Finance lease receivable	**160**	80
Prepaid expenses	**21**	17
Miscellaneous other assets	**65**	79
Total	**$ 1,104**	$ 994

Total other assets of $184 ($181 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

	2017	2016
Balance, beginning of year	**$ 523**	$ 632
Additions	**112**	60
Amortization	**(48)**	(46)
Changes in foreign exchange rates	**26**	(73)
Disposals	**(39)**	(50)
Balance, end of year	**$ 574**	$ 523

Finance leases receivable

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 leases receivable for the four properties, in aggregate, is as follows:

	2017	
	Minimum lease payments	**Present value of minimum lease payments**
One year	$ 7	$ 7
Over one year to five years	29	25
Over five years	327	128
	363	160
Less: unearned finance lease income	203	—
Total finance leases receivable	**$ 160**	**$ 160**

The internal rate of return for the leases ranges between 3.7% and 6.2%.

12. Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

	2017		
	Gross liability	**Reinsurance assets**	**Net**
Insurance contract liabilities	**$ 80,717**	**$ 8,372**	**$ 72,345**
Investment contract liabilities	**1,762**	**131**	**1,631**
Total	**$ 82,479**	**$ 8,503**	**$ 73,976**

	2016		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	$ 78,459	$ 9,147	$ 69,312
Investment contract liabilities	1,925	162	1,763
Total	$ 80,384	$ 9,309	$ 71,075

(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	**$ 7,598**	**$ (350)**	**$ 7,948**
Europe/Reinsurance	**1,286**	**—**	**1,286**
United States	**2,401**	**(1)**	**2,402**
Non-Participating			
Individual Customer	**10,103**	**1,497**	**8,606**
Group Customer	**6,640**	**144**	**6,496**
Europe/Reinsurance	**52,740**	**6,140**	**46,600**
United States	**1,711**	**1,073**	**638**
Total	**$ 82,479**	**$ 8,503**	**$ 73,976**

	2016		
	Gross liability	Reinsurance assets	Net
Participating			
Individual Customer	$ 6,733	$ (312)	$ 7,045
Europe/Reinsurance	1,385	—	1,385
United States	2,605	(4)	2,609
Non-Participating			
Individual Customer	9,990	1,800	8,190
Group Customer	6,181	147	6,034
Europe/Reinsurance	51,573	6,443	45,130
United States	1,917	1,235	682
Total	$ 80,384	$ 9,309	$ 71,075

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**
Carrying value						
Participating liabilities						
Individual Customer	**$ 4,511**	**$ 1,449**	**$ 797**	**$ 240**	**$ 601**	**$ 7,598**
Europe/Reinsurance	**928**	**27**	**110**	**48**	**173**	**1,286**
United States	**1,768**	**320**	**—**	**—**	**313**	**2,401**
Non-participating liabilities						
Individual Customer	**8,338**	**422**	**1,310**	**16**	**17**	**10,103**
Group Customer	**4,144**	**555**	**38**	**—**	**1,903**	**6,640**
Europe/Reinsurance	**32,627**	**3,569**	**258**	**2,811**	**13,475**	**52,740**
United States	**546**	**77**	**—**	**—**	**1,088**	**1,711**
Other liabilities	**2,720**	**163**	**222**	**17**	**115,126**	**118,248**
Total equity	**7,850**	**217**	**56**	**90**	**3,744**	**11,957**
Total carrying value	**$ 63,432**	**$ 6,799**	**$ 2,791**	**$ 3,222**	**$ 136,440**	**$ 212,684**
Fair value	**$ 64,361**	**$ 7,422**	**$ 2,791**	**$ 3,222**	**$ 136,440**	**$ 214,236**

	2016 (note 33)					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Individual Customer	$ 4,153	$ 1,370	$ 674	$ 200	$ 336	$ 6,733
Europe/Reinsurance	988	32	123	56	186	1,385
United States	1,948	307	—	—	350	2,605
Non-participating liabilities(1)						
Individual Customer	7,885	435	1,219	—	451	9,990
Group Customer	3,585	464	52	—	2,080	6,181
Europe/Reinsurance	31,088	3,557	232	2,678	14,018	51,573
United States	556	87	—	—	1,274	1,917
Other liabilities	2,954	181	231	16	102,442	105,824
Total equity	6,801	177	243	83	3,480	10,784
Total carrying value	$ 59,958	$ 6,610	$ 2,774	$ 3,033	$ 124,617	$ 196,992
Fair value	$ 60,870	$ 7,240	$ 2,774	$ 3,033	$ 124,617	$ 198,534

(1) 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) Changes 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		
	Participating		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	$ 10,704	$ (316)	$ 11,020
Impact of new business	(86)	—	(86)
Normal change in force	853	(15)	868
Management action and changes in assumptions	53	(20)	73
With Profits Fund conversion	(74)	—	(74)
Business movement from/to affiliates	—	—	—
Impact of foreign exchange rate changes	(181)	—	(181)
Balance, end of year	$ 11,269	$ (351)	$ 11,620

	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	$ 67,755	$ 9,463	$ 58,292	$ 69,312
Impact of new business	3,195	193	3,002	2,916
Normal change in force	(1,675)	(141)	(1,534)	(666)
Management action and changes in assumptions	(1,126)	(821)	(305)	(232)
With Profits Fund conversion	74	—	74	—
Business movement from/to affiliates	—	(38)	38	38
Business movement from/to external parties	(51)	—	(51)	(51)
Impact of foreign exchange rate changes	1,276	67	1,209	1,028
Balance, end of year	$ 69,448	$ 8,723	$ 60,725	$ 72,345

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

	2016		
	Participating		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	$ 10,481	$ (283)	$ 10,764
Impact of new business	(147)	—	(147)
Normal change in force	644	(31)	675
Management action and changes in assumptions	(70)	(1)	(69)
Impact of foreign exchange rate changes	(204)	(1)	(203)
Balance, end of year	$ 10,704	$ (316)	$ 11,020

	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	$ 73,442	$ 8,764	$ 64,678	$ 75,442
Impact of new business	2,535	354	2,181	2,034
Normal change in force	1,029	185	844	1,519
Management action and changes in assumptions	21	353	(332)	(401)
Business movement from/to external parties	(4)	—	(4)	(4)
Business movement from/to affiliates	—	177	(177)	(177)
Impact of foreign exchange rate changes	(9,268)	(370)	(8,898)	(9,101)
Balance, end of year	$ 67,755	$ 9,463	$ 58,292	$ 69,312

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 $2,916, foreign exchange rate changes of $1,028 and business to/from affiliates of $38. This was partially offset by decreases in normal change of in force business of $666, management action and changes in assumptions of $232 and business movement to/from external parties of $51.

Net non-participating insurance contract liabilities decreased by $305 in 2017 due to management actions and assumption changes. The decrease was primarily due to updated economic assumptions of $259, updated longevity assumptions of $237, updated life mortality assumptions of $23, partially offset by increases due to updated policyholder behaviour assumptions of $163, modeling refinements of $30, updated expense and tax assumptions of $10, and updates to other provisions of $9.

Net participating insurance contract liabilities increased by $73 in 2017 due to management actions and assumption changes. The increase was primarily due to lower investment returns of $1,855, updated policyholder behaviour assumptions of $62 and modeling refinements of $7, partially offset by decreases to provisions for future policyholder dividends of $1,641, updated expense and tax assumptions of $204 and updated life mortality assumptions of $6.

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

In 2016, the major contributors to the decrease in net insurance contract liabilities were the impact of foreign exchange rate changes of $9,101, management action and changes in assumptions of $401, and the business movement to/from affiliates of $177, partially offset by increases due to impact of new business of $2,034 and normal change in force of $1,519.

Net non-participating insurance contract liabilities decreased by $332 in 2016 due to management actions and assumption changes. The decrease was primarily due to updated longevity assumptions of $227, updated economic assumptions of $170, updated morbidity assumptions of $47 and modeling refinements of $40 and updates to other provisions of $11. This was partially offset by increases due to updated expense and tax assumptions of $120 and updated mortality assumptions of $46.

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 $69 in 2016 due to management actions and assumption changes. The decrease was primarily due to higher investment returns of $59, provisions for future policyholder dividends of $35, updated expense and tax assumptions of $12 updated life mortality assumptions of $2 and updated morbidity assumptions of $2. This was partially offset by increases due to modeling refinements of $29 and updated policyholder behaviour assumptions of $13.

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

	2017			2016		
	Gross liability	**Reinsurance assets**	**Net**	Gross liability	Reinsurance assets	Net
Balance, beginning of year	**$ 1,925**	**$ 162**	**$ 1,763**	$ 2,178	$ 188	$ 1,990
Normal change in force business	**(171)**	**(33)**	**(138)**	(219)	(26)	(193)
Investment experience	**95**	**11**	**84**	82	6	76
Management action and changes in assumptions	**(22)**	**—**	**(22)**	(46)	—	(46)
Impact of foreign exchange rate changes	**(65)**	**(9)**	**(56)**	(70)	(6)	(64)
Balance, end of year	**$ 1,762**	**$ 131**	**$ 1,631**	$ 1,925	$ 162	$ 1,763

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	**$ 10,606**	$ 8,926
Assumed reinsurance premiums	**12,566**	11,008
Total	**$ 23,172**	$ 19,934

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

(ii) Policyholder Benefits

		2017		2016
Direct	**$**	**6,689**	$	6,525
Assumed reinsurance		**13,141**		11,593
Total	**$**	**19,830**	$	18,118

(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.

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.

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 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)).

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 Canadian Asset Liability Method as inflation is assumed to be correlated with new money interest rates.

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

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.

(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, Canada 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.

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

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.

	Increase (decrease) in net earnings	
	2017	2016
Mortality - 2% increase	**$ (212)**	$ (199)
Annuitant mortality - 2% decrease	**$ (435)**	$ (373)
Morbidity - 5% adverse change	**$ (104)**	$ (101)
Investment returns		
Parallel shift in yield curve		
1% increase	**$ —**	$ —
1% decrease	**$ —**	$ —
Change in interest rates		
1% increase	**$ 114**	$ 101
1% decrease	**$ (382)**	$ (305)
Change in equity values		
10% increase	**$ 45**	$ 40
10% decrease	**$ (61)**	$ (45)
Change in best estimate return assumptions for equities		
1% increase	**$ 351**	$ 321
1% decrease	**$ (359)**	$ (331)
Expenses - 5% increase	**$ (78)**	$ (74)
Policy termination and renewal - 10% adverse change	**$ (394)**	$ (359)

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.

	2017			2016		
	Gross liability	**Reinsurance assets**	**Net**	Gross liability	Reinsurance assets	Net
Canada	**$ 24,341**	**$ 1,291**	**$ 23,050**	$ 22,904	$ 1,635	$ 21,269
United States	**4,112**	**1,072**	**3,040**	4,522	1,231	3,291
Europe	**54,026**	**6,140**	**47,886**	52,958	6,443	46,515
Total	**$ 82,479**	**$ 8,503**	**$ 73,976**	$ 80,384	$ 9,309	$ 71,075

(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.

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

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 line items within the Consolidated Balance Sheets titled investments on account of segregated fund policyholders and with an equal 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 $1,085 at December 31, 2017 ($1,060 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.

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. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits.

In Europe, the Company offers UWP products 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 $1,441 ($1,398 at December 31, 2016).

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

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

	2017	2016
Cash and cash equivalents	**$ 10,772**	$ 10,021
Bonds	**17,082**	15,765
Stocks and units in unit trusts	**72,995**	62,180
Mutual funds	**3,482**	3,636
Investment properties	**4,014**	4,035
	108,345	95,637
Accrued income	**226**	207
Other assets	**379**	269
Non-controlling mutual funds interest	**1,085**	1,060
Total	**$ 110,035**	$ 97,173

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

	2017	2016
Balance, beginning of year	**$ 97,173**	$ 98,587
Additions (deductions):		
Policyholder deposits	**13,307**	10,119
Net investment income	**267**	91
Net realized capital gains on investments	**2,843**	2,693
Net unrealized capital gains on investments	**2,380**	3,939
Unrealized gains (losses) due to changes in foreign exchange rates	**4,685**	(9,544)
Policyholder withdrawals	**(10,637)**	(8,995)
Business and other acquisitions	**—**	193
Net transfer to General Fund	**(8)**	(28)
Non-controlling mutual funds interest	**25**	118
Total	**12,862**	(1,414)
Balance, end of year	**$ 110,035**	$ 97,173

(c) Investment income on account of segregated fund policyholders

	2017	2016
Net investment income	**$ 267**	$ 91
Net realized capital gains on investments	**2,843**	2,693
Net unrealized capital gains on investments	**2,380**	3,939
Unrealized gains (losses) due to changes in foreign exchange rates	**4,685**	(9,544)
Total	**10,175**	(2,821)
Change in investment and insurance contracts liability on account of segregated fund policyholders	**10,175**	(2,821)
Net	**$ —**	$ —

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

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

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments on account of segregated fund policyholders [1]	**$ 65,329**	**$ 39,202**	**$ 5,065**	**$ 109,596**

[1] Excludes other assets, net of other liabilities, of $439.

	2016			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [1]	$ 58,999	$ 32,727	$ 5,047	$ 96,773

[1] Excludes other assets, net of other liabilities, of $400.

During 2017, certain foreign stock holdings valued at $61 have been transferred from Level 1 to Level 2 ($10 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.

As at December 31, 2017, $734 ($639 at December 31, 2016) of the segregated funds were invested in funds managed by a related party, Mackenzie Investments, a member of the Power Financial group of companies (note 25).

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
Balance, beginning of year	**$ 5,047**	$ 5,176
Total gains (losses) included in segregated fund investment income	**334**	(150)
Purchases	**468**	207
Sales	**(918)**	(361)
Transfers into Level 3	**136**	175
Transfers out of Level 3	**(2)**	—
Balance, end of year	**$ 5,065**	$ 5,047

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.

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

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 $1,404 ($1,407 December 31, 2016).

Included within other assets (note 11) at December 31, 2017 is $91 ($81 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	**$ 23**	$ 22
Interest on capital trust securities (note 16)	**11**	11
Other	**6**	6
Total	**$ 40**	$ 39

15. Debentures and Other Debt Instruments

	2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value
Long-term				
6.40% subordinated debentures due December 11, 2028, unsecured	**$ 100**	**$ 128**	$ 100	$ 128
Subordinated note due September 29, 2026 non-interest bearing, unsecured (note 25)	**400**	**400**	400	400
4.68% £32 and £56 promissory notes, matures February 25, 2034, unsecured (note 25)	**150**	**150**	146	146
4.35% £13 promissory note, matures May 15, 2029, unsecured (note 25)	**23**	**23**	22	22
200 euro subordinated loan, matures December 7, 2031, bearing an interest rate of 2.73% 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 25) [1]	**302**	**302**	284	284
200 euro subordinated debentures callable on February 8, 2017, bearing an interest rate of 5.25%, includes associated fixed to floating swap, unsecured [2]	**—**	**—**	285	277
Total	**$ 975**	**$ 1,003**	$ 1,237	$ 1,257

[1] On December 7, 2016 the Company issued to the parent company a 200 euro, 15 year subordinated loan with an annual interest rate of 2.73% 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 25).

[2] 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
7.529% due June 30, 2052, unsecured	**$ 150**	**$ 221**	$ 150	$ 212

Canada Life Capital Trust (CLCT), a trust established by Canada Life, 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 23)	$ 335	$ 414
Deferred income reserves	303	309
Bank overdraft	50	126
Other	1,213	1,129
Total	$ 1,901	$ 1,978

Total other liabilities of $1,263 ($1,255 at December 31, 2016) are expected to be realized within 12 months from the reporting date. This amount excludes deferred income reserve, the changes in which are noted below.

Deferred income reserves

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

18. Participating Account

Net earnings attributable to the participating account recorded in the Consolidated Statements of Earnings are as follows:

	2017	2016
Net earnings attributable to participating account before policyholder dividends	$ 299	$ 453
Policyholder dividends	(312)	(314)
Net earnings (loss) - participating account	$ (13)	$ 139

19. Non-Controlling Interests

The Company had a controlling interest in MAM Holdings Inc. at December 31, 2017 and December 31, 2016. The Company's parent, Great-West Life has a non-controlling equity interest in MAM Holdings Inc., an indirectly held subsidiary of the Company, at December 31, 2017 and December 31, 2016. The net earrings attributable to non-controlling interests in the Consolidated Statements of Earnings for the year ended December 31, 2017 was $6 ($9 for the year ended December 31, 2016). Non-controlling interests on the Consolidated Balance Sheets for December 31, 2017 was $96 ($90 at December 31, 2016).

20. Share Capital

Authorized

Unlimited Class A, Class B, Class C, Class D, Class E, and Class F Preferred Shares
Unlimited Common Shares

Issued and outstanding

	2017		2016	
	Number	**Carrying value**	Number	Carrying value
Preferred shares				
Class A, Series 1, Non-Cumulative	**18,000**	**$ —**	18,000	$ —
Class B, Series 1, 7.23% Cumulative	**8,000,000**	**200**	8,000,000	200
Total	**8,018,000**	**$ 200**	8,018,000	$ 200
Balance, beginning of year	**258,887,312**	**$ 2,277**	258,887,312	$ 2,277
Issued to parent company	**6,851,375**	**395**	—	—
Balance, end of year	**265,738,687**	**$ 2,672**	258,887,312	$ 2,277

The Class A, Series 1 Non-Cumulative Preferred Shares are redeemable at the option of the Company for a price of $25 per share on or after the date on which there are no CLCT capital trust securities outstanding, subject to regulatory approval.

The Class B, Series 1, 7.23% Cumulative Preferred Shares are redeemable at the option of the Company for $25 per share together with all unpaid dividends.

On December 19, 2017 the Company issued 6,851,375 common shares to CLFC for total consideration of $395.

21. 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 shareholders' 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 monitoring capital adequacy. The Board of Directors reviews and approves all capital transactions undertaken by management and capital adequacy metrics to ensure it reflects the Company's strategic business plan.

21. Capital Management (cont'd)

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 (MSSCR). For this purpose, various additions or deductions from capital are mandated by the guidelines issued by OSFI. The following provides a summary of the MCCSR information and ratios for Canada Life:

	2017	2016
Adjusted Net Tier 1 Capital	**$ 9,362**	$ 8,315
Net Tier 2 Capital	**2,360**	2,382
Total Available Capital	**$ 11,722**	$ 10,697
Total Capital Required	**$ 4,129**	$ 3,890
Tier 1 Ratio	**227%**	214%
Total Ratio	**284%**	275%

The MCCSR ratio of 284% for Canada Life includes 10 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 for 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 December 31, 2016 the Company maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

22. Share-Based Payments

(a) 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 mandatory Deferred Share Unit Plans and/or 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 Plans, 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 Plans, 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).

(b) 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 $3 ($3 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 $8 ($8 in 2016) recorded within other liabilities.

(c) 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 $1 ($1 in 2016) for the ESOP recorded in operating and administrative expenses in the Consolidated Statements of Earnings.

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

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

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 trusteed 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 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 pension plan 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.

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

The following reflects the financial position of the Company and its subsidiaries 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
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	**$ 3,701**	$ 3,661	**$ —**	$ —
Interest income	**105**	122	**—**	—
Actual return over interest income	**157**	163	**—**	—
Employer contributions	**57**	72	**4**	5
Employee contributions	**6**	8	**—**	—
Benefits paid	**(107)**	(93)	**(4)**	(5)
Surplus paid out to employer	**—**	(8)	**—**	—
Settlements	**—**	(19)	**—**	—
Administrative expenses	**(2)**	(7)	**—**	—
Net transfer out	**(7)**	(6)	**—**	—
Foreign exchange rate changes	**132**	(192)	**—**	—
Fair value of plan assets, end of year	**$ 4,042**	$ 3,701	**$ —**	$ —
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	**$ 3,724**	$ 3,590	**$ 86**	$ 87
Current service cost	**63**	60	**—**	—
Interest cost	**102**	116	**3**	3
Employee contributions	**6**	8	**—**	—
Benefits paid	**(107)**	(93)	**(4)**	(5)
Plan amendments	**2**	—	**—**	—
Curtailments and termination benefits [1]	**(5)**	(14)	**—**	—
Settlements	**—**	(19)	**—**	—
Actuarial loss (gain) on financial assumption changes	**95**	375	**4**	2
Actuarial loss (gain) on demographic assumption changes	**(2)**	(1)	**(4)**	(1)
Actuarial gain arising from member experience	**(3)**	(59)	**—**	—
Net transfer out	**(7)**	(6)	**—**	—
Foreign exchange rate changes	**139**	(233)	**—**	—
Defined benefit obligation, end of year	**$ 4,007**	$ 3,724	**$ 85**	$ 86
Asset (liability) recognized on the Consolidated Balance Sheets				
Funded status of plans - surplus (deficit)	**$ 35**	$ (23)	**$ (85)**	$ (86)
Unrecognized amount due to asset ceiling	**(92)**	(91)	**—**	—
Asset (liability) recognized on the Consolidated Balance Sheets	**$ (57)**	$ (114)	**$ (85)**	$ (86)
Recorded in:				
Other assets (note 11)	**$ 193**	$ 214	**$ —**	$ —
Other liabilities (note 17)	**(250)**	(328)	**(85)**	(86)
Asset (liability) recognized on the Consolidated Balance Sheets	**$ (57)**	$ (114)	**$ (85)**	$ (86)
Analysis of defined benefit obligation				
Wholly or partly funded plans	**$ 3,924**	$ 3,643	**$ —**	$ —
Wholly unfunded plans	**$ 83**	$ 81	**$ 85**	$ 86

[1] 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 28).

23. 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 each pension plan's 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 table provides a breakdown of the changes in the asset ceiling:

	Defined benefit pension plans	
	2017	2016
Change in asset ceiling		
Asset ceiling, beginning of year	**$ 91**	$ 83
Interest on beginning of period asset ceiling	**4**	3
Change in asset ceiling	**(3)**	5
Asset ceiling, end of year	**$ 92**	$ 91

(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:

	All pension plans		Other post-employment benefits	
	2017	2016	**2017**	2016
Defined benefit current service cost	**$ 69**	$ 68	**$ —**	$ —
Defined contribution current service cost	**24**	20	**—**	—
Employee contributions	**(6)**	(8)	**—**	—
Employer current service cost	**87**	80	**—**	—
Administrative expense	**2**	7	**—**	—
Plan amendments	**2**	—	**—**	—
Curtailments	**(3)**	(14)	**—**	—
Net interest cost	**1**	(3)	**3**	3
Expense - profit or loss	**89**	70	**3**	3
Actuarial (gain) loss recognized	**90**	315	**—**	1
Return on assets greater than assumed	**(157)**	(163)	**—**	—
Change in the asset ceiling	**(3)**	5	**—**	—
Actuarial loss - investment in associate [1]	**1**	—	**—**	—
Re-measurements - other comprehensive (income) loss	**(69)**	157	**—**	1
Total expense (income) including re-measurements	**$ 20**	$ 227	**$ 3**	$ 4

[1] 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).

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

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

	Defined benefit pension plans	
	2017	2016
Equity securities	**41%**	44%
Debt securities	**43%**	41%
Real estate	**8%**	7%
Cash and cash equivalents	**8%**	8%
Total	**100%**	100%

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 $3,670 at December 31, 2017 and $3,342 at December 31, 2016, of which $3,597 ($3,277 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

	Defined benefit pension plans		Other post-employment benefits	
	2017	2016	**2017**	2016
Benefit obligation without future salary increases	**$ 3,562**	$ 3,324	**$ 85**	$ 86
Effect of assumed future salary increases	**445**	400	**—**	—
Defined benefit obligation	**$ 4,007**	$ 3,724	**$ 85**	$ 86

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

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

	Defined benefit pension plans		Other post-employment benefits	
	2017	2016	**2017**	2016
Benefit obligation without future pension increases	**$ 3,440**	$ 3,297	**$ 85**	$ 86
Effect of assumed future pension increases	**567**	427	**—**	—
Defined benefit obligation	**$ 4,007**	$ 3,724	**$ 85**	$ 86

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

23. 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	**35%**	37%	**11%**	10%
Deferred vesteds	**29%**	27%	**n/a**	n/a
Retirees	**36%**	36%	**89%**	90%
Total	**100%**	100%	**100%**	100%
Weighted average duration of defined benefit obligation	**21.2 years**	22.0 years	**10.8 years**	11.7 years

(e) Cash Flow Information

	Pension plans	Other post-employment benefits	Total
Expected employer contributions for 2018:			
Funded (wholly or partly) defined benefit plans	$ 63	$ —	$ 63
Unfunded plans	4	5	9
Defined contribution plans	25	—	25
Total	**$ 92**	**$ 5**	**$ 97**

(f) Actuarial Assumptions and Sensitivities

(i) Actuarial Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2017	2016	**2017**	2016
To determine benefit cost:				
Discount rate - past service liabilities	**2.7%**	3.4%	**3.8%**	4.0%
Discount rate - future service liabilities	**2.6%**	3.2%	**4.1%**	4.3%
Rate of compensation increase	**2.9%**	2.9%	**—**	—
Future pension increases [(1)]	**1.1%**	1.5%	**—**	—
To determine defined benefit obligation:				
Discount rate - past service liabilities	**2.7%**	2.7%	**3.4%**	3.8%
Rate of compensation increase	**2.9%**	2.9%	**—**	—
Future pension increases [(1)]	**1.3%**	1.1%	**—**	—
Medical cost trend rates:				
Initial medical cost trend rate			**5.0%**	5.0%
Ultimate medical cost trend rate			**4.5%**	4.5%
Year ultimate trend rate is reached			**2029**	2029

[(1)] Represents the weighted average of plans subject to future pension increases.

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

(ii) Sample Life Expectancies Based on Mortality Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2017	2016	**2017**	2016
Sample life expectancies based on mortality assumption:				
Male				
Age 65 in fiscal year	**23.7**	23.7	**22.5**	22.4
Age 65 for those age 35 in the fiscal year	**26.3**	26.3	**24.0**	24.0
Female				
Age 65 in fiscal year	**25.3**	25.1	**24.9**	24.8
Age 65 for those age 35 in the fiscal year	**27.7**	27.5	**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 $122 for the defined benefit pension plans and $3 for other post-employment benefits.

(iii) Impact of Changes to Assumptions on Defined Benefit Obligations

	1% increase		1% decrease	
	2017	2016	**2017**	2016
Defined benefit pension plans:				
Impact of a change to the discount rate	**$ (716)**	$ (703)	**$ 958**	$ 903
Impact of a change to the rate of compensation increase	**202**	186	**(173)**	(164)
Impact of a change to the rate of inflation	**484**	458	**(428)**	(417)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	**5**	5	**(4)**	(4)
Impact of a change to the discount rate	**(8)**	(9)	**10**	11

To measure the impact of a change in an assumption, all other assumptions were held constant. It is expected that there would be interaction between at least some of the assumptions.

24. Accumulated Other Comprehensive Income

	2017					
	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 plans**	**Total**	**Participating account**	**Shareholder**
Balance, beginning of year	**$ 32**	**$ 118**	**$ (211)**	**$ (61)**	**$ 7**	**$ (68)**
Other comprehensive income (loss)	**270**	**(38)**	**69**	**301**	**(6)**	**307**
Income tax	**—**	**6**	**(19)**	**(13)**	**1**	**(14)**
	270	**(32)**	**50**	**288**	**(5)**	**293**
Disposal of investment in associate [(1)]	**—**	**—**	**13**	**13**	**—**	**13**
	270	**(32)**	**63**	**301**	**(5)**	**306**
Balance, end of year	**$ 302**	**$ 86**	**$ (148)**	**$ 240**	**$ 2**	**$ 238**

(1) 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 (losses) on translation of foreign operations	Unrealized gains (losses) 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	$ 1,294	$ 53	$ (92)	$ 1,255	$ 11	$ 1,244
Other comprehensive income (loss)	(1,262)	75	(158)	(1,345)	(5)	(1,340)
Income tax	—	(10)	39	29	1	28
	(1,262)	65	(119)	(1,316)	(4)	(1,312)
Balance, end of year	$ 32	$ 118	$ (211)	$ (61)	$ 7	$ (68)

25. Related Party Transactions

Great-West Lifeco Inc. controls The Great-West Life Assurance Company which is the parent of Canada Life Financial Corporation, the direct parent of the Company. As such, the Company is related to Great-West Lifeco Inc. and its other major operating subsidiaries including London Life Insurance Company, Great-West Life & Annuity Insurance Company 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:

Company	Incorporated in	Primary business operation	% Held
The Canada Life Group (U.K.) Limited	U.K.	Insurance and wealth management	100.00%
Canada Life Limited	U.K.	Insurance and wealth management	100.00%
Irish Life Group Limited	Ireland	Insurance and wealth management	100.00%

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

Reinsurance Transactions

The Company has agreements with London Life and its subsidiaries to retrocede certain life and health business. In 2017, for the Consolidated Statements of Earnings, these transactions resulted in a decrease in premium income of $10,672 ($9,045 in 2016) and total paid or credited to policyholders of $10,620 ($8,992 in 2016). The transactions were at market terms and conditions.

Effective April 1, 2007, The Canada Life Insurance Company of Canada (CLICC) and Great-West Life entered into an Indemnity Reinsurance Agreement pursuant to which CLICC assumed liabilities by coinsurance including certain blocks of non-participating group life and health insurance policies, non-participating individual life reinsurance, non-participating group payout annuities and non-participating individual payout annuities. In 2017, for the Consolidated Statements of Earnings, this transaction resulted in an increase of premium income of $527 ($566 in 2016) and total paid or credited to policyholders of $554 ($744 in 2016). The transaction was 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). The transactions were at market terms and conditions.

The Company has an agreement with London Life to cede risks for certain policies. In 2017, for the Consolidated Statements of Earnings these transactions resulted in an increase in operating expenses of $89 ($74 in 2016).

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.

25. Related Party Transactions (cont'd)

Segregated funds of the Company were invested in funds managed by 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 the year, the Company received from IGM and its subsidiaries (IGM), certain administrative services. The Company paid $63 in commissions ($90 in 2016) under an agreement with IGM for distribution services. As well, certain administrative services were provided to and received from Great-West Life and London Life. The Company paid $1 ($1 in 2016) for property management and leasing services from GWL Realty Advisors Inc., a wholly owned subsidiary of Great-West Life. 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 services were provided on market terms and conditions.

During 2017, the Company purchased residential mortgages of $99 ($135 in 2016) from London Life. The Company sold residential mortgages of $5 ($10 in 2016) to London Life. The Company purchased stocks and bonds of $27 ($5 in 2016) from London Life. The above transactions were at market terms and conditions.

Other Related Party Balances

On December 7, 2016 the Company issued to its parent a 200 euro ($302 at December 31, 2017), 15 year subordinated loan with an annual interest rate of 2.73% 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 $8 (nil in 2016) is included in the Consolidated Statements of Earnings.

The Company has promissory notes denominated in pounds of £32 ($55) and £56 ($95) payable to London Life and with Great-West Life, respectively. The promissory notes mature on February 25, 2034 and bear interest at 4.68% (note 15). During 2017, interest expense of $7 ($7 in 2016) is included in the Consolidated Statements of Earnings.

The Company has a promissory note payable denominated in pounds of £13 ($23) with London Life. The promissory note bears interest at 4.35% and matures on May 15, 2029 (note 15). During 2017, interest expense of $1 ($1 in 2016) is included in the Consolidated Statements of Earnings.

At December 31, 2017, the Company had a temporary outstanding balance of $100 ($107 in 2016) payable to Great-West Life and $74 ($66 in 2016) payable to London Life in respect of administrative services provided. These amounts are included in other liabilities and were at market terms and conditions.

The Company has a $200 principal amount note receivable to Great-West Life, with an interest rate of 7.08%. Interest income of $14 ($14 in 2016) is included in the Consolidated Statements of Earnings.

The Company has interest bearing notes receivable from Great-West Life, which have an outstanding balance of $400 ($400 in 2016). The loan is repayable on demand and bears interest at a rate of 0.25%. Interest income of $1 is included in the Consolidated Statements of Earnings ($1 in 2016).

The Company has interest bearing loan payable to LRG of U.S. $104 ($131). The loan is repayable on demand and bears interest at a rate of the London Interbank Offered Rate plus 1.25%. During 2017, interest expense of $3 ($3 in 2016) is included in the Consolidated Statements of Earnings.

The Company has non-interest bearing debentures from London Life, which has an outstanding balance of $400 in 2017 and 2016 (note 15).

The Company has notes payable to Great-West Life which have an outstanding balance of $96 ($96 in 2016). These notes are non-interest bearing.

At December 31, 2017 the Company held $44 ($23 in 2016) of debentures issued by IGM.

The Company has an non-interest bearing note receivable from Great-West Life which has an outstanding balance of $300 ($300 in 2016).

25. Related Party Transactions (cont'd)

The Company has an non-interest bearing note receivable from Great-West Life which has an outstanding balance of $190 ($193 in 2016), due September 21, 2039.

The Company has notes receivable from GWL THL Private Equity 1 Inc., a subsidiary of Great-West Life, which have an outstanding balance of $97 ($110 in 2016).

(c) Key management compensation

Key management personnel constitutes 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 key management personnel are defined at Great-West Life.

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:

	2017	2016
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
Total	**$ 38**	$ 37

26. Income Taxes

(a) Components of the income tax expense

(i) Income tax recognized in Consolidated Statements of Earnings

Current income tax

	2017	2016
Total current year income tax	**$ 173**	$ 204

Deferred income tax

	2017	2016
Origination and reversal of temporary differences	**$ (26)**	$ 78
Effect of changes in tax rates or imposition of new taxes	**12**	(19)
Tax expense (benefit) arising from unrecognized tax losses and credits	**1**	—
Total deferred income tax	**$ (13)**	$ 59
Total income tax expense	**$ 160**	$ 263

26. Income Taxes (cont'd)

(ii) Income tax recognized in other comprehensive income (note 24)

	2017	2016
Current income tax expense (recovery)	$ (1)	$ 1
Deferred income tax expense (recovery)	14	(30)
Total	$ 13	$ (29)

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

	2017		2016	
Earnings before income taxes	$ 1,806		$ 1,963	
Combined basic Canadian federal and provincial tax rate	483	26.75%	525	26.75%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(44)	(2.44)	(48)	(2.45)
Lower effective tax rates on income not subject to tax in Canada	(240)	(13.29)	(210)	(10.70)
U.S. tax reform impact of rate change on deferred income taxes	11	0.61	n/a	n/a
Impact of other rate changes on deferred income taxes	1	0.05	(19)	(0.97)
Other	(51)	(2.82)	15	0.76
Total income tax expense and effective income tax rate	$ 160	8.86%	$ 263	13.39%

(c) Composition and changes in 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
Balance, beginning of year	$ (72)	$ (222)	$ 25	$ (35)	$ 20	$ (75)	$ (359)
Recognized in Statements of Earnings	7	17	11	4	1	(27)	13
Recognized in Statements of Comprehensive income	—	6	—	—	—	(20)	(14)
Foreign exchange rate changes and other	(5)	1	—	(2)	—	(7)	(13)
Balance, end of year	$ (70)	$ (198)	$ 36	$ (33)	$ 21	$ (129)	$ (373)

26. Income Taxes (cont'd)

	2016 (note 33)						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
Balance, beginning of year	$ (22)	$ (225)	$ 26	$ (28)	$ 9	$ (100)	$ (340)
Recognized in Statements of Earnings	(67)	8	(6)	—	24	(18)	(59)
Recognized in Statements of Comprehensive income	—	(10)	—	—	—	40	30
Acquired in business combinations	—	—	5	(9)	—	1	(3)
Foreign exchange rate changes and other	17	5	—	2	(13)	2	13
Balance, end of year	$ (72)	$ (222)	$ 25	$ (35)	$ 20	$ (75)	$ (359)

Recorded on Consolidated Balance Sheets:	**2017**	2016 (note 33)
Deferred tax assets	**$ 97**	$ 125
Deferred tax liabilities	**(470)**	(484)
Total	**$ (373)**	$ (359)

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

At December 31, 2017, the Company has recognized a deferred tax asset of $36 ($25 at December 31, 2016) on tax loss carryforwards totaling $195 ($150 in 2016). Of this amount, $107 expire between 2018 and 2037, while $88 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.

27. Operating and Administrative Expenses

		2017		2016
Salaries and other employee benefits	$	**732**	$	687
General and administrative		**539**		491
Amortization of fixed assets		**24**		24
Total	**$**	**1,295**	$	1,202

28. Restructuring

Canadian Business Transformation

In 2017, the Company recorded a restructuring provision for the Canadian operations transformation plan of $34 pre-tax ($27 pre-tax in the shareholder account and $7 pre-tax in the participating account) 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.

At December 31, 2017, the Company has a restructuring provision of $20 remaining in other liabilities. The change in the restructuring provision for the Canadian Business Transformation is set out below:

Balance, beginning of year	**$**	**—**
Restructuring expense recorded		**34**
Amounts used		**(14)**
Balance, end of year	**$**	**20**

29. Derivative Financial Investments

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 $38 as at December 31, 2017 ($6 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.

29. Derivative Financial Instruments (cont'd)

	2017				
	Notional amount	**Maximum credit risk**	**Future credit exposure**	**Credit risk equivalent**	**Risk weighted equivalent**
Interest rate contracts					
Swaps	**$ 529**	**$ 52**	**$ 7**	**$ 60**	**$ 4**
Options purchased	**100**	**50**	**1**	**51**	**4**
	629	**102**	**8**	**111**	**8**
Foreign exchange contracts					
Forward contracts	**1,140**	**8**	**30**	**35**	**3**
Cross-currency swaps	**5,215**	**95**	**344**	**405**	**26**
	6,355	**103**	**374**	**440**	**29**
Other derivative contracts					
Equity contracts	**62**	**—**	**4**	**4**	**—**
Futures - long	**13**	**—**	**—**	**—**	**—**
Futures - short	**373**	**1**	**—**	**—**	**—**
	448	**1**	**4**	**4**	**—**
Total	**$ 7,432**	**$ 206**	**$ 386**	**$ 555**	**$ 37**

	2016				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Swaps	$ 904	$ 73	$ 8	$ 80	$ 5
Options purchased	96	48	1	49	4
	1,000	121	9	129	9
Foreign exchange contracts					
Forward contracts	1,122	35	13	47	4
Cross-currency swaps	4,799	49	308	352	21
	5,921	84	321	399	25
Other derivative contracts					
Equity contracts	55	—	3	4	—
Futures - long	11	—	—	—	—
Futures - short	308	1	—	—	—
	374	1	3	4	—
Total	$ 7,295	$ 206	$ 333	$ 532	$ 34

29. Derivative Financial Instruments (cont'd)

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

	2017				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1-5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Swaps	$ 3	$ 63	$ 463	$ 529	$ 31
Options purchased	15	48	37	100	50
	18	111	500	629	81
Foreign exchange contracts					
Forward contracts	665	—	—	665	7
Cross-currency swaps	243	1,267	3,705	5,215	(560)
	908	1,267	3,705	5,880	(553)
Other derivative contracts					
Equity contracts	62	—	—	62	(1)
Futures - long	13	—	—	13	—
Futures - short	373	—	—	373	(2)
	448	—	—	448	(3)
Net investment hedges					
Foreign exchange forward contracts	—	475	—	475	(42)
Total	$ 1,374	$ 1,853	$ 4,205	$ 7,432	$ (517)

29. Derivative Financial Instruments (cont'd)

	2016				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1-5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Swaps	$ 346	$ 58	$ 500	$ 904	$ 50
Options purchased	11	47	38	96	48
	357	105	538	1,000	98
Foreign exchange contracts					
Forward contracts	623	—	—	623	(3)
Cross-currency swaps	311	1,283	3,205	4,799	(927)
	934	1,283	3,205	5,422	(930)
Other derivative contracts					
Equity contracts	55	—	—	55	—
Futures - long	11	—	—	11	—
Futures - short	308	—	—	308	—
	374	—	—	374	—
Net investment hedges					
Foreign exchange forward contracts	450	49	—	499	6
Total	$ 2,115	$ 1,437	$ 3,743	$ 7,295	$ (826)

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 manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign 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.

30. 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.

31. Commitments

(a) Letters of Credit

Letters of credit are written commitments provided by a bank. Great-West Life has entered into certain letters of credit facilities which are available to certain of the Company's subsidiaries under various reimbursement agreements. The letter of credit's issued under these arrangements total U.S. $127.

Additionally, the Company and its subsidiaries have letters of credit facilities directly available totaling U.S. $500 and £117. Amounts issued under these facilities total U.S. $500 and £117 respectively.

The Reinsurance operation periodically uses letters of credit 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 $268 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	$ 12	9	9	9	6	7	$ 52

(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, $43 ($32 at December 31, 2016) of assets of the Company for the purpose of providing collateral for the counterparty.

32. Segmented Information

The major operating segments of the Company are the participating and shareholder operations. Within these segments the major business units are: Individual Insurance, Wealth Management, Group Insurance, Europe/ Reinsurance, United States 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, health and disability insurance, annuity products, creditor and direct marketing, savings products and life, accident and health reinsurance. Business activities and operations that are not associated with the specific business units are attributed to Corporate.

(a) Consolidated Net Earnings

	2017							
	Shareholder						Participating	
	Individual Customer	Group Customer	Europe/ Reinsurance	Corporate	United States	Total	Total	Total company
Income								
Total net premiums	$ 794	$ 1,448	$ 4,668	$ —	$ (164)	$ 6,746	$ 1,641	$ 8,387
Net investment income								
Regular net investment income	389	262	1,650	40	33	2,374	428	2,802
Changes in fair value through profit or loss	392	12	285	3	10	702	61	763
Total net investment income	781	274	1,935	43	43	3,076	489	3,565
Fee and other income	168	6	1,373	—	(1)	1,546	—	1,546
	1,743	1,728	7,976	43	(122)	11,368	2,130	13,498
Benefits and expenses								
Paid or credited to policyholders	1,075	1,508	4,970	6	(137)	7,422	1,713	9,135
Other [(1)]	330	48	1,605	(2)	—	1,981	437	2,418
Financing charges	—	—	6	34	—	40	—	40
Amortization of finite life intangible assets	6	2	28	1	—	37	1	38
Restructuring expenses	—	—	27	27	—	54	7	61
Earnings (loss) before income taxes	332	170	1,340	(23)	15	1,834	(28)	1,806
Income taxes (recovery)	61	36	62	(8)	24	175	(15)	160
Net earnings (loss) before non-controlling interests	271	134	1,278	(15)	(9)	1,659	(13)	1,646
Non-controlling interests	—	—	—	6	—	6	—	6
Net earnings (loss)	271	134	1,278	(21)	(9)	1,653	(13)	1,640
Net earnings (loss) - participating account	—	—	—	—	—	—	(13)	(13)
Net earnings (loss) - shareholders	271	134	1,278	(21)	(9)	1,653	—	1,653
Preferred share dividends	—	—	—	14	—	14	—	14
Net earnings (loss) - common shareholder	$ 271	$ 134	$ 1,278	$ (35)	$ (9)	$ 1,639	$ —	$ 1,639

(1) Includes commissions, operating and administrative expenses and premium taxes.

32. Segmented Information (cont'd)

	2016							
	Shareholder						Participating	
	Individual Customer [1]	Group Customer [1]	Europe/ Reinsurance	Corporate	United States	Total	Total	Total Company
Income								
Total net premiums	$ 790	$ 1,483	$ 3,544	$ —	$ (156)	$ 5,661	$ 1,469	$ 7,130
Net investment income								
Regular net investment income	449	249	1,713	50	98	2,559	363	2,922
Changes in fair value through profit or loss	57	6	3,086	7	(60)	3,096	140	3,236
Total net investment income	506	255	4,799	57	38	5,655	503	6,158
Fee and other income	157	7	1,279	—	—	1,443	—	1,443
	1,453	1,745	9,622	57	(118)	12,759	1,972	14,731
Benefits and expenses								
Paid or credited to policyholders	784	1,593	6,713	6	(130)	8,966	1,224	10,190
Other [2]	328	47	1,552	(5)	2	1,924	562	2,486
Financing charges	—	—	12	27	—	39	—	39
Amortization of finite life intangible assets	5	1	27	1	—	34	2	36
Restructuring expenses	—	—	17	—	—	17	—	17
Earnings before income taxes	336	104	1,301	28	10	1,779	184	1,963
Income taxes	56	18	142	—	2	218	45	263
Net earnings before non-controlling interests	280	86	1,159	28	8	1,561	139	1,700
Non-controlling interests	—	—	—	9	—	9	—	9
Net earnings	280	86	1,159	19	8	1,552	139	1,691
Net earnings - participating account	—	—	—	—	—	—	139	139
Net earnings - shareholders	280	86	1,159	19	8	1,552	—	1,552
Preferred share dividends	—	—	—	14	—	14	—	14
Net earnings - common shareholder	$ 280	$ 86	$ 1,159	$ 5	$ 8	$ 1,538	$ —	$ 1,538

(1) 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.

(2) Includes commissions, operating and administrative expenses and premium taxes.

32. Segmented Information (cont'd)

(b) Consolidated Total Assets

	2017		
	Shareholder	**Participating account**	**Total**
Assets			
Invested assets	**$ 66,857**	**$ 12,363**	**$ 79,220**
Goodwill and intangible assets	**1,156**	**—**	**1,156**
Other assets	**22,498**	**(225)**	**22,273**
Investments on account of segregated fund policyholders	**110,035**	**—**	**110,035**
Total	**$ 200,546**	**$ 12,138**	**$ 212,684**

	2016		
	Shareholder	Participating account	Total
Assets			
Invested assets	$ 63,453	$ 11,834	$ 75,287
Goodwill and intangible assets	1,091	—	1,091
Other assets	23,662	(221)	23,441
Investments on account of segregated fund policyholders	97,173	—	97,173
Total	$ 185,379	$ 11,613	$ 196,992

(c) Geographic Distribution of Total Assets and Income

	2017		2016	
	Income	**Assets**	Income	Assets
Canada	**$ 5,344**	**$ 35,186**	$ 4,929	$ 34,140
Europe/Reinsurance	**8,082**	**172,945**	9,728	157,856
United States	**72**	**4,553**	74	4,996
Total	**$ 13,498**	**$ 212,684**	$ 14,731	$ 196,992

33. 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 12 and 26).

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 Canada Life Assurance Company

We have audited the accompanying consolidated financial statements of The Canada 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 Canada 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 Canada Life Assurance Company

I have valued the policy liabilities and reinsurance assets of The Canada 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.

In addition to periodic policyholder dividends, dividends may be payable on some policies when terminated through death, surrender or maturity. The amount of any such dividends may take into consideration such factors as the type of policy, the length of time the policy has been in force and when the policy was issued.

The Company maintains separate sub-accounts for certain specific closed blocks of participating life insurance policies in many of the jurisdictions in which it operates. The closed block sub-accounts are within the Company's participating account and managed according to the operating rules established for the closed blocks. Each closed block sub-account is managed separately to distribute over time the full amount of its earnings to the participating policyholders of that closed block through policyholder dividends.

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 millions of local currency)

Participating Account	Accounting Item	2017 Open Fund	2017 Closed Fund	2016 Open Fund	2016 Closed Fund
Canada CLA $	**Opening surplus and accumulated other comprehensive income (AOCI)**	**$ 350**	**n/a**	$ 212	n/a
	Net earnings (including OCI) before distributions	**106**	**89**	250	100
	Amounts transferred to shareholders under s. 461 of the ICA	**(3)**	**-**	(3)	-
	Other transfers or accruals under s. 462 of the ICA	**-**	**-**	(4)	-
	Net earnings (including OCI) before payment of policyholder dividends	**103**	**89**	243	100
	Policyholder dividends distributed during the year	**(119)**	**(89)**	(105)	(100)
	Closing surplus and accumulated other comprehensive income (AOCI)	**$ 334**	**n/a**	$ 350	n/a
	Total assets at year end	**$ 2,830**	**$ 2,932**	$ 1,959	$ 2,948
	Section 461 transfer as a % of total distributions	**2.89%**	**n/a**	2.91%	n/a
Canada Crown Life $	**Opening surplus and accumulated other comprehensive income (AOCI)**		**n/a**		n/a
	Net earnings (including OCI) before distributions		**5**		6
	Amounts transferred to shareholders under s. 461 of the ICA		**-**		-
	Other transfers or accruals under s. 462 of the ICA		**-**		-
	Net earnings (including OCI) before payment of policyholder dividends		**5**		6
	Policyholder dividends distributed during the year		**(5)**		(6)
	Closing surplus and accumulated other comprehensive income (AOCI)		**n/a**		n/a
	Total assets at year end		**$ 1,025**		$ 1,036
	Section 461 transfer as a % of total distributions		**n/a**		n/a
Canada New York Life $	**Opening surplus and accumulated other comprehensive income (AOCI)**		**n/a**		n/a
	Net earnings (including OCI) before distributions		**37**		40
	Amounts transferred to shareholders under s. 461 of the ICA		**-**		-
	Other transfers or accruals under s. 462 of the ICA		**-**		-
	Net earnings (including OCI) before payment of policyholder dividends		**37**		40
	Policyholder dividends distributed during the year		**(37)**		(40)
	Closing surplus and accumulated other comprehensive income (AOCI)		**n/a**		n/a
	Total assets at year end		**$ 1,496**		$ 1,504
	Section 461 transfer as a % of total distributions		**n/a**		n/a
Ireland €	**Opening surplus and accumulated other comprehensive income (AOCI)**	**€ 1**	**n/a**	€ 1	n/a
	Net earnings (including OCI) before distributions	**1**	**6**	2	6
	Amounts transferred to shareholders under s. 461 of the ICA	**-**	**-**	-	-
	Other transfers or accruals under s. 462 of the ICA	**-**	**-**	-	-
	Net earnings (including OCI) before payment of policyholder dividends	**1**	**6**	2	6
	Policyholder dividends distributed during the year	**(1)**	**(6)**	(2)	(6)
	Closing surplus and accumulated other comprehensive income (AOCI)	**€ 1**	**n/a**	€ 1	n/a
	Total assets at year end	**€ 40**	**€ 114**	€ 44	€ 124
	Section 461 transfer as a % of total distributions	**2.89%**	**n/a**	2.91%	n/a
United Kingdom £	**Opening surplus and accumulated other comprehensive income (AOCI)**		**n/a**		n/a
	Net earnings (including OCI) before distributions		**5**		5
	Amounts transferred to shareholders under s. 461 of the ICA		**-**		-
	Other transfers or accruals under s. 462 of the ICA		**-**		-
	Net earnings (including OCI) before payment of policyholder dividends		**5**		5
	Policyholder dividends distributed during the year		**(5)**		(5)
	Closing surplus and accumulated other comprehensive income (AOCI)		**n/a**		n/a
	Total assets at year end		**£ 181**		£ 237
	Section 461 transfer as a % of total distributions		**n/a**		n/a

(in millions of local currency)

Participating Account	Accounting Item	**2017** Open Fund	**2017** Closed Fund	2016 Open Fund	2016 Closed Fund
International Hong Kong US$	**Opening surplus and accumulated other comprehensive income (AOCI)**		**n/a**		n/a
	Net earnings (including OCI) before distributions		**8**		8
	Amounts transferred to shareholders under s. 461 of the ICA		**-**		-
	Other transfers or accruals under s. 462 of the ICA		**-**		-
	Net earnings (including OCI) before payment of policyholder dividends		**8**		8
	Policyholder dividends distributed during the year		**(8)**		(8)
	Closing surplus and accumulated other comprehensive income (AOCI)		**n/a**		n/a
	Total assets at year end		**$ 566**		$ 534
	Section 461 transfer as a % of total distributions		**n/a**		n/a
International Macau US$	**Opening surplus and accumulated other comprehensive income (AOCI)**		**n/a**		n/a
	Net earnings (including OCI) before distributions		**-**		-
	Amounts transferred to shareholders under s. 461 of the ICA		**-**		-
	Other transfers or accruals under s. 462 of the ICA		**-**		-
	Net earnings (including OCI) before payment of policyholder dividends		**-**		-
	Policyholder dividends distributed during the year		**-**		-
	Closing surplus and accumulated other comprehensive income (AOCI)		**n/a**		n/a
	Total assets at year end		**$ 6**		$ 6
	Section 461 transfer as a % of total distributions		**n/a**		n/a
International Pacific Rim US$	**Opening surplus and accumulated other comprehensive income (AOCI)**	**$ (2)**		$ -	
	Net earnings (including OCI) before distributions	**(1)**		(1)	
	Amounts transferred to shareholders under s. 461 of the ICA	**-**		-	
	Other transfers or accruals under s. 462 of the ICA	**-**		-	
	Net earnings (including OCI) before payment of policyholder dividends	**(1)**		(1)	
	Policyholder dividends distributed during the year	**-**		(1)	
	Closing surplus and accumulated other comprehensive income (AOCI)	**$ (3)**		$ (2)	
	Total assets at year end	**$ 22**		$ 23	
	Section 461 transfer as a % of total distributions	**2.89%**		2.91%	
United States CLA US$	**Opening surplus and accumulated other comprehensive income (AOCI)**	**$ 2**	**n/a**	$ 1	n/a
	Net earnings (including OCI) before distributions	**5**	**21**	5	21
	Amounts transferred to shareholders under s. 461 of the ICA	**-**	**-**	-	-
	Other transfers or accruals under s. 462 of the ICA	**-**	**-**	-	-
	Net earnings (including OCI) before payment of policyholder dividends	**5**	**21**	5	21
	Policyholder dividends distributed during the year	**(3)**	**(21)**	(3)	(21)
	Closing surplus and accumulated other comprehensive income (AOCI)	**$ 4**	**n/a**	$ 2	n/a
	Total assets at year end	**$ 191**	**$ 1,194**	$ 188	$ 1,213
	Section 461 transfer as a % of total distributions	**2.89%**	**n/a**	2.91%	n/a
United States Crown Life US$	**Opening surplus and accumulated other comprehensive income (AOCI)**	**$ 4**		$ 5	
	Net earnings (including OCI) before distributions	**8**		6	
	Amounts transferred to shareholders under s. 461 of the ICA	**-**			
	Other transfers or accruals under s. 462 of the ICA	**-**			
	Net earnings (including OCI) before payment of policyholder dividends	**8**		6	
	Policyholder dividends distributed during the year	**(9)**		(7)	
	Closing surplus and accumulated other comprehensive income (AOCI)	**$ 3**		$ 4	
	Total assets at year end	**$ 494**		$ 515	
	Section 461 transfer as a % of total distributions	**2.89%**		2.91%	

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 small blocks of participating annuities and disability insurance policies that have been issued or assumed by the Company. The participating account is comprised of three main types of sub-accounts. The closed block sub-accounts for Canada Life, New York Life and Crown Life were established for participating insurance policies issued or assumed by the Company prior to demutualization and are comprised of the best-estimate liabilities associated with these policies. The ancillary sub-accounts are comprised of the liabilities associated with provisions for adverse deviation in respect of the policies contained in the closed block sub-accounts. The open sub-accounts for Canada Life and Crown Life were established for participating insurance policies issued or assumed by the Company after demutualization and are comprised of the total liabilities associated with these policies. While the majority of these open sub-accounts have been closed to new business after demutualization, the Canada Life Canadian open sub-account remains open to new business.

The closed block sub-accounts are maintained in accordance with the operating rules established by the Company for the closed blocks and approved by the Office of the Superintendent of Financial Institutions. The closed block operating rules govern the management of the various closed block sub-accounts, including investment income allocation, mortality costs, expense charges and taxes. The Appointed Actuary is required to provide the Superintendent and the relevant non-Canadian insurance regulators with reports and opinions about the operation of the closed block sub-accounts and ongoing compliance with the closed block operating rules as may be required.

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 for each of the sub-accounts. 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.

For the Canada Life Canadian open, closed block and ancillary sub-accounts, 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.

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 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.

For all other sub-accounts, the Company invests primarily in fixed income assets. The target maturity profile of these fixed income investments is shorter than the expected policy cashflows. This strategy is intended to produce returns that exhibit stability while providing policyholders with some participation in changing fixed income market conditions.

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.

For the open sub-accounts, 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.

Expenses are charged to the closed block sub-accounts based on pre-determined formulas in accordance with the closed block operating rules.

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. In accordance with the closed block operating rules, no taxes on profits are allocated to the closed block sub-accounts since it is expected that closed block earnings will cumulatively be zero over the lifetime of the closed block.

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 associated with the open sub-accounts 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 from the open sub-accounts 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.

Under the terms of the closed block operating rules, no distribution to the shareholders may be made from the closed block sub-accounts. In accordance with the demutualization agreement, the amount by which the assets exceed the liabilities in the ancillary sub-accounts is transferred to the shareholders each quarter.

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.

Canada 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	United States	Total
Expected profit on in-force business	$ 226	$ 68	$ 901	$ (6)	$ 8	$ 1,197
Impact of new business	9	20	(43)	-	-	(14)
Experience gains and losses	81	39	161	1	16	298
Management actions and changes in assumptions	16	43	290	-	(13)	336
Impact of U.S. tax reform on insurance contract liabilities and expenses	-	-	(18)	(5)	(1)	(24)
Other	-	-	(27)	(27)	-	(54)
Earnings on surplus	-	-	76	14	5	95
Net earnings before tax	**332**	**170**	**1,340**	**(23)**	**15**	**1,834**
Taxes (excl. impact of U.S. tax reform)	(61)	(36)	(72)	8	(3)	(164)
U.S. tax reform impact on deferred tax balances	-	-	7	-	(21)	(14)
Tax recovery on impact of U.S. tax reform on insurance contract liabilities and expenses	-	-	3	-	-	3
Net earnings before non-controlling interests	**271**	**134**	**1,278**	**(15)**	**(9)**	**1,659**
Non-controlling interests	-	-	-	(6)	-	(6)
Net earnings - shareholder	**271**	**134**	**1,278**	**(21)**	**(9)**	**1,653**
Preferred share dividends	-	-	-	(14)	-	(14)
Net earnings - common shareholder	**$ 271**	**$ 134**	**$ 1,278**	**$ (35)**	**$ (9)**	**$ 1,639**

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	United States	Total
Expected profit on in-force business	$ 218	$ 75	$ 887	$ (6)	$ 9	$ 1,183
Impact of new business	(55)	8	(79)	-	-	(126)
Experience gains and losses	160	-	17	5	(6)	176
Management actions and changes in assumptions	13	21	364	-	(1)	397
Other	-	-	(17)	-	-	(17)
Earnings on surplus	-	-	129	29	8	166
Net earnings before tax	336	104	1,301	28	10	1,779
Taxes	(56)	(18)	(142)	-	(2)	(218)
Net earnings before non-controlling interests	280	86	1,159	28	8	1,561
Non-controlling interests	-	-	-	(9)	-	(9)
Net earnings - shareholder	280	86	1,159	19	8	1,552
Preferred share dividends	-	-	-	(14)	-	(14)
Net earnings - common shareholder	$ 280	$ 86	$ 1,159	$ 5	$ 8	$ 1,538

Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 65% of pre-tax earnings in 2017. The expected profit on in-force business of $1,197 in 2017 was $14 higher than the 2016 level. The improvement year-over-year is primarily due to higher net fee income in Europe, partially offset by the impact of currency and lower expected margins for group business in Canada.

The strain on new sales of $14 in 2017 was $112 lower than 2016 primarily due to higher margins in Canada. There were also positive contributions from Europe primarily due to new longevity swaps and annuity business.

Experience gains of $298 in 2017 were $122 higher than 2016. The gains in 2017 were primarily due to investment experience in Canada and Europe and mortality results in Europe. These gains were partially offset by expenses in Europe and policyholder behavior in Canada. The gains in 2016 were primarily due to investment experience in all segments and longevity results in Europe. These gains were partially offset by mortality results and expenses in Europe.

Management actions and changes in assumptions contributed $317 (including the impact of U.S. tax reform) to pre-tax earnings in 2017 compared to $397 in 2016. The most significant contributors in 2017 were updated economic assumptions, updated longevity assumptions, updated life mortality assumptions, and updated morbidity assumptions, partially offset by updated policyholder behaviour assumptions, modelling refinements, and updated expense and tax assumptions.

Other of $(54) in 2017 is due to restructuring costs in Canada and Ireland.

Pre-tax earnings on surplus decreased by $71 in 2017 compared to 2016 mainly as a result of lower OCI gains and lower investment income.

SUBSIDIARIES OF THE CANADA LIFE ASSURANCE COMPANY[1]

Name	Principal Office Address	Carrying Value[2] (in Canadian $ millions)	Voting Share Ownership
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%

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

(2) 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	$ 302,411	$ 277,486	$ 274,492	$ 239,460	$ 218,472
For the Year Ended December 31					
Premiums and deposits:					
Net premium income (Life insurance, guaranteed annuities and insured health products)	$ 8,387	$ 7,130	$ 7,397	$ 6,646	$ 5,483
Segregated funds deposits:					
Individual products	13,279	10,072	9,569	8,702	5,605
Group products	28	47	131	119	126
Proprietary mutual funds and institutional deposits	10,424	18,047	9,713	4,700	4,119
Total premiums and deposits	$ 32,118	$ 35,296	$ 26,810	$ 20,167	$ 15,333
Condensed Statements of Earnings					
Income					
Total net premiums	$ 8,387	$ 7,130	$ 7,397	$ 6,646	$ 5,483
Net investment income					
Regular net investment income	2,802	2,922	3,021	2,990	2,999
Changes in fair value through profit or loss	763	3,236	(1,249)	5,374	(2,018)
Total net investment income	3,565	6,158	1,772	8,364	981
Fee and other income	1,546	1,443	1,357	1,305	951
Total income	13,498	14,731	10,526	16,315	7,415
Benefits and expenses					
Paid or credited to policyholders	9,135	10,190	6,480	12,586	4,243
Other	2,418	2,486	2,130	1,913	1,571
Financing charges	40	39	37	43	30
Amortization of finite life intangible assets	38	36	22	22	19
Restructuring expenses	61	17	23	29	69
Earnings before income taxes	1,806	1,963	1,834	1,722	1,483
Income taxes	160	263	179	243	271
Net earnings before non-controlling interests	1,646	1,700	1,655	1,479	1,212
Attributable to non-controlling interests	6	9	1	13	(1)
Net earnings	1,640	1,691	1,654	1,466	1,213
Net earnings (loss) - participating account	(13)	139	48	37	59
Net earnings - shareholders	1,653	1,552	1,606	1,429	1,154
Preferred share dividends	14	14	14	14	227
Net earnings - common shareholder	$ 1,639	$ 1,538	$ 1,592	$ 1,415	$ 927
Book value per common share	$ 42.61	$ 39.16	$ 40.87	$ 33.71	$ 30.18
Dividends to common shareholder - per share	$ 4.41	$ 2.59	$ 2.58	$ 2.14	$ 1.44

DIRECTORS AND SENIOR OFFICERS

Board of Directors

R. Jeffrey Orr [3,4,5,6,7]
Chair of the Board of the Company

President and Chief Executive Officer,
Power Financial Corporation

Deborah J. Barrett, CPA, CA, ICD.D [1,3,7]
Corporate Director

Marcel R. Coutu [3,4,5,6,7]
Corporate Director

André Desmarais, O.C., O.Q. [3,4,5,6,7]
Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada

Executive Co-Chairman,
Power Financial Corporation

Olivier Desmarais [3,5,6,7]
Senior Vice-President,
Power Corporation of Canada and
Power Financial Corporation

Paul Desmarais, Jr., O.C., O.Q. [3,4,5,6,7]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada

Executive Co-Chairman,
Power Financial Corporation

Paul Desmarais III [3,6]
Senior Vice-President,
Power Corporation of Canada and
Power Financial Corporation

Gary A. Doer, O.M [3,6,7]
Senior Business Advisor,
Dentons Canada LLP

David G. Fuller [3,6,7]
Executive Vice-President,
TELUS Corporation and President,
TELUS Consumer and Small Business Solutions

Claude Généreux [3,5,6,7]
Executive Vice-President,
Power Corporation of Canada and
Power Financial Corporation

Chaviva M. Hošek, O.C., Ph.D., LL.D. [1,2]
Corporate Director

J. David A. Jackson, LL.B. [3,4,5,6,7]
Senior Counsel,
Blake, Cassels & Graydon LLP

Paul A. Mahon [3,6]
President and Chief Executive Officer
of the Company,
Great-West Lifeco Inc.,
The Great-West Life Assurance Company
London Life Insurance Company,
Canada Life Financial Corporation

Susan J. McArthur [3,5,6,7]
Managing Partner, GreenSoil Investments

Rima Qureshi [3,6,7]
Executive Vice-President and
Chief Strategy Officer,
Verizon Communications Inc.

Donald M. Raymond, Ph.D., CFA [3,6,7]
Managing Partner and Chief Investment Officer,
Alignvest Management Corporation and
Alignvest Investment Management Corporation

Henri-Paul Rousseau, Ph.D. [3,6,7]
Vice-Chairman,
Power Corporation of Canada and
Power Financial Corporation

T. Timothy Ryan [3,4,5,6,7]
Corporate Director

Jerome J. Selitto [2,3,6,7]
President,
Avex Funding Corporation

James M. Singh, CPA, CMA, FCMA(UK) [1,2,3,6,7]
Executive Chairman,
CSM Bakery Solutions Limited

Gregory D. Tretiak, FCPA, FCA [1,3,6,7]
Executive Vice-President and Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

Siim A. Vanaselja, FCPA, FCA [1,3,6,7]
Corporate Director

Brian E. Walsh [4,5,7]
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

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Financial Information

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

View our annual report online at Canadalife.com. For printed copies of our annual report, contact the Corporate Secretary's Office at 204-946-4388 or corporate.secretary@canadalife.com.

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